



Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

**Financial Report
with Supplemental Information
September 30, 2019**

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Contents

Letter of Transmittal	1-8
Independent Auditor's Report	9-10
Management's Discussion and Analysis	11-17
Basic Financial Statements	
Fund Financial Statements:	
Statement of Net Position	18
Statement of Revenue, Expenses, and Changes in Net Position	19
Statement of Cash Flows	20
Notes to Financial Statements	21-30
Other Supplemental Information	31
Statement of Revenue, Expenses, and Changes in Net Position Budgetary Comparison	32



**Detroit Wayne
Integrated Health Network**

707 W. Milwaukee St.
Detroit, MI 48202-2943
Phone: (313) 833-2500
www.dwihn.org

FAX: (313) 833-2156
TDD: (800) 630-1044 RR/TDD: (888) 339-5588

March 31, 2020

Board of Directors
Detroit Wayne Integrated Health Network
Detroit, Michigan

Ladies and Gentlemen:

I am pleased to present the financial statements for the Detroit Wayne Integrated Health Network (DWIHN) formerly Detroit Wayne Mental Health Authority for the fiscal year ended September 30, 2019 submitted in compliance with the laws and regulations of the State of Michigan. The State law requires that every general-purpose local government publish a complete set of audited financial statements within six months of the close of each fiscal year.

Management assumes full responsibility for the completeness, accuracy and fairness of the information contained in the report. Plante Moran, PLLC has issued an unmodified (“clean”) opinion on DWIHN. The independent Auditor’s Report is located at the front of the financial section of this report. Management believes the information presented is materially accurate and that its presentation fairly shows the financial position and results of operations of DWIHN and that the disclosures will provide the reader with an understanding of DWIHN’s affairs.

DWIHN has prepared its financial reporting requirements as prescribed by the GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis-for State and Local Governments* (GASB 34). This GASB Statement requires that management provide a narrative introduction, overview, and analysis that accompany the Basic Financial Statements in the form of a Management Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction. The MD&A can be found immediately following the report of the independent auditors.

Profile and Demographics of DWIHN

DWIHN serves over seventy-three thousand (73,000) consumers located within the Charter County of Wayne (the County) in the State of Michigan with an approximate population of 1.8 million in the county. The County is the most populous county in the State of Michigan and the 19th most populous county in the nation. The County encompasses approximately 620 square miles and is made up of thirty-four (34) cities, including the City of Detroit, nine (9) townships and thirty-three (33) school districts. The following chart provides additional demographic information regarding persons served in FY19:

<i>Population by Race</i>	<i>Population</i>	<i>Percentage</i>
Black/African American	40,724	54%
White	23,497	31%
Other race	9,225	12%
Unreported	3,189	4%

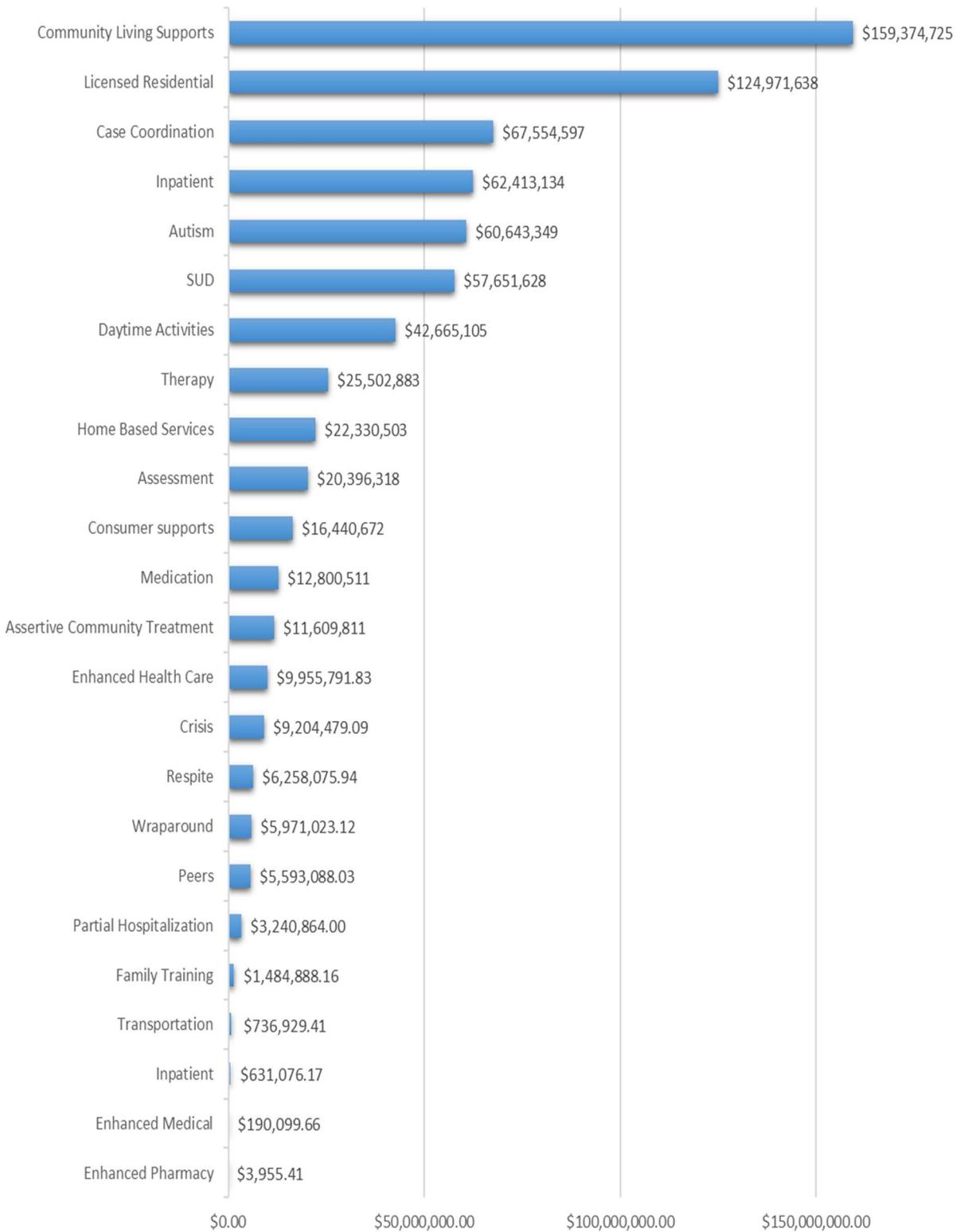
<i>Population by Service Area</i>	<i>Population</i>	<i>Percentage</i>
Detroit	38,149	52%
Out-County	35,297	48%

<i>Population by Age</i>	<i>Population</i>	<i>Percentage</i>
Children (under 18)	16,445	22%
Adults (18-21)	3,660	5%
Adults (22-50)	31,760	44%
Adults (51-64)	16,332	22%
Adults (over 65)	5,249	7%

<i>By Disability Designation</i>	<i>Population</i>	<i>Percentage</i>
Adults with MI	41,303	63%
Children with SED	12,417	19%
Individuals with an I/DD	11,466	18%
SUD -Served (co-occurring with other populations)	11,382	

<i>Insurance</i>	<i>Consumers</i>	<i>Percentage</i>
Medicaid	45,902	62%
Healthy Michigan Plan	14,944	20%
General Fund/Spend-down	8,320	11%
MiHealthLink	4,280	6%

FY19 - ALL SERVICE COSTS BY SERVICE CATEGORY



Note: SUD = Substance Use Disorder

The Mental Health Code: Public Act 258 of 1974 (as amended)

Michigan's Mental Health Code is the compilation of state laws governing the management and delivery of mental health services. The law was first established in 1974 and has since been amended, most significantly in 1996. There are currently forty-six (46) community mental health service programs (CMHSP). The law requires the board consist of twelve (12) members appointed by county commissioners for three year staggering terms. The law also requires the CMH board approve an annual budget after holding a public meeting to obtain community input.

DWMHA Board of Directors

Bernard Parker, Chairperson
Dr. Iris Taylor, Vice-Chairperson
Timothy Killeen, Treasurer
Ghadda Abdallah, Secretary
Kenya Ruth
Dorothy Burrell
Dora Brown-Richards
Kevin McNamara
Angelo Glenn
William Riley
Dr. Lynn Carter
Dr. Cynthia Taueg

DWMHA Substance Use Oversight Policy Board

Angelo Glenn, Chairperson
Ghadda Abdallah
Thomas Adams
Dr. Cynthia Arfken
Jewel Ware
Thomas Fielder
Jim Perry
Monique Stanton
William Riley
William Ventola
Margo Martin

The Reporting Entity and Its Services

In December of 2012, Governor Rick Snyder signed Public Acts 375 and 376 of 2012 that required Wayne County to establish its community mental health services program as an independent governmental entity, separate and distinct from the County functions. These acts mandated a change in governance from a Mental Health Agency to a Mental Health Authority. On June 6, 2013, Wayne County Commission approved the Enabling Resolution 2013-392 which created the new Authority. During this same period, the Application for Participation (AFP), which enabled DWIHN to maintain its designation as a Prepaid Inpatient Health Plan (PIHP) as well as its eligibility to contract for Medicaid funds, was successfully completed and approved by the Michigan Department of Health and Human Services (MDHHS) formerly Michigan Department of Community Health.

In addition, effective October 1, 2014, House Bills 4862 and 4863 signed December 28, 2012 transferred the duties of the Coordinating Agencies (CA) to the PIHP. CA's were responsible for the administration of substance use disorders (SUD) services to Detroit and Wayne County residents; the prior Wayne County CA's were the City of Detroit (via Institute for Population Health) and Southeastern Michigan Coordinating Agency (SEMCA).

The purpose of DWIHN is to ensure support, care and treatment services to adults with severe mental illness (SMI), individuals with intellectual and/or developmental disabilities (IDD), children with serious emotional disturbances (SED) and persons with substance use disorders (SUD) and their families so they can make choices in care, live in the community and achieve desired outcomes through individualized health goals.

Adult Mental Health Services Program

The purpose of the Adult Mental Health Services Program is to provide individualized psychiatric outpatient, residential, case management, hospital, and emergency treatment and supportive services to

adults and families at risk of or experiencing a mental illness so they can achieve psychiatric stability and/or a stable living environment.

Intellectual/Developmental Disability Services Program

The purpose of the Intellectual/Developmental Disability Services Program is to provide screening/referral and specialized supports and services including skill building, community living services and personal care to children, adolescents and adults with intellectual/developmental disabilities so they can obtain their personal optimal level of independence. IDD are a group of conditions due to an impairment in physical, learning, language, or behavior areas that start in childhood.

Children's Mental Health Services Program

The purpose of the Children's Mental Health Services Program, in collaboration with community partners, is to provide individualized and family-centered psychiatric outpatient, home-based, crisis intervention and prevention services to children, adolescents, and their families at risk of experiencing a serious emotional disturbance so they can live within the community. The services are community-based, family centered, youth guided, cultural and linguistically responsive and trauma informed.

Substance Use Disorder Services Program

The purpose of the Substance Use Disorder Services Program is to provide assessment/eligibility determination, outpatient treatment, residential, referral and medication management services to children, adolescents and adults with substance abuse disorders so they can obtain and sustain individual recovery and participate fully in the community. With over seventy-five providers, our continuum of care consists of prevention, treatment and recovery services.

Mental Health Access Center Program

The purpose of the Mental Health Access Center Program is to provide screening, eligibility, enrollment information, emergency telephone referral and counseling services to service providers and individual callers with mental health concerns so they can receive an eligibility determination, choice of provider, program enrollment or requested/needed services or information within a timely manner.

Rights and Customer Supports Program

The purpose of the Rights and Customer Supports Program is to provide the legally mandated rights protection and consumer affairs (investigation of complaints and grievances; monitoring sites of service; training system staff and consumers; family subsidy; information; referrals), so consumers and their families can receive appropriate mental health services in accordance with the Federal, State and Local laws, rules, guidelines and policies.

Mental Health Oversight/Monitoring Program

The purpose of the Mental Health Oversight/Monitoring Program is to provide oversight and management of services that assure access, adequacy and appropriateness of services, efficiency and outcomes for individuals with mental illness, serious emotional disturbance, developmental disability and substance use disorders so they can obtain recovery and self-determination. As the public mental health system, DWIHN offers a culturally diverse network of community mental health programs, clinics, private therapists, psychologists and psychiatrists to provide mental health services. We do our best to match consumers with the services needed at a location that is close to them.

DWIHN provides services in coordination and collaboration with over four hundred (400) contractors,

including one (1) Managers of Comprehensive Provider Networks (MCPNs). Community Living Services (CLS) is the contracted MCPN for individuals with developmental disabilities.

Threats to the Behavioral Health System

Section 298 Initiative

Governor Snyder's executive budget bill for 2017, issued in early 2016, included "boilerplate" language in section 298 that called for moving all Medicaid funding for "carved out," specialty, behavioral health benefits from the PIHPs to the Medicaid Health Plans (MHP) by the end of FY17. The Section 298 initiative was an effort to improve the coordination of public-funded physical and behavioral health services in the state. This initiative caused a tremendous public outcry from consumers, their families, advocates and providers of public behavioral health services. Members of DWIHN staff and Board were among many key participants in efforts to push back against the Governor's proposal. The combined efforts of concerned persons across the state resulted in revised final legislation and what is now dubbed by MDHHS as the Section 298 Initiative.

In October 2019, the newly elected Governor Gretchen Whitmer vetoed the 298 language that recommended the integration of Mental Health Care funding with the Medicaid Health Plans. MDHHS is now pursuing alternatives to integrating behavioral and physical healthcare.

Medicaid Work Requirements

On January 1, 2020, Healthy Michigan Plan (HMP) beneficiaries were required to start completing a combination of work or other activities for eighty (80) hours per month unless they are exempt. Persons are exempt if they have a medical condition, or disabled, or pregnant or other approved extenuating factors. This requirement could cause significant harm to consumers receiving Medicaid covered services and/or cause a disruption in Medicaid coverage until MDHHS approves their exemption status.

Major Initiatives and Achievements

DWVHN had several achievements and initiatives during the year – (1) The discontinuance of the MCPN contracts; (2) Investment in Mental Health First Aid; (3) Successful Naloxone Initiative; and (4) Significant investment in at-risk youth.

Discontinuance of the MCPN Contracts

On June 25, 2018, the DWIHN board of directors approved a resolution eliminating the MCPNs. Recognizing the magnitude of this undertaking, DWIHN continued to contract with Community Living Services (CLS) as a MCPN until June 30, 2019. Effective July 1, 2019, approximately sixty percent (60%) of CLS's MCPN line of business transitioned in-house; CLS continues to manage the self-determination line of business.

This magnitude of the elimination of MCPNs was tremendous; however, DWIHN hired several key staff from the MCPNs, allowing for consistency among the providers and consumers. DWIHN will continue to sort through inconsistencies and inefficiencies amongst the MCPNs and are hopeful, although a heavy lift, it will be beneficial to the system. DWIHN was able to save millions of dollars in administrative costs that were re-directed to services.

Mental Health First Aid (MHFA)

Mental Health First Aid is designed to teach people methods of assisting someone who may be in the early stages of developing a mental health challenge or in a mental health crisis. MHFA is an eight- hour public education curriculum designed to increase knowledge and skills around 1) the unique risk factors and warning signs of mental health problems, 2) the importance of early intervention, and 3) how to help someone who is in crisis or experiencing a mental health challenge. This curriculum uses role-plays and

simulations to demonstrate how to assess the situation, select strategies for initial help, and to connect individuals to services.

The outcomes include:

- Ten (10) organizations were identified as contractors for delivery of the MHFA trainings
- Fifty-two (52) provider and community trainings were conducted;
- Three (3) participants received full MHFA Instructor certification from the faith based community;
- Six hundred sixty-four (664) teachers, first responders and behavioral health professional's received training;
- Two thousand nine hundred sixty-nine (2,969) individuals were trained;

Naloxone Initiative

DWIHN provided support to Governor Snyder's initiative to respond to the increase in opioid overdose related deaths and to save lives in Wayne County. DWIHN began providing free training to over nine thousand nine hundred (9,900) individuals and distributed Narcan kits in March 2016 to Wayne County law enforcement, the prevention and treatment networks, and the community. Narcan blocks or reverses the effects of opioid medication, including extreme drowsiness, slowed breathing, or loss of consciousness.

Training and Narcan Kits were provided to First Responders (all local/Wayne County departments), Border Patrol, College Campus Police, Alcohol Tobacco and Firearm (ATF), Drug Enforcement Administration (DEA), Attorney General's Office, prevention, treatment and recovery providers, faith based and civic organizations and residents. From October 2018 to September 2019, DWIHN's naloxone initiative has saved one hundred sixty-nine (169) documented lives and four hundred seventy-seven (477) documented lives since March 2016.

At-Risk Youth Investment

The School Success Initiative involved twelve (12) community mental health providers throughout Wayne County at seventy-two (72) schools. The initiative also consists of a partnership with the Detroit Public School Community District (DPSCD, the City of Detroit Mayor's office – GOAL Line (Get On and Learn) and a charter school, Detroit Achievement Academy.

During the 2018-2019 School year, the School Success initiative uses evidence-based practices to deliver prevention-based services to children in the school setting. In addition, the provider network offers parent education and engagement groups, professional development and psychoeducation for teachers and school administrators. The initiative served five thousand two hundred eighty-five (5,285); three hundred eighty (380) training and workshops provided to parents, teachers, and staff; two thousand five hundred twenty-six (2,526) teachers and staff attended the workshops; and three thousand five hundred eleven (3,511) parents attended the workshops.

Finally, for the fifth year in a row, DWIHN funded a youth employment initiative through sixteen (16) partnering organizations in Wayne County to employ young people over the summer. This year DWIHN funded \$2 million that employed one thousand two hundred fifty-six (1,256) youth ranging from ages 14-24. In addition, the funding supported the Young Professionals Conference whereby five hundred fifty (550) youth participated. The conference presented various topics on building resilience for behavioral health, self-care, social skills and employment development. Topics also included bullying, conflict resolution, suicide prevention, substance use, and financial literacy.

TRANSMITTAL LETTER

The preparation of the basic financial statements were made possible by the dedicated service of the entire staff of the Finance Department. Each member of the Department has our sincere appreciation for the contributions made in the preparation of this report. We would also like to express our appreciation to other Authority staff for their continued support of the policies of this Department.

Respectfully submitted



Stacie L. Durant
Chief Financial Officer

Independent Auditor's Report

To the Board of Directors
Detroit Wayne Integrated Health Network (formerly
known as Detroit Wayne Mental Health Authority)

Report on the Financial Statements

We have audited the accompanying financial statements of Detroit Wayne Integrated Health Network (DWIHN) as of and for the year ended September 30, 2019 and the related notes to the financial statements, which collectively comprise Detroit Wayne Integrated Health Network's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Detroit Wayne Integrated Health Network as of September 30, 2019 and the respective changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Detroit Wayne Integrated Health Network (formerly
known as Detroit Wayne Mental Health Authority)

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12-18 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, which 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 supplemental 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Detroit Wayne Integrated Health Network's basic financial statements. The budgetary comparison schedule and transmittal letter are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The transmittal letter (pages 1-8) and budgetary information schedule (page 33) have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2020 on our consideration of Detroit Wayne Integrated Health Network's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Detroit Wayne Integrated Health Network's internal control over financial reporting and compliance.



March 31, 2020

These financial statements are the responsibility of the management of the Detroit Wayne Integrated Health Network (DWIHN) formerly Detroit Mental Health Authority. Effective October 1, 2019, Detroit Wayne Mental Health Authority changed its name to Detroit Wayne Integrated Health Network, the organization will be referred to using the new name throughout the financial statements. We offer this narrative overview and analysis for the fiscal year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the financial statements and notes to the financial statements.

Financial Highlights

Total net position	\$56,221,668
Change in total net position	(26,882,786)
Installment debt outstanding	6,209,873
Liquidity ratio	1.14

Background

On December 14, 2012, the Michigan Legislature approved and the Governor signed Public Acts 375 and 376 of 2012, a Mental Health Authority bill. Effective October 1, 2013, the new law transferred management and control to a separate legal entity (DWIHN). The new Authority is comprised of twelve (12) board members; the County Executive and the Mayor of the City of Detroit each recommended six (6) members. The appointments of the twelve (12) board members are subject to confirmation by the Wayne County Commission. Prior to the Public Acts, DWIHN, previously the Detroit Wayne County Community Mental Health Agency (the Agency), was reported in the Charter County of Wayne (the County) Comprehensive Annual Financial Report as a special revenue fund.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements Nos. 14 and 34*, DWIHN is not a discretely presented component unit of Wayne County.

DWIHN does not provide direct services to the community rather contract with Community Living Services (CLS) and hundreds of network providers. Effective October 1, 2018, DWIHN eliminated three of the four contracts with the Managers of Comprehensive Provider Network (MCPN); eliminated the fourth contract on July 1, 2019, however CLS continued as a service provider.

Dual Eligible Pilot Program (MI Health Link/MHL)

The State of Michigan selected DWIHN as one (1) of four (4) Prepaid Inpatient Health Plans to participate in the Dual-Eligible demonstration pilot project (aka MI Health Link) that began in May 2015 and extended to December 2020. The pilot was designed to integrate primary care with mental health and substance use disorder treatment to improve overall health care outcomes, create greater efficiencies in the delivery of services, and reduce costs. The integrated care model organizes the coordination of the Medicare and Medicaid benefits, and requires collaboration between the Integrated Care Organizations (ICOs), DWIHN, and its privileged provider network. The project requires the reconfiguration of several operational areas at DWIHN. It also involved developing and negotiating five (5) contracts with ICO's.

Overview of the financial statements

This discussion and analysis is intended to serve as an introduction to DWIHN's financial statements, which include the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, Notes to the Financial Statements, and Other Supplemental Information - Statement of Revenues, Expenses and Changes in Net Position – Budget to Actual.

In addition, DWIHN will present its financial statements as a proprietary fund.

Financial Analysis

Net position may serve over time as a useful indicator of an organizations financial position. The following depicts DWIHN net position at September 30, 2019 and 2018, respectively:

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 141,973,577	\$ 143,160,189
Noncurrent assets- restricted	2,150,179	3,765,515
Capital assets, net	13,808,246	14,861,649
Total Assets	157,932,002	161,787,353
Current liabilities	96,012,566	72,473,174
Notes Payable	5,697,768	6,209,725
Total Liabilities	101,710,334	78,682,899
Net position:		
Net investment in capital assets	7,598,373	8,157,404
Restricted	3,349,191	24,501,238
Unrestricted	45,274,104	50,445,812
Total net position	\$ 56,221,668	\$ 83,104,454

DWIHN has \$61.6 million held in a depository with Flagstar Bank, \$16.6 million held in a CDARS with First Independence Bank and \$30.6 million held with three investment managers. The decrease in current assets is attributable to a \$20.8 million reduction in cash and investments activity throughout the year. DWIHN incurred increased expenses primarily with the Serious Mentally Ill (SMI) population in inpatient services, Autism benefit services, and residential services. In addition, effective April 1, 2019, the State of Michigan mandated a \$.25/hr. wage increase for all direct care workers serving Wayne County consumers.

Current liabilities consists of \$81.9 million in accounts payable to various service providers. Net investment in capital assets consist primarily of the purchase of DWIHN headquarters located in the historical New Center area in Detroit Michigan. DWIHN purchased the building and three (3) parking lots for approximately \$2.9 million with construction renovations completed on June 1, 2016. The notes payable of \$6.2 million represents the amount of debt outstanding related to the construction of the building and office furnishing. Restricted net position consist of approximately \$3.3 million in PA2 funds restricted for substance use disorders.

The Statement of Revenues, Expenses and Changes in Net Position serve to report the cumulative revenue and expenses received and/or incurred for the organization.

	<u>2019</u>	<u>2018</u>
Revenues		
Federal grants and contracts	\$ 20,671,787	\$ 20,952,128
State grants and contracts	759,932,265	741,332,477
Local grants and contracts	26,764,911	26,848,529
Charges for services	7,543,994	8,944,973
Interest revenue	1,648,084	1,051,318
Other revenue	-	2,702,118
Total revenues	<u>816,561,041</u>	<u>801,831,543</u>
Expenses		
Mental health operating	36,167,504	30,808,200
Substance use disorders	57,222,829	62,623,016
Autism services	61,601,219	50,045,789
MI HealthLink	7,561,523	17,040,230
Adult services	272,393,065	239,077,545
Children services	75,530,597	80,942,845
Intellectually Disabled	305,146,852	303,039,650
Grant programs	6,951,177	7,218,160
State of Michigan	20,627,268	14,699,976
Interest paid on debt	241,793	258,589
Total expenses	<u>843,443,827</u>	<u>805,754,000</u>
Change in Net Position	(26,882,786)	(3,922,457)
Net position - beginning of year	<u>83,104,454</u>	<u>87,026,911</u>
Net position - end of year	<u>\$ 56,221,668</u>	<u>\$ 83,104,454</u>

State grants consists of \$556.0 million, \$112.4 million, \$44.7 million, \$39.4 million, and \$7.3 million in traditional Medicaid, Healthy Michigan, Autism Medicaid, State General Funds, and other miscellaneous state grants, respectively. The increase in State grants of \$18.6 million relate solely to the increase in Hospital Rate Adjustment (HRA). The HRA payment is an enhancement paid through Medicaid managed care organizations (MCOs) for MCO managed care hospital reimbursement; the funds are passed-through from the State of Michigan to the PIHP to the hospitals. Local grants primarily consists of \$17.7 million in Wayne County local match. The match is used to support: (1) Medicaid drawdown to the State of Michigan; (2) 10% of state facilities cost and (3) 10% of most uninsured costs to Wayne County consumers. Additionally, local grants include \$4.2 million in PA2 funds received from Wayne County and \$4.9 million other miscellaneous local grants. Charges for services consist of the revenue received from MI Health Link program from the ICO's.

Operating costs include salaries and benefits totaling \$22.1 million, the Access Center (\$7.0 million); building costs (\$1.3 million); depreciation (\$1.5 million) and annual maintenance of our electronic claims record system (\$1.4 million).

Autism services continue to experience significant growth with an increase of two hundred thirty (230) consumers during the year. DWIHN pays the State of Michigan for Medicaid drawdown (\$5.1 million), the local portion of state facilities (\$6.2 million) and Insurance Provider Assessment tax (\$9.4 million).

The following shows a comparison of the final amended budget to actual results in the Statement of Revenue, Expenses, and Changes in Net Position:

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Final Amended Budget	Actual	Increase (Decrease)
Operating revenues			
Federal grants and contracts	\$ 20,452,174	\$ 20,671,787	\$ 219,613
State grants and contracts	764,990,084	759,932,265	(5,057,819)
Local grants and contracts	22,022,986	26,764,911	4,741,925
Charges for services	11,518,163	7,543,994	(3,974,169)
Total operating revenues	<u>818,983,407</u>	<u>814,912,957</u>	<u>(4,070,450)</u>
Operating expenses			
Personnel	21,011,343	16,301,783	(4,709,560)
Fringe benefits	8,548,815	5,785,221	(2,763,594)
Substance use disorders	65,512,560	57,222,829	(8,289,731)
Autism services	54,548,438	61,601,219	7,052,781
MI HealthLink	11,508,163	7,561,523	(3,946,640)
Adult services	238,439,227	272,393,065	33,953,838
Children services	88,949,376	75,530,597	(13,418,779)
Intellectually Disabled	307,029,383	305,146,852	(1,882,531)
Grant programs	7,965,159	6,951,177	(1,013,982)
State of Michigan	20,018,888	20,627,268	608,380
Operating costs	13,089,373	12,544,011	(545,362)
Depreciation	1,350,000	1,487,596	137,596
Total operating expenses	<u>\$ 837,970,725</u>	<u>\$ 843,153,141</u>	<u>5,182,416</u>
Operating income (loss)	(18,987,318)	(28,240,184)	(9,252,866)
Non-operating revenue (expense)			
Interest expense	(260,000)	(241,793)	18,207
Loss on sale of assets	-	(48,893)	(48,893)
Investment earnings	1,065,800	1,648,084	582,284
Total non-operating revenue	<u>805,800</u>	<u>1,357,398</u>	<u>533,391</u>
Change in net position	<u>\$ (18,181,518)</u>	(26,882,786)	<u>\$ (8,719,475)</u>
Net position - beginning of year		<u>83,104,454</u>	
Net position - end of year		<u>\$ 56,221,668</u>	

Salaries and related fringes represent the salaries, benefits and pension costs for approximately two hundred seventy-one (271) Authority employees, board members and contractual staff. The variance is due to approximately thirty-five (35) budgeted vacant positions.

Budgetary Highlights

DWIHN adopted an annual operating budget by October 1 of the previous year. The budgetary comparison schedule has been provided to demonstrate compliance with this budget. During the year, there were several significant changes from the original to the final amended budget. The changes are as follows:

	Adopted Budget	Final Amended Budget	Variance Over (Under)
Federal grants and contracts	\$ 20,432,038	\$ 20,452,174	\$ 20,136
State grants and contracts	707,317,815	764,990,084	57,672,269
Local grants and contracts	21,951,986	22,022,986	71,000
Other operating revenue	7,248,005	11,518,163	4,270,158
Total operating revenues	<u>756,949,844</u>	<u>818,983,407</u>	<u>62,033,563</u>
Salaries and related fringes	\$ 19,404,057	\$ 29,560,158	\$ 10,156,101
Substance use disorders	55,661,521	65,512,560	9,851,039
Autism services	45,779,795	54,548,438	8,768,643
MI HealthLink	7,428,127	11,508,163	4,080,036
Adult Services	25,944,369	238,439,227	212,494,858
Children Services	20,949,500	88,949,376	67,999,876
Intellectually Disabled	558,267,620	307,029,383	(251,238,237)
Grant Programs	7,587,423	7,965,159	377,736
State of Michigan	17,047,393	20,018,888	2,971,495
Operating costs	18,299,658	13,089,373	(5,210,285)
Depreciation	1,350,000	1,350,000	-
Total operating expenses	<u>\$ 777,719,463</u>	<u>\$ 837,970,725</u>	<u>\$ 60,251,262</u>
Nonoperating Revenue (expense)			
Interest paid on debt	(260,000)	(260,000)	-
Investment earnings	1,000,000	1,065,800	65,800
	740,000	805,800	65,800
Change in net position	<u>\$ (20,029,619)</u>	<u>\$ (18,181,518)</u>	<u>\$ 1,848,101</u>

Economic Factors and Next Year's Budget

- The State of Michigan Department of Health and Human Services (MDHHS) changed the actuarial methodology used to determine Medicaid distribution. Negatively affected by the change, DWIHN is experiencing less revenue than projected.
- MDHHS established the Autism Spectrum Disorder (ASD) benefit plan in April 2013 and expanded the age of the benefit on January 1, 2016 to twenty-six (26) years old. Despite the significant growth in the program since inception (from 600 to over 6,000 consumers), the funding has not been

sufficient to cover the costs and MDHHS ceased cost settling the program in fiscal year 2018. This shortfall has resulted in many PIHP's depleting their Internal Service Funds.

- There has been a significant migration from Disabled Aged and Blind (DAB) to Temporary Assistance for Needy Families (TANF) and Healthy Michigan Plan (HMP) enrollments. This migration has resulted in approximately \$67 million in lost Medicaid. When a consumers Medicaid lapses, the State of Michigan Bridges System automatically enrolls the consumer in HMP despite the consumer previously considered disabled (DAB). In addition, there is a belief that DHS workers are steering consumers to TANF and HMP enrollment given the cumbersome DAB process.
- Several years ago, MDHHS established a workgroup amongst the Community Mental Health Services Program (CMHSP) to review and make recommendations on how State General Fund will be allocated between the CMHSP's; the workgroup's recommendation included a \$22 million reduction to DWIHN appropriation over five years; FY19 was the second year of the plan. The Governor's FY20 recommended budget included the workgroups recommendation; however, the legislation provided a one-time partial supplemental that lessened the reduction and provided a one-year reprieve; the future of DWIHN's general fund is unknown.
- Based on current status of the COVID-19 outbreak there will be an unknown impact to DWIHN's future funding sources. Management is continuing to monitor the situation and overall impact to DWIHN's finances.

Requests for Information

This financial report is designed to provide a general overview of DWIHN's finances. Questions concerning any of the financial information or requests for additional financial information, should be addressed to the following:

Detroit Wayne Integrated Health Network
Chief Financial Officer
707 W. Milwaukee
Detroit, Michigan 48202

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Statement of Net Position

September 30, 2019

Assets

Current assets:

Cash and cash equivalents (Note 3)	\$ 81,326,113
Investments (Note 3)	2,954,817
Receivables: (Note 5)	
Accounts receivable	17,261,673
Due from other governmental units	17,392,451
Prepaid expenses and other assets	<u>623,287</u>
Total current assets	119,558,341

Noncurrent assets:

Restricted cash	2,150,179
Investments (Note 3)	22,415,236
Capital assets: (Note 6)	
Assets not subject to depreciation	884,981
Assets subject to depreciation - Net	<u>12,923,265</u>
Total noncurrent assets	<u>38,373,661</u>
Total assets	157,932,002

Liabilities

Current liabilities:

Accounts payable	81,877,803
Due to other governmental units	4,993,486
Due to Charter County of Wayne, Michigan	1,419,715
Accrued wages and benefits	409,799
Unearned revenue	5,842,911
Compensated absences	956,747
Current portion of long-term debt (Note 7)	<u>512,105</u>
Total current liabilities	96,012,566

Noncurrent liabilities - Long-term debt (Note 7)

5,697,768

Total liabilities

101,710,334

Net Position

Net investment in capital assets	7,598,373
Restricted for substance abuse disorder PA2 (Note 9)	3,349,191
Unrestricted	<u>45,274,104</u>
Total net position	<u><u>\$ 56,221,668</u></u>

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Statement of Revenue, Expenses, and Changes in Net Position

Year Ended September 30, 2019

Operating Revenue	
State grants and contracts	\$ 759,932,265
Charges for services	7,543,994
Local grants and contracts	26,764,911
Federal grants and contracts	<u>20,671,787</u>
Total operating revenue	814,912,957
Operating Expenses	
Personnel	16,301,783
Fringe benefits	5,785,221
Substance disorder services	57,222,829
Autism services	61,601,219
MI Health Link	7,561,523
Adult services	272,393,065
Children services	75,530,597
Intellectually disabled	305,146,852
Grant programs	6,951,177
State of Michigan	20,627,268
Operating costs	12,544,011
Depreciation	<u>1,487,596</u>
Total operating expenses	<u>843,153,141</u>
Operating Loss	(28,240,184)
Nonoperating Revenue (Expense)	
Investment income	1,648,084
Loss on sale of assets held for resale	(48,893)
Interest expense	<u>(241,793)</u>
Total nonoperating revenue	<u>1,357,398</u>
Change in Net Position	(26,882,786)
Net Position - Beginning of year	<u>83,104,454</u>
Net Position - End of year	<u><u>\$ 56,221,668</u></u>

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Statement of Cash Flows

Year Ended September 30, 2019

Cash Flows from Operating Activities	
Cash received from state and federal sources	\$ 772,367,996
Cash received from local sources	23,566,094
Payments to providers and suppliers	(794,225,881)
Payments to employees	<u>(24,505,468)</u>
Net cash used in operating activities	(22,797,259)
Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of assets held for resale	1,596,107
Purchase of capital assets	(434,193)
Principal and interest paid on capital debt	<u>(736,165)</u>
Net cash provided by capital and related financing activities	425,749
Cash Flows from Investing Activities	
Interest received on investments	1,648,084
Purchases of investment securities	<u>(25,370,053)</u>
Net cash and cash equivalents used in investing activities	<u>(23,721,969)</u>
Net Decrease in Cash and Cash Equivalents	(46,093,479)
Cash and Cash Equivalents - Beginning of year	<u>129,569,771</u>
Cash and Cash Equivalents - End of year	<u>\$ 83,476,292</u>
Classification of Cash and Cash Equivalents	
Cash and investments	\$ 81,326,113
Restricted cash	<u>2,150,179</u>
Total cash and cash equivalents	<u>\$ 83,476,292</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (28,240,184)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	1,487,596
Changes in assets and liabilities:	
Account receivable	(1,762,666)
Due from other governmental units	(12,183,674)
Prepaid and other assets	(377,514)
Accrued wages and benefits	223,101
Accounts payable	28,050,205
Accrued wages and compensated absences	162,004
Unearned revenue	(2,492,411)
Due to Charter County of Wayne, Michigan	161,634
Due to other governmental units	<u>(7,825,350)</u>
Net cash used in operating activities	<u>\$ (22,797,259)</u>

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Notes to Financial Statements

September 30, 2019

Note 1 - Nature of Business

Effective October 1, 2019, Detroit Wayne Mental Health Authority changed its name to Detroit Wayne Integrated Health Network; the financial statements have been updated to reflect this change. The organization will be referred to using the new name throughout the financial statements. The financial statements of the Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority) (DWIHN) have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental units. The more significant of the DWIHN's accounting policies are described below.

Reporting Entity

Under the provisions of the Michigan Legislature Public Acts 375 and 376 of 2012, and effective October 1, 2013, Detroit Wayne Integrated Health Network was created for the purpose of providing a comprehensive array of mental health and substance use services for the Charter County of Wayne, Michigan (the "County") residents, such as, but not limited to, inpatient, outpatient, partial day, residential, case management, prevention, consultation, and education. DWIHN was previously a department within the County. DWIHN is a separate legal entity and is not considered a related organization or component unit of the County.

Pursuant to House Bills 4862 and 4863, effective October 1, 2014, the duties and responsibilities of substance use disorders were transferred to the Prepaid Inpatient Health Plans (PIHP), which is DWIHN. The duties were previously performed by the City of Detroit, Michigan and SEMCA, referred to as the "Coordinating Agencies."

Program Operations

DWIHN's operations are governed under the provisions of Act 258 of the Public Act of Michigan of 1974, commonly known as the "Mental Health Code" (the "Code"). Pursuant to the Code, a board of directors (the "Board") was established to govern DWIHN. DWIHN is subject to federal government and Michigan Department of Health and Human Services (MDHHS) rules and regulations and the Code. DWIHN contracts with over 400 organizations. DWIHN provides administrative oversight and does not provide any direct services to consumers.

Board of Directors

The board consists of 12 members, 6 recommended by the mayor of the City of Detroit, Michigan and 6 recommended by the county executive. The recommendations are subject to the approval of the Wayne County Commission. Each board member is appointed for a three-year term.

Funding Sources

The Authority receives its primary funding from the State through Medicaid and state General Fund contracts. The County provides local match funding in accordance with the Mental Health Code, which is used by DWIHN to leverage federal dollars and 10 percent of certain services incurred by uninsured consumers.

Changes in Funding Formula

In an effort to deinstitutionalize mental health services, state funding for public mental health services has evolved. Prior to October 1, 1998, Michigan mental health agency programs billed Medicaid on a fee-for-service (FFS) basis.

September 30, 2019

Note 1 - Nature of Business (Continued)

Effective for services provided on and after October 1, 1998, the Health Care Financing Administration (HCFA) approved Michigan's 1915(b)-waiver request to implement a managed-care plan for Medicaid-reimbursed mental health services. These managed-care plans allowed Community Mental Health Services Programs (CMHSP) to manage, provide/arrange, and pay for Medicaid mental health services covered by the CMHSP. In addition, the CMHSP receives a capitated rate on a per member per month basis to provide services and is responsible for directly reimbursing the service providers who render these services. In the fiscal year ended September 30, 2000, DWIHN and MDHHS entered into a Specialty Services and Supports Managed Care Contract (the "Managed Care Contract").

In 2002, CMHSPs were required to submit an application for participation (AFP) for scoring by the MDHHS in order to be considered eligible to qualify as Prepaid Inpatient Health Plan (PIHP) entity capable of administering the managed specialty services under the waiver program. One of the requirements of the AFP unique to DWIHN was that networks for services were to be competitively created and bid out by various service providers and that the bulk of DWIHN's funding was to be disbursed to these networks referred to as MCPNs.

Note 2 - Significant Accounting Policies

Report Presentation

This report includes the fund-based statements of DWIHN. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

DWIHN adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*. Under GASB No. 34, DWIHN is classified as a special purpose government and is required to present statements required for enterprise funds. DWIHN reports its operations in the basic financial statements in an enterprise fund. The Medicaid Risk Reserve Fund is governed by the contract with the MDHHS and is restricted for cost overruns related to the Medicaid contract. The net position in the Medicaid Risk Reserve Fund at September 30, 2019 was \$0.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of DWIHN is charges related to serving its consumers (including primarily "per member per month" capitation and state and county appropriations). Operating expenses for DWIHN include cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Basis of Accounting

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The operations of the fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenue, and expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. For the basic financial statements, there is one generic fund type and broad fund category as follows:

September 30, 2019

Note 2 - Significant Accounting Policies (Continued)

Proprietary Fund - Enterprise Fund - The fund is used to account for those activities that are financed and operated in a manner similar to private business. Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of net position. Proprietary fund-type operating statements present increases (revenue) and decreases (expenses) in total net position. This enterprise fund of the DWIHN accounts for its general operations and also reports amounts restricted for the Medicaid Risk Reserve allowed by the contract with MDHHS.

When both restricted and unrestricted resources are available for use, it is DWIHN's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

DWIHN's cash and cash equivalents are held in depository accounts, institutional money market accounts, and short-term investments with a maturity of three months or less when acquired.

Investments

Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value.

Accounts Receivable and Due from Other Governmental Units

Accounts receivable represent balances due from the integrated care organizations (ICOs) related to the MI Health Link program. In addition, DWIHN cost settles with certain providers for amounts in excess of payments and costs incurred for services. The amounts of overpayment are determined through audits and/or cost reconciliation. An allowance for uncollectibles has been established based on management's estimate using historical trends. Management considers all accounts receivable collectible, and, therefore, an allowance for uncollectibles has not been recorded at September 30, 2019. Due from other governmental units represents revenue not yet received from the state and federal government.

Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses in the accompanying statement of net position.

Capital Assets

Capital assets are defined by DWIHN as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. All assets are recorded at historical costs, and donated assets are recorded at acquisition value at the time of the donation. Capital assets are depreciated using the straight-line method over a period of 5-20 years.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Notes to Financial Statements

September 30, 2019

Note 2 - Significant Accounting Policies (Continued)

	Depreciable Life - Years
Buildings and improvements	20
Office equipment	5-7
Vehicles	5-7
Software	10
Computers	5-7
Leasehold improvements	4-5

Restricted Cash

The restricted cash balance of \$2,150,179 is maintained per DWIHN's construction loan agreements.

Due to Charter County of Wayne, Michigan

Amounts due to the Charter County of Wayne, Michigan include amounts owed to the jails, Third Circuit Court, and Children and Family Services for services rendered.

Accounts Payable and Due to Other Governmental Units

Accounts payable balances include final expenditures due to service providers for the current fiscal year. Due to other governments represents amounts owed to the State of Michigan.

Compensated Absences

Employees earn paid time off (PTO) benefits based, in part, on length of service. PTO is fully vested when earned. Upon separation from service, employees are paid accumulated PTO based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of PTO leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding these limitations are forfeited.

Unearned Revenue

DW IHN reports unearned revenue in connection with resources that have been received, but not yet earned. Unearned revenue includes amounts of \$5,842,911 of MDHHS contract funding (\$3,977,346 of MI Health Link and \$1,865,565 of General Fund carryforward) that was unearned at September 30, 2019 and will be carried over to be expended in the subsequent fiscal year.

State Grants and Contracts Revenue

DW IHN's primary funding source was from the State of Michigan through Medicaid (traditional and Healthy Michigan) and state General Fund contracts totaling approximately \$713.1 million and \$39.4 million, respectively, for the year ended September 30, 2019; this includes prior years saving and carryovers. The remaining balance was composed of various other state grant contracts.

Direct Contracts

DW IHN contracts with various community-based organizations to deliver mental health and substance use disorder (SUD) services to adults, individuals with developmental disabilities, and children with serious emotional disturbances. In addition, DW IHN contracts with several county departments to administer mental health services, including but not limited to the jails, Children and Family Services, and Third Circuit Court.

September 30, 2019

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. DWIHN is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for DWIHN's financial statements for the year ending September 30, 2020.

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires 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. DWIHN is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for DWIHN's financial statements for the year ending September 30, 2021.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including March 31, 2020, which is the date the financial statements were available to be issued.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

DWIHN has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in any securities allowed under the act. DWIHN's deposits and investment policies are in accordance with statutory authority.

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Notes to Financial Statements

September 30, 2019

Note 3 - Deposits and Investments (Continued)

DWIHN's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, DWIHN's deposits may not be returned to it. At year end, DWIHN had \$92,056,774 of bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. DWIHN believes that, due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation (FDIC) insurance, it is impractical to insure all deposits. As a result, DWIHN evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. DWIHN'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.

At year end DWIHN had the following investments and maturities:

Investment	Carrying Value	Less Than 1 Year	1-5 Years
Municipal obligations	\$ 4,566,193	\$ -	\$ 4,566,193
U.S. Federal agencies	8,001,920	-	8,001,920
U.S. government obligations	2,621,313	-	2,621,313
Negotiable certificates of deposit	2,516,292	2,247,217	269,075
Inflation index bonds	261,225	-	261,225
Collateralized mortgage obligations	3,476,975	-	3,476,975
Mortgage-backed securities	3,926,135	707,600	3,218,535
Total	\$ 25,370,053	\$ 2,954,817	\$ 22,415,236

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 list of authorized investments above. DWIHN's investment policy does not have specific limits in excess of state law on investment credit risk. As of year end, DWIHN's investments were rated as follows:

Investment	Fair Value	Rating	Rating Organization
Municipal obligations	\$ 4,566,193	Aa1	Moody's
U.S. federal agencies	8,001,920	Aaa	Moody's
U.S. government obligations	2,621,313	Aaa	Moody's
Negotiable certificates of deposit	2,516,292	N/R	N/A
Inflation index bonds	261,225	Aaa	Moody's
Collateralized mortgage obligations	3,476,975	Aaa	Moody's
Mortgage-backed securities	3,926,135	N/R	N/A
Total	\$ 25,370,053		

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Notes to Financial Statements

September 30, 2019

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk, as identified in the list of authorized investments above. DWIHN's investment policy specifies that no more than 40 percent of the total investment portfolio will be invested in a single security type, and no more than 40 percent of the total investment portfolio shall be invested in assets issued or managed by a single financial institution. At September 30, 2019, DWIHN had all investments held in various certificates of deposits and other securities.

Note 4 - Fair Value Measurements

DWIHN categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances whereby inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. DWIHN's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The DWIHN has the following recurring fair value measurements as of September 30, 2019:

	Assets Measured at Fair Value on a Recurring Basis		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Debt securities:			
Municipal obligations	\$ -	\$ 4,566,193	\$ -
U.S. federal agencies	-	8,001,920	-
U.S. government obligations	-	2,621,313	-
Negotiable certificates of deposit	-	2,516,292	-
Inflation index bonds	-	261,225	-
Collateralized mortgage obligations	-	3,476,975	-
Mortgage-backed securities	-	3,926,135	-
Total assets	\$ -	\$ 25,370,053	\$ -

The fair value of DWIHN's investments at September 30, 2019 was determined primarily based on Level 2 inputs. DWIHN estimates the fair value of these investments using the matrix pricing model, which includes inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Notes to Financial Statements

September 30, 2019

Note 5 - Accounts Receivable and Due from Other Governmental Units

DWIHN cost settles with the certain providers for amounts in excess of payments and costs incurred for services. The accounts receivable balance at September 30, 2019 was approximately \$17.3 million, of which approximately \$8.3 million is due from certain providers for costs settlements, \$2.6 million from an ICO, and \$3.0 million is due from Wayne County, Michigan for Public Act 2 funds.

The due from other governmental units balance at September 30, 2019 was approximately \$17.4 million. This consists of \$17.2 million due from the State of Michigan and \$0.2 million due from the federal government.

Note 6 - Capital Assets

Capital asset activity of DWIHN was as follows:

Business-type Activities

	Balance October 1, 2018	Additions	Disposals and Adjustments	Balance September 30, 2019
Capital assets not being depreciated:				
Land	\$ 858,000	\$ -	\$ -	\$ 858,000
Construction in progress	-	26,981	-	26,981
Subtotal	858,000	26,981	-	884,981
Capital assets being depreciated:				
Buildings and improvements	13,345,621	-	-	13,345,621
Computers	1,179,077	82,974	-	1,262,051
Vehicles	8,481	-	(2,675)	5,806
Office equipment	1,530,235	81,724	-	1,611,959
Software	2,416,990	118,939	-	2,535,929
Leasehold improvements	-	126,249	-	126,249
Subtotal	18,480,404	409,886	(2,675)	18,887,615
Accumulated depreciation:				
Buildings and improvements	1,445,193	667,281	-	2,112,474
Computers	670,515	203,224	-	873,739
Office equipment	758,421	309,199	-	1,067,620
Software	1,602,625	278,923	-	1,881,548
Leasehold improvements	-	28,969	-	28,969
Subtotal	4,476,754	1,487,596	-	5,964,350
Net capital assets being depreciated	14,003,650	(1,077,710)	(2,675)	12,923,265
Net capital assets	\$ 14,861,650	\$ (1,050,729)	\$ (2,675)	\$ 13,808,246

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Notes to Financial Statements

September 30, 2019

Note 7 - Long-term Debt

On August 28, 2014, DWIHN signed a seven-year term and a seven-year construction notes payable (20-year amortization period) with Flagstar Bank totaling \$6.96 million for the construction phase on the new headquarters, which matures in 2023. On the same day, DWIHN also entered into a five-year equipment note with Flagstar for \$1.24 million for the purchase of the office furniture and fixtures, which matures in 2021. As of September 30, 2019, DWIHN's long-term debt was as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Direct borrowings and direct placements - General obligations	3.3%-3.8%	\$8,000-\$3,297,000	\$ 6,704,245	\$ -	\$ 494,372	\$ 6,209,873	\$ 512,105
Accumulated compensated absences			794,743	1,557,465	1,395,461	956,747	956,747
Total			<u>\$ 7,498,988</u>	<u>\$ 1,557,465</u>	<u>\$ 1,889,833</u>	<u>\$ 7,166,620</u>	<u>\$ 1,468,852</u>

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above liability are as follows:

Years Ending September 30	Principal	Interest	Total
2020	\$ 512,105	\$ 224,060	\$ 736,165
2021	462,456	204,785	667,241
2022	273,631	191,841	465,472
2023	4,961,681	580,642	5,542,323
Total	<u>\$ 6,209,873</u>	<u>\$ 1,201,328</u>	<u>\$ 7,411,201</u>

The Flagstar construction note payable requires certain financial covenants and reporting requirements. DWIHN was not in compliance with the debt service ratio requirement for the year ended September 30, 2019. DWIHN amended its loan agreement with Flagstar which modified terms of the loan agreement related to certain financial covenants and reporting requirements, as well as a waiver of Flagstar's rights as a result of DWIHN not being in compliance with the debt service ratio for the year ended September 30, 2019.

Note 8 - Risk Management

DWIHN is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. DWIHN has purchased commercial insurance policies to cover property, torts, employee injuries, and medical benefits. Accruals for claims, litigation, and assessments are recorded by DWIHN when those amounts are estimable and probable at year end.

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Notes to Financial Statements

September 30, 2019

Note 9 - Restricted Net Position

Contributions are allowed under the MDHHS contract for Medicaid risk (internal service fund/ISF) and, accordingly, are shown as restricted net position in the statement of net position. For the year ended September 30, 2019, the activity of the net position restricted for risk financing (Medicaid ISF) was as follows:

Beginning balance	\$ 19,931,822
Abatement	(20,547,840)
Interest revenue	616,018
Ending balance	\$ -

DWIHN also reported \$3,349,191 in funds restricted for substance use disorder services as of September 30, 2019.

Note 10 - Defined Contributions Pension Plan

DWIHN provides pension benefits to all of its full-time employees through a defined contribution plan administered by the Michigan Employees' Retirement System (MERS). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are required to contribute. The plan provides for the employee to contribute up to a 2 percent pretax contribution and up to an 8 percent employer match. Union employees are fully vested after three years of service, and employees at will are fully vested after one year of service.

The employee and employer contributions for the defined contribution plan were \$332,042 and \$1,326,090, respectively, for the year ended September 30, 2019.

Note 11 - Commitment and Contingent Liabilities

Amounts received or receivable from grantor/contract agencies are subject to audit and potential adjustment by those agencies, principally the state and federal governments. As described in Note 2, DWIHN receives the majority of its funding through MDHHS. MDHHS uses a compliance examination and cost settlement process to determine disallowed costs and final receivable and payable balances of DWIHN. Historically, the cost settlement process has taken two or more years for MDHHS to complete. Any disallowed costs, including amounts already collected, may constitute a liability of the DWIHN. The amount, if any, of costs that may be disallowed by the grantor or contract agencies cannot be determined at this time, although DWIHN expects such amounts, if any, to be immaterial.

DWIHN is periodically a defendant in various lawsuits. Although the outcome of such lawsuits currently pending or threatened, if any, is not presently determinable, it is the opinion of DWIHN's management and counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

Other Supplemental Information

Detroit Wayne Integrated Health Network (formerly known as Detroit Wayne Mental Health Authority)

Other Supplemental Information

**Statement of Revenue, Expenses, and Changes in Net Position
Budgetary Comparison
Year Ended September 30, 2019**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Operating Revenue				
State grant and contracts	707,317,815	764,990,084	759,932,265	(5,057,819)
Charges for services	7,248,005	11,518,163	7,543,994	(3,974,169)
Local grants and contracts	21,951,986	22,022,986	26,764,911	4,741,925
Federal grants and contracts	20,432,038	20,452,174	20,671,787	219,613
Total operating revenue	<u>756,949,844</u>	<u>818,983,407</u>	<u>814,912,957</u>	<u>(4,070,450)</u>
Operating Expenses				
Personnel	14,045,631	21,011,343	16,301,783	4,709,560
Fringe benefits	5,358,426	8,548,815	5,785,221	2,763,594
Substance disorder services	55,661,521	65,512,560	57,222,829	8,289,731
Autism services	45,779,795	54,548,438	61,601,219	(7,052,781)
MI Health Link	7,428,127	11,508,163	7,561,523	3,946,640
Adult services	25,944,369	238,439,227	272,393,065	(33,953,838)
Children services	20,949,500	88,949,376	75,530,597	13,418,779
Intellectually disabled	558,267,620	307,029,383	305,146,852	1,882,531
Grant programs	7,587,423	7,965,159	6,951,177	1,013,982
State of Michigan	17,047,393	20,018,888	20,627,268	(608,380)
Operating costs	18,299,658	13,089,373	12,544,011	545,362
Depreciation	1,350,000	1,350,000	1,487,596	(137,596)
Total expenses	<u>777,719,463</u>	<u>837,970,725</u>	<u>843,153,141</u>	<u>(5,182,416)</u>
Operating Loss	(20,769,619)	(18,987,318)	(28,240,184)	(9,252,866)
Nonoperating Revenue (Expense)				
Investment income	1,000,000	1,065,800	1,648,084	582,284
Interest paid on debt	(260,000)	(260,000)	(241,793)	18,207
Loss on sale of assets held for resale	-	-	(48,893)	(48,893)
Total nonoperating revenue	<u>740,000</u>	<u>805,800</u>	<u>1,357,398</u>	<u>551,598</u>
Change in Net Position	<u>\$ (20,029,619)</u>	<u>\$ (18,181,518)</u>	<u>\$ (26,882,786)</u>	<u>\$ (8,701,268)</u>