

Northeast Alabama MR/DD Authority, Inc.

Financial Statements

September 30, 2018

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LOCAL FIRM
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Northeast Alabama MR/DD Authority, Inc.

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Northeast Alabama MR/DD Authority, Inc. (the Authority) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 financial position of the Authority as of September 30, 2018, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Schedule of Changes in Net Pension Liability and the Schedule of Employer Contributions on pages 23 - 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information included on pages 26 - 28 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of revenue and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of revenues and expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of board of directors and officials has 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 August 20, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BMSS, LLC

Gadsden, Alabama
August 20, 2019

Northeast Alabama MR/DD Authority, Inc.
Statement of Financial Position
September 30, 2018

Assets

Current assets

Cash	\$ 1,040,289
Contracts receivable	72,883
Other receivables	14,718
Prepaid expenses	1,400
	1,129,290

Noncurrent assets

Property and equipment, net	82,516
	82,516

Total Assets

\$ 1,211,806

Deferred Outflows of Resources

Deferred outflows - pensions	\$ 149,505
	149,505

Liabilities and Net Position

Current liabilities

Accounts payable	\$ 3,421
Accrued payroll and related expenses	39,658
	43,079

Long-term liabilities

Net pension liability	327,494
	327,494

Total Liabilities

\$ 370,573

Deferred Inflows of Resources

Deferred inflows - pensions	\$ 49,671
	49,671

Net position

Net investment in capital assets	82,516
Unrestricted	858,551
	858,551

Total Net Position

\$ 941,067

See notes to the financial statements.

Northeast Alabama MR/DD Authority, Inc.
Statement of Revenues, Expenses and Changes in Net Position
Year ended September 30, 2018

Operating revenues	
Contracts with governmental agencies	\$ 14,282,402
 Operating expenses	
Program services	14,073,569
General and administrative	<u>535,279</u>
 Total operating expenses	 14,608,848
 Operating loss	 (326,446)
 Non-operating income	
Interest earned	9,064
Grants and contributions	61,500
Other	<u>1,300</u>
 Total non-operating income	 <u>71,864</u>
 Decrease in net position	 (254,582)
Net position at beginning of year	<u>1,195,649</u>
Net position at end of year	<u><u>\$ 941,067</u></u>

See notes to the financial statements.

Northeast Alabama MR/DD Authority, Inc.
Statement of Cash Flows
Year ended September 30, 2018

Cash Flows from Operating Activities

Cash received from customers	\$ 16,474,124
Cash payments to suppliers for goods and services	(15,733,791)
Cash payments to employees for services	(849,843)
Net cash (used) by operating activities	(109,510)

Cash Flows From Noncapital Investing Activities

Grants and contributions	61,500
Cash received from other income sources	1,300
Net cash provided by noncapital investing activities	62,800

Cash Flows from Investing Activities

Interest income	9,064
Cash used to purchase fixed assets	(1,000)
Net cash provided by investing activities	8,064

Net decrease in cash	(38,646)
Cash - Beginning of year	1,078,935
Cash - End of year	\$ 1,040,289

Reconciliation of operating loss to net cash used by operating activities

Operating loss	\$ (326,446)
Adjustments to reconcile change in net assets to net cash (used) by operating activities	
Depreciation	49,292
Decrease in contract receivable	2,200,700
(Increase) in other receivable	(8,978)
(Increase) in prepaid assets	1,202
Decrease in deferred outflows - pensions	17,109
(Decrease) in accounts payable	(2,060,338)
Increase in accrued liabilities	12,875
(Decrease) in net pension liability	(44,597)
Increase in deferred inflows - pensions	49,671
Net cash (used) by operating activities	(109,510)

See notes to financial statements.

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Activities

Northeast Alabama MR/DD Authority, Inc. (the Authority) is a non-profit public corporation formed under Title 22, Chapter 51 of the Code of Alabama of 1975 for the purpose of enhancing the lives of mentally retarded persons living in Northeast Alabama by providing habilitative services and individual case management through contracts with the Alabama Department of Mental Health (DMH). Beginning September 1, 2018, the Authority began providing only case management services through its contract with DMH.

Reporting Entity

The Governmental Accounting Standards Board (GASB) establishes standards for defining and reporting on the financial reporting entity. The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for agencies that make up its legal entity. It is also financially accountable for a legally separate agency if its officials appoint a voting majority of that agency's governing body and either it is able to impose its will on that agency or there is a potential for the agency to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. There are no component units which should be included as part of the financial reporting entity of the Authority.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Authority's net position is required to be classified into three categories defined as:

- *Net Investment in Capital Assets* – consists of capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increases in balance of deferred outflows of resources related to those assets.
- *Restricted* – net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws of buyers of the Authority's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.
- *Unrestricted net position* – consists of all other net position that does not meet the above two components and is available for general use by the Authority.

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

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

All activities of the Authority are accounted for within a proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred, or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. The principal operating revenues of the Authority are services provided to consumers under contracts with governmental agencies. Operating expenses include the costs to provide these services, administrative costs, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For purposes of cash flows, the Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Contracts Receivable

Contracts receivable are stated at face amount with no allowance for doubtful accounts considered necessary because probable uncollectible accounts are immaterial.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the financial statements at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Assets capitalized have an original cost of \$500 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Furniture and Equipment	3 – 10 years
Automobiles	5 years

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Contract Income, Receivables, and Economic Dependency

The Authority contracts with the Alabama Department of Mental Health (DMH) to provide services in Northeast Alabama. The Authority receives payments from DMH on a monthly basis and significantly depends on these funds for its operations. The Authority records revenue as services are provided under this contract. Receivables related to this contract are considered fully collectible; therefore, no allowance for doubtful accounts is maintained. If an amount is determined to be uncollectible, due to ineligibility, etc., DMH reduces a future payment when that determination is made.

Contributed Services

When material, the value of contributed services meeting the requirements for recognition in the financial statements is recorded in the financial statements as a revenue and an expense. Additionally, many individuals volunteer their time and perform a variety of tasks which are not recorded in the financial statements. No amounts for contributed services have been recorded in the financial statements.

Income Tax Status

The Authority is a public corporation organized under Chapter 51 of Title 22, Code of Alabama, 1975. It is an instrumentality of Etowah and Cherokee Counties and of a number of municipalities within the counties which organized it. The Authority is exempt with regards to income tax under section 501(c) (3) of the Internal Revenue Code and is not a private foundation within the meaning of section 509(a) and qualifies for deductible contributions as provided in Section 170(b) (10) (A) (vi).

Compensated Absences

The Authority maintains written policies in regard to compensated absences. In regard to annual leave, the Authority allows employees working full-time to accrue 10 to 20 days per year dependent on length of service. Upon termination, resignation, or retirement the Authority compensates employees for unused annual leave. Therefore, the Authority accrues a liability for accrued annual leave in accordance with professional standards. At September 30, 2018, the Authority's liability for compensated absences was \$ 33,587.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that could affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Advertising Costs

The Authority's policy is to expense advertising costs when incurred.

Functional Allocation of Expenses

The costs of providing the various programs of the Authority have been summarized on a functional basis in the statement of revenues, expenses, and changes in net assets. Accordingly, certain costs have been allocated among the programs benefited.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes 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 future periods and so will not be recognized as an outflow of resources (expense) until then. The Authority reports the pension costs incurred by the Board subsequent to its last actuarial measurement date and cumulative negative differences in projected and actual earnings of its pension plan as deferred outflows in the statement of net position.

In addition to liabilities, the statement of financial position includes 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 and so will not be recognized as an inflow of resources (revenue) until that time.

The Authority reports cumulative positive differences in projected and actual earnings of its pension plan as a deferred inflow of resources in the statement of net position.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

The vast majority of the Authority's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the Code of Alabama 1975, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. As of September 30, 2018, the bank balance of the Authority's deposits in financial institutions participating in the SAFE program was \$1,066,973.

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 3 - RECEIVABLES

Contracts Receivable at September 30, 2018, consisted of the following:

Due from DMH \$ 72,883

Other Receivables at September 30, 2018, consisted of a refund due to an overpayment of an expense in the amount of \$ 14,718.

NOTE 4 - PREPAID EXPENSES

Prepaid expenses at September 30, 2018, consisted of the following:

Prepaid Rent \$ 1,400

NOTE 5 - CAPITAL ASSETS

The following is a summary of changes in Depreciable Property and Equipment for the year ended September 30, 2018.

	<u>Balance</u>		<u>Deletions</u>	<u>Balance</u>
	<u>9/30/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/18</u>
Capital assets being depreciated				
Automobiles	\$ 239,805	\$ -	\$ -	\$ 239,805
Furniture and equipment	91,142	1,000		92,142
Total capital assets being depreciated	330,947	1,000	-	331,947
Less accumulated depreciation for:				
Automobiles	137,208	39,674	-	176,882
Furniture and equipment	62,931	9,618	-	72,549
Total accumulated depreciation	200,139	49,292	-	249,431
Capital assets being depreciated, net	\$ 130,808	\$ (48,292)	\$ -	\$ 82,516

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable in the financial statements are normal trade payables for expenses incurred but not yet remitted prior to September 30, 2018

NOTE 7 - ACCRUED PAYROLL AND RELATED EXPENSES

Accrued payroll and related expenses in the financial statements consisted of the following:

Payroll taxes and withholdings \$ 6,071
Compensated absences 33,587
\$ 39,658

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 8 - LINE OF CREDIT

The Authority maintained a line of credit with a local financial institution with a maximum borrowing limit of \$750,000 for operating capital. Advances accrue interest at U.S. prime. At September 30, 2018, the balance owed on the line of credit was \$0. The line of credit has not been renewed.

NOTE 9 - OPERATING LEASES

The Authority leased facilities for administrative space for various locations on a monthly basis. Facility rent expense for the year was \$ 6,200.

Future minimum lease payments required under these leases are as follows:

Year ended September 30, 2019	\$ 16,800
Year ended September 30, 2020	\$ 8,800
Year ended September 30, 2021	\$ 4,200

NOTE 10 - RETIREMENT PLAN

The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Plan Description

The Employees' Retirement System of Alabama, an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the Authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa.al.gov.

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 10 - RETIREMENT PLAN (Continued)

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Effective January 1, 2013, the Alabama Legislature established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

Contributions

Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 10 - RETIREMENT PLAN (Continued)

Contributions (Continued)

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

As of the measurement date of September 30, 2017, the Board's membership consisted of:

Retiring Members or Their Beneficiaries Currently Receiving Benefits	1
Vested Inactive Members	1
Non-vested Inactive Members	0
Active Members	8
Total	10

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2018, the Board's active employee contribution rate was 4.06% of covered employee payroll, and the Board's average contribution rate to fund the normal and accrued liability costs was 6.36% of covered employee payroll.

The Board's contractually required contribution rate for the year ended September 30, 2018, was 8.19% of pensionable pay for Tier 1 employees and 6.31% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2015, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Board were \$40,120 for the year ended September 30, 2018.

Net Pension Liability

The Authority's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2016 rolled forward to September 30, 2017 using standard roll-forward techniques as shown in the following table:

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 10 - RETIREMENT PLAN (Continued)

Net Pension Liability (Continued)

<u>TPL Roll-Forward</u>	<u>Expected</u>	<u>Actual</u>
(a) TPL as of September 30, 2016	\$ 967,873	\$ 936,051
(b) Discount Rate	7.75%	7.75%
(c) Entry Age Normal Cost for the period 10/01/16 – 09/30/17	32,428	32,428
(d) Transfers Among Employers	-	-
(e) Actual Benefit Payments and Refunds for the period 10/01/16 – 09/30/17	<u>(18,125)</u>	<u>(18,125)</u>
(f) TPL as of September 30, 2017 =[(a) x (1+(b))]+(c)+(d)+[(e)x(1+.5*(b))]	<u>\$1,056,484</u>	<u>\$1,022,196</u>
(g) Difference between Expected and Actual:		(\$34,288)
(h) Less Liability Transferred for Immediate Recognition		-
(i) Experience (Gain)/Loss = (g) - (h)		<u>(\$34,288)</u>

Actuarial Assumptions

The total pension liability in the September 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.75% - 5.00%
Investment rate of return*	7.75%

*Net of pension plan investment expense, including inflation

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2016 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 10 - RETIREMENT PLAN (Continued)

Actuarial Assumptions (Continued)

	Target <u>Allocation</u>	Long-term Expected Rate of <u>Return*</u>
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	<u>3.00%</u>	1.50%
Total	<u>100.00%</u>	

*Includes assumed rate of inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was the long-term rate of return, 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the Authority's net pension liability calculated using the discount rate of 7.75%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.75%) or 1% higher (8.75%) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current Discount <u>Rate (7.75%)</u>	1% Increase <u>(8.75%)</u>
Plan's Net Pension Liability	\$ 456,508	\$ 327,494	\$ 219,013

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 10 - RETIREMENT PLAN (Continued)

Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2016	\$ 967,873	\$ 595,782	\$ 372,091
Changes for the year:			
Service cost	32,428	-	32,428
Interest	74,308	-	74,308
Changes of assumptions	-	-	-
Difference between expected and Actual experience	(34,288)	-	(34,288)
Contributions - employer	-	23,684	(23,684)
Contributions - employee	-	15,715	(15,715)
Net investment income	-	77,646	(77,646)
Benefit payments, including refunds of employee contributions	(18,125)	(18,125)	-
Administrative expense	-	-	-
Transfers among Employers	-	-	-
Net changes	54,323	98,920	(44,597)
Balances at September 30, 2017	\$ 1,022,196	\$ 694,702	\$ 327,494

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2017. The auditor's report on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information for all measurement periods is available at www.rsa-al.gov.

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 10 - RETIREMENT PLAN (Continued)

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

For the year ended September 30, 2018, the Board recognized pension expense of \$ 62,303. At September 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,740	\$ 28,667
Changes of assumptions	90,501	-
Net difference between projected and actual earnings on plan investments	-	21,004
Employer contributions subsequent to the Measurement Date	<u>38,264</u>	<u>-</u>
Total	<u>\$ 149,505</u>	<u>\$ 49,671</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year Ended September 30, 2018:	
2018	\$ 55,359
2019	20,671
2020	13,644
2021	15,968
2022	(5,246)
Thereafter	(562)

NOTE 11 - RELATED ENTITY

During the year ended September 30, 2018, the Authority was provided contract management services from an entity related by common management personnel. For the year, the value of the contract services provided by this related party was \$13,588,151.

Northeast Alabama MR/DD Authority, Inc.
Notes to Financial Statements
Year ended September 30, 2018

NOTE 12 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded coverage in any of the last three years. There were no significant reductions in coverage compared to the prior year.

NOTE 13 - ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

Professional standards provide guidance on recognition, measurement, and disclosure of an uncertain tax position taken or expected to be taken by the Authority. The Authority has not and does not expect to take a position that would require recognition of an asset or liability in the statement of financial position as of September 30, 2018. As a result, there has been no adjustment to the Authority's financial statements as of September 30, 2018, for any uncertain tax position.

NOTE 14 - SUBSEQUENT EVENTS

In preparing the financial statements, management evaluated subsequent events through August 20, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Northeast Alabama MR/DD Authority, Inc.
Schedule of Changes in Net Pension Liability (unaudited)
Measurement Period Ended September 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability:				
Service cost	\$ 32,428	\$ 23,888	\$ 22,869	\$ 21,240
Interest	74,308	59,931	53,860	50,592
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(34,288)	8,071	26,597	-
Changes of assumptions	-	135,751	-	-
Benefit payments, including refunds of employee contributions	(18,125)	(17,822)	(37,041)	(24,923)
Net change in total pension liability	54,323	209,819	66,285	46,909
Total pension liability, beginning	967,873	758,054	691,769	644,860
Total pension liability, ending (a)	<u>\$ 1,022,196</u>	<u>\$ 967,873</u>	<u>\$ 758,054</u>	<u>\$ 691,769</u>
Plan Fiduciary Net Position:				
Contributions - Employer	\$ 23,684	\$ 22,892	\$ 22,011	\$ 21,246
Contributions - Member	15,715	15,246	14,029	13,329
Net Investment Income	77,646	54,129	6,118	53,654
Benefit Payments, including Refunds of Employee Contributions	(18,125)	(17,822)	(37,041)	(24,923)
Transfers Among Employers	-	-	-	21,137
Net Change in Plan Fiduciary Net Position	98,920	74,445	5,117	84,443
Plan Net Position, Beginning	595,782	521,337	516,220	431,777
Plan Net Position, Ending (b)	<u>\$ 694,702</u>	<u>\$ 595,782</u>	<u>\$ 521,337</u>	<u>\$ 516,220</u>
Net Pension Liability (Asset), Ending (a) - (b)	<u>\$ 327,494</u>	<u>\$ 372,091</u>	<u>\$ 236,717</u>	<u>\$ 175,549</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.96%	61.56%	68.77%	74.62%
Covered-Employee Payroll	\$ 375,850	\$ 358,675	\$ 350,879	\$ 364,320
Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll	87.13%	103.74%	67.46%	48.19%

Northeast Alabama MR/DD Authority, Inc.
Schedule of Employer Contributions (unaudited)
Fiscal Year Ended September 30

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 40,120	\$ 23,012	\$ 22,892	\$ 22,011
Contributions in Relation to the Actuarially Determined Contribution	40,120	23,012	22,892	22,011
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 630,841	\$ 375,850	\$ 358,675	\$ 350,879
Contributions as a Percentage of Covered-Employee Payroll	6.36%	6.12%	6.38%	6.27%

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age
Amortization method:	Level percent open
Remaining amortization period:	27.8 years
Asset valuation method:	5-year smoothed market
Actuarial assumptions:	
Investment rate of return:	8%
Projected salary increases:	3.75 - 7.25%
Inflation:	3%

SUPPLEMENTARY INFORMATION

Northeast Alabama MR/DD Authority, Inc.
Schedule of Revenues
For the Year Ended September 30, 2018

	Federal	State	Other	Total
DMH/MR Contracts	\$ 14,282,402	\$ -	\$ -	\$ 14,282,402
Other Income				
Government Grants and Contributions	-	19,500	42,000	61,500
Interest Income	-	-	9,064	9,064
Miscellaneous	-	-	1,300	1,300
	\$ 14,282,402	\$ 19,500	\$ 52,364	\$ 14,354,266

Northeast Alabama MR/DD Authority, Inc.
Schedule of Expenses
For the Year Ended September 30, 2018

	Program Services	General and Administrative	Total
Personnel costs			
Salaries and wages	\$ 373,970	\$ 330,320	\$ 704,290
Employee benefits	66,459	58,701	125,160
Payroll taxes	27,324	24,804	52,128
Workers compensation insurance	1,764	1,559	3,323
	<u>469,517</u>	<u>415,384</u>	<u>884,901</u>
Other operating costs			
Provider contracts	13,588,151	-	13,588,151
Advertising	-	-	-
Board expenses	-	4,389	4,389
Contract services	-	215	215
Depreciation	-	49,292	49,292
Dues and subscriptions	-	730	730
Equipment rental	-	1,655	1,655
Equipment/furniture - non-capitalized	-	4,635	4,635
Legal and accounting	-	25,170	25,170
Miscellaneous	-	5,507	5,507
Office building	-	13,967	13,967
Office supplies	-	5,501	5,501
Postage	-	-	-
Software upgrades	-	-	-
Telecommunications	-	2,928	2,928
Training	500	450	950
Travel	15,401	5,456	20,857
Vehicle expenses	-	-	-
	<u>13,604,052</u>	<u>119,895</u>	<u>13,723,947</u>
Total expenses	<u>\$ 14,073,569</u>	<u>\$ 535,279</u>	<u>\$ 14,608,848</u>

Northeast Alabama MR/DD Authority, Inc.
Officers and Board Members
September 30, 2018

SUPPLEMENTARY SCHEDULE REQUIRED BY THE ALABAMA
DEPARTMENT OF MENTAL HEALTH

BOARD MEMBERS

Dennis Adams
Dwight Bush
Beverly Daniel
Jason Ellen
Kevin Ford
Slick Helton
Myra Holt
Chad Jeffers
Jane Poovey
Mike Self
Ruth Wright

John Blackburn
Rickey Byrum
Dorothy Davis
David Engle
Cheryl Hainer
Ronnie Helton
John Hurtt
Phil Owen
JoAnn Ray
Ethel Sprouse

OFFICIALS

Phillip Carr

Executive Director

OTHER REQUIRED REPORTING



LOCAL FIRM
NATIONAL KNOWLEDGE
GLOBAL REACH

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Northeast Alabama MR/DD Authority, Inc.

We have audited, 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, the financial statements of the Northeast Alabama MR/DD Authority, Inc. (the Authority) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 20, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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 Authority's financial statements are free of 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BMSS, LLC

Gadsden, Alabama

August 20, 2019



LOCAL FIRM
NATIONAL KNOWLEDGE
GLOBAL REACH

REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL HEALTH CONTRACT

To the Board of Directors of the
Northeast Alabama MR/DD Authority, Inc.

We have audited contract number G8333854H between the Department of Mental Health (DMH) and Northeast Alabama MR/DD Authority, Inc. (the Authority), as of and for the year ended September 30, 2018.

Compliance with the DMH/MR contracts, Provider Agreement and all applicable laws, rules and regulations applicable to the Authority is the responsibility of the Authority's management. As part of obtaining reasonable assurance about whether the contract, Provider Agreement and all applicable laws, rules, and regulations were complied with, we performed certain tests of transactions and made other determinations as outlined in each requirement of Section 12, Audit for Compliance with the Contract of the DMH Audit Guidelines. Revenues and expenditures were analyzed to determine if they were in compliance with applicable terms and conditions of the contracts. Funds claimed as match for federal programs were audited to determine if they are allowable and adequate to match the federal funds received.

The results of our tests disclosed no material instances of noncompliance with the DMH contract and all applicable laws and regulations.

This report is intended for the information of management and DMH. However, this report is a matter of public record and its distribution is not limited.

BMSS, LLC

Gadsden, Alabama
August 20, 2019