Tuscola County Community Mental Health Authority

Financial Statements
September 30, 2025

RPC
Roslund Prestage & Company
Certified Public Accountants

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

Tuscola County Community Mental Health Authority
Table of Contents
September 30, 2025

Independent Auditor's Report

Management's Discussion and Analysis ..... I-VI

Basic Financial Statements

Statement of Net Position 1

Statement of Revenues, Expenses and Changes in Net Position 2

Statement of Cash Flows 3

Notes to the Financial Statements 4-17

Required Supplemental Information

Schedule of Changes in Net Pension Liability and Related Ratios 18-19

Schedule of Employer Contributions 20-21

Government Auditing Standards Report 22-23

Communication with Those Charged with Governance at the Conclusion of the Audit 24-25

RPC
Roslund Prestage & Company
Certified Public Accountants

Independent Auditor's Report

To the Members of the Board
Tuscola County Community Mental Health Authority
Caro, Michigan

Report on the Audit of the Financial Statements

Opinions
We have audited the accompanying financial statements of the business-type activities and each major fund of Tuscola County Community Mental Health Authority (the CMHSP) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the CMHSP's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the CMHSP as of September 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions
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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CMHSP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the CMHSP's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery

intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CMHSP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CMHSP's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2026, on our consideration of the CMHSP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CMHSP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CMHSP's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

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

March 26, 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS



Tuscola County Community Mental Health Authority

Management's Discussion and Analysis

For the year ended September 30, 2025

This section of the Tuscola County Community Mental Health Authority (TCCMHA) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2025. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report, financial statements, notes to financial statements and supplemental information taken as a whole.

FINANCIAL HIGHLIGHTS

- Unrestricted Net Position decreased by $128,722 or 8%.
- Net Pension Liability decreased by $165,867 or 5%.
- GASB 101 changes increased compensated absence liability by $136,460 or 25%.

OPERATING HIGHLIGHTS

Fiscal Year 2025 (FY25) exhibited a steadfast commitment by TCCMHA to advancing a comprehensive, integrated service delivery system designed to meet the diverse and evolving needs of Tuscola County residents amid intensifying challenges to the public mental health system. Through the continued development of an integrated model, TCCMHA strived to enhance access to services, strengthen coordination among providers, and foster a more holistic understanding of the complex challenges facing individuals and families with mental health needs. By aligning resources and services across programs throughout the year, TCCMHA worked to improve care integration and support more effective, person-centered outcomes while navigating funding reductions (i.e., reductions in grants), workforce shortages, and the escalating needs of service recipients.

Community engagement and better care coordination continued to drive operational progress during the year. TCCMHA strengthened its interagency partnerships with stakeholders, community organizations, and residents to ensure services were culturally responsive, accessible, and tailored to individual needs. One key initiative during the last year was the continued expansion of the Assisted Outpatient Treatment (AOT) program, including the development of a cross-sector partnership among the courts, law enforcement, and mental health providers. Although this coordinated approach was still in the early phases, productive outcomes were realized as the infrastructure continued to advance and processes became more aligned and effective across systems. In addition, TCCMHA also launched a new interagency partnership with the juvenile court system to deliver targeted group programming for youth participants and their parents. Designed to strengthen family engagement and improve outcomes within the justice system, this initiative helped to ensure that individuals received coordinated support across all aspects of their well-being and fostered a person-centered model that promoted overall wellness/recovery as well as system efficiency.

Self-empowerment and advocacy remained central themes, as service recipients responded to risks facing the public mental health system, with the "Walk A Mile In My Shoes Rally" at the Michigan State Capital drawing record participation. This level of engagement highlights a strong commitment to addressing challenges and threats to the system while maintaining a focus on long-term improvement and success.

Overall, FY25 reflects sustained progress and underscores TCCMHA's unwavering commitment to strengthening service delivery, deepening community partnerships, and advancing its mission to support recovery, resilience, and well-being within Tuscola County.

OVERVIEW OF FINANCIAL STATEMENTS

The Authority's financial statements include the statement of net position and the statement of activities. These present the overall financial status of the authority in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when earned and expenses are recorded when incurred, without regard to the timing of cash receipts or disbursements.
The statement of net position includes all assets, deferred outflows of resources and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the improving or deteriorating financial position.

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

STATEMENT OF NET POSITION

The following summarizes the assets, liabilities and net position as of September 30, 2025, and 2024.

Statement of Net Position

As of September 30, 2025 and 2024
(In $000s)

	2025	2024	$ Change
Assets			
Current assets	$ 6,119	$ 4,745	$ 1,374
Restricted assets	904	655	249
Capital assets	1,433	1,541	(108)
Total assets	8,456	6,941	1,515
Deferred Outflows of Resources	$ 1,409	$ 1,812	$ (403)
Liabilities			
Current liabilities	$ 4,167	$ 2,973	$ 1,194
Noncurrent liabilities	4,082	4,257	(175)
Total liabilities	8,249	7,230	1,019
Deferred Inflow of Resources	224	-	224
Net Position			
Investment in capital assets	792	787	5
Restricted			
Unrestricted	602	736	(134)
Total net position	$ 1,394	$ 1,523	$ (129)

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength. The current financial position was $1.9 million for FY 25 and $1.7 million for FY 24.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations.

Restricted assets consist of cash and cash equivalents. These assets are restricted for payment of compensated absences. The assets restricted for payment of compensated absences include vacation, sick and personal pay. At year-end, the balance in this account was $904 thousand.

Capital assets consist of property and equipment having an estimated useful life of more than one year. As of the beginning of fiscal year 2025, capital assets having an original book value of $4.9 million were recorded, net of accumulated depreciation of $3.4 million, for a beginning net book value of $1.5 million.

In fiscal year 2025, $147 thousand was expended for capital. Depreciation expense on previously existing and newly acquired capital assets was $255 thousand. The net change in capital assets was a decrease of $107 thousand for the year.

As of year-end, the net book value of capital assets was 29% of the original book value compared to 31% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Deferred Outflows of Resources includes amount for the pension entries required by GASB 68. The Governmental Accounting Standards Board (GASB) issued Statement No. 68, Accounting and Financial Reporting for Pensions in June 2012 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68 in November 2013. These Statements are effective for fiscal years beginning after June 14, 2014. GASB 68 and 71 requirements are reflected in the 2024 fiscal year financial statements. These statements reflect the underlying notion that pensions are a form of compensation provided to employees in exchange for the services they provide to a government over the employees' career.

Current liabilities include accounts payable, payroll and related benefit liabilities, the current portion of long-term debt, and amounts due to others. Current liabilities have increased by $1.1 million over prior year.

Noncurrent liabilities consist of long-term debt related to the acquisition of capital assets and the long-term liability for compensated absences. Principal payments for the year were $203 thousand. The liability for compensated absences includes an estimated percentage of usage of sick, vacation, and paid time off for the coming year as well as the vested portion of vacation and sick pay obligations and certain deferred compensation amounts. The long-term portion of compensated absences liability at year end was $579 thousand. Included in noncurrent liabilities is $3.0 million in net pension liability, this is a result of the GASB 68 requirement described above.

Net position was $1.3 million at the end of the year and includes investment in capital assets net of related debt; restricted net assets which represent the amount restricted for payment of compensated absences include vacation, sick and personal pay; unrestricted net assets.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The following summarizes the revenues, expenses and changes in net position for the years September 30, 2025, and 2024.

Summary of Revenues, Expenses and Changes in Net Position

For the years ended September 30, 2025 and 2024

(In $000s)

	2025	2024	$ Change	% Change
Revenue				
Medicaid specialty supports and services	$ 18,648	$ 18,602	$ 46	0%
State general fund priority populations	882	868	14	2%
Medicaid - Healthy Michigan	1,618	1,920	(302)	-16%
Medicaid - Autism	3,505	3,122	383	12%
Program service revenue	247	212	35	17%
Grants and earned contracts	140	200	(60)	-30%
County appropriation	288	288	0	0%
Interest income	165	194	(29)	-15%
Other income	227	281	(54)	-19%
Total Revenue	**25,721**	**25,687**	**34**	0%
Expense				
Personnel expense	10,358	10,528	(170)	-2%
Operating expense	15,097	14,335	762	5%
Local funds contributed to State	111	111	0	0%
Interest expense	28	34	(6)	-18%
Depreciation	255	286	(31)	-11%
Total Expense	**25,850**	**25,294**	**556**	2%
Change in Net Position	**($128)**	**$393**		

Deficit of expenses over revenue from activities for the current year was $128 thousand.

Medicaid specialty supports and services revenue represents 73% of total revenue which is 1% increase from the prior year.

State general fund priority population revenue (formula funding) represents 3% of total revenue which is consistent with the prior year. This funding is established by MDHHS as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations.

Healthy Michigan revenue represents 6% of total revenue, which is fairly consistent with the prior year. This funding is established under the Patient Protection and Affordable Care Act and Michigan Public Act 107 of 2013 and provides coverage for individuals with income at or below 133% of the Federal Poverty Level. The funding went into effect April 1, 2014 and is subcontracted through MSHN in a manner similar to traditional Medicaid is funded.

Autism revenue represents 14% of total revenue, which is an increase of 2% from the prior year. Autism services continue to increase due to the expansion of services through age 21. It is expected we will see significant growth in the services provided to this population in the coming years.

Program service revenue includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 1% of total revenue.

Grants and earned contract revenue include revenue sources for which the use of funds is restricted to a specific purpose. These represent less than 1% of total revenue.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 1% of revenue.

Total expense of $25.8 million increased by $556 thousand compared to the prior year.

Personnel expense is 40% of total expense and has decreased $170 thousand compared to the prior year.

Operating expense is 58% of total expense and has increased $762 thousand compared to the prior year.

Future Outlook

On August 4, 2025, the Michigan Department of Health and Human Services (MDHHS) issued a Request for Proposal (RFP) to competitively procure Michigan's Pre-Paid Inpatient Health Plan (PIHP) contracts. Several stakeholders including Community Mental Health Service Programs (CMHSPs), persons served, advocates and public officials, in addition to many others, firmly opposed MDHHS' procurement process and advocated for the protection of the public mental health system. Concerns were expressed that the RFP violated state law, prohibiting CMHSPs from managing their established provider networks and performing the contract oversight and management functions that they have been engaged in for over 60 years; potentially dismantling the very foundation of the public mental health system, while failing to address current system issues such as insufficient funding, undue administrative burden, and the behavioral health workforce shortage.

Legal advocacy ensued, with several CMHSPs and PIHPs, including Mid-State Health Network (MSHN), of which TCCMHA is an affiliate, filing a lawsuit against MDHHS on August 28, 2025. In early January 2026, the Court of Claims issued an opinion and order that "the RFP, as drafted, impermissibly conflicts with Michigan law in numerous respects, especially insofar as the RFP restricts CMHSPs from entering into financial contracts for the purpose of funding CMHSPs' managed-care functions." The Court cited many examples from state law of responsibilities that would be impossible for CMHSPs to perform under the RFP as written. These included comprehensive service array requirements, pre-release planning, coordination with the criminal justice system, hospitalization of persons requiring treatment, and implementation of a recipient rights protection system. At this time, the case remains pending, as a final order has not been issued by the court.

The ambiguity about what lies ahead for the public mental health system based on proposed changes such as those described above, paired with impending federal changes to Medicaid in the years ahead, creates a level of uncertainty about future funding and operations. This comes at a time when many community members are experiencing unprecedented mental health challenges. For TCCMHA, however, these external pressures do not change our vision or mission. We remain steadfast in our commitment to the people we serve and to the values that guide our work.

Over the course of the next year (FY26), TCCMHA remains committed to advocating for the viability and sustainability of the public mental health system and navigating the aforementioned challenges to mitigate the effects on vulnerable populations. The focus will continue to be working alongside others in the system to urge government and responsible agencies to partner with stakeholders to address system issues and to improve access to, and the quality of, mental health services through a collaborative approach that allows TCCMHA and other service providers to effectively plan for and respond to the evolving needs of our communities. In addition, TCCMHA will also continue to examine service delivery and payment models that focus on managing the behavioral and physical health care needs of persons served, such as the Certified Community Behavioral Health Clinics (CCBHCs) and Behavioral Health Homes (BHHs), to determine if an alternate approach may be beneficial in meeting the ongoing needs of the residents of Tuscola County. Any approach recommended and pursued shall consider local community needs and sustainability over time, balanced with the requirements of all funding sources including Medicaid, Healthy Michigan, Medicare and State General Funds.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

BASIC FINANCIAL STATEMENTS



Tuscola County Community Mental Health Authority
Statement of Net Position
September 30, 2025

Assets		
Current assets		
Cash and cash equivalents - unrestricted	$	5,423,946
Cash and cash equivalents - restricted		904,606
Accounts receivable, net		110,165
Due from other governmental units		397,926
Prepaid expenses		187,254
Total current assets		7,023,897
Noncurrent assets		
Capital assets not being depreciated		172,600
Capital assets being depreciated, net		1,261,143
Total noncurrent assets		1,433,743
Total assets		8,457,640
Deferred outflows of resources		
Related to pension		1,409,754
Liabilities		
Current liabilities		
Accounts payable		1,642,789
Accrued payroll and related liabilities		417,945
Incurred but not reported liability		106,000
Due to other governmental units		1,628,859
Unearned revenue		66,126
Long-term liabilities, due within one year		305,337
Total current liabilities		4,167,056
Noncurrent liabilities		
Long-term liabilities, due beyond one year		1,017,913
Net pension liability		3,064,099
Total noncurrent liabilities		4,082,012
Total liabilities		8,249,068
Deferred inflows of resources		
Related to pension		224,191
Net position		
Net investment in capital assets		792,269
Unrestricted		601,866
Total net position	$	1,394,135

Tuscola County Community Mental Health Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2025

Operating revenues		
Medicaid revenue	$	23,770,903
State and Federal funding		1,022,402
County appropriations		288,243
Charges for services		191,498
Other		272,324
Total operating revenues		25,545,370
Operating expenses		
Salary and wages		7,613,663
Fringe benefits		2,744,612
Contractual services		12,567,808
Depreciation		254,978
Inpatient		1,609,794
Insurance		25,919
Local funds contribution		111,464
Miscellaneous		89,674
Professional fees		93,284
Rental		17,236
Repairs and maintenance		108,686
Supplies		176,271
Travel		209,373
Utilities		199,335
Total operating expenses		25,822,097
Operating income (loss)		(276,727)
Non-operating revenues (expenses)		
Interest income		165,249
Gain on sale of assets		10,788
Interest expense		(28,032)
Total non-operating revenues (expenses)		148,005
Change in net position		(128,722)
Net position, beginning of year		1,522,857
Net position, end of year	$	1,394,135

Tuscola County Community Mental Health Authority
Statement of Cash Flows
For the Year Ended September 30, 2025

Cash flows from operating activities		
Receipts from the State and other governments	$	25,229,969
Receipts from customers and users		479,438
Payments to suppliers and service providers		(13,968,567)
Payments to employees for salaries and benefits		(9,695,327)
Net cash provided by (used in) operating activities		2,045,513
Cash flows from capital and related financing activities		
Purchase of capital assets		(147,430)
Proceeds from sale of assets		10,788
Proceeds from borrowing		89,150
Principal payments on borrowings		(201,971)
Interest expense		(28,032)
Net cash flows provided by (used in) capital and related financing activities		(277,495)
Cash flows from investing activities		
Interest income		165,249
Net cash provided by (used in) investing activities		165,249
Net change in cash and cash equivalents		1,933,267
Cash and cash equivalents, beginning of year		4,395,285
Cash and cash equivalents, end of year	$	6,328,552

Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income (loss)	$	(276,727)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation expense		254,978
Changes in assets and liabilities:		
Accounts receivable, net		15,616
Due from other governmental units		148,421
Prepaid expenses		145,154
Deferred outflow - related to pension		402,486
Accounts payable		27,599
Accrued payroll and related liabilities		65,678
Incurred but not reported liability		(73,000)
Due to other governmental units		1,186,795
Unearned revenue		(46,271)
Compensated absences		136,460
Net pension liability		(165,867)
Deferred inflow - related to pension		224,191
Net cash provided by (used in) operating activities	$	2,045,513

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The CMHSP operates under provisions of the Michigan Mental Health Code for the purpose of providing services relating to the mental health, developmental disabilities, and substance abuse needs of the residents of Tuscola County. As the community mental health services provider for the county, the CMHSP serves community members by assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

Financial Statement Presentation

Under GASB 34, the CMHSP is considered a special purpose government and has elected to present the basic statements as an Enterprise Fund (a type of proprietary fund) which is designed to be self-supporting. Enterprise Funds distinguish operating revenues and expenses from nonoperating items. The principal operating revenues of the CMHSP are charges related to serving its customers (including primarily “per member per month” capitation and state and county appropriations). Operating expenses for the CMHSP include costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses including investment income and interest expense.

The financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the nonfiduciary activities of the CMHSP.

All amounts shown are in U.S. dollars.

Fund Accounting

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

The CMHSP reports the following major enterprise fund:

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

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment is determined by the applicable basis of accounting and measurement focus. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.*

The proprietary funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred, regardless of the timing of related cash flows. The proprietary funds are accounted for on a cost of services or economic resources measurement focus. This means that all assets and all liabilities associated with their activity are included on the statement of net position.

Cash and Cash Equivalents

The CMHSP’s cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits, and certificates of deposit.

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

Due from/Due to Other Governmental Units
Due from/due to other governmental units consist primarily of amounts due from/to the regional entity, the State of Michigan and Tuscola County.

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

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

Capital Assets
Capital assets are tangible and intangible assets, defined by the CMHSP as individual assets with an initial cost equal to or more than $10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible capital assets in the appropriate capital asset class.

The costs of normal maintenance and repairs that do not increase the asset's capacity or efficiency or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction in process, if any, are not depreciated. The other tangible and intangible property, plant, and equipment of the CMHSP are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	3 – 30
Computers and software	3
Furniture and equipment	5 – 10
Vehicles	3 – 5

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

Accrued Payroll and Related Liabilities
Accrued payroll and related liabilities relate to salaries and wages earned in September but not paid until October.

Incurred But Not Reported (IBNR) Liability
The amounts recorded in liabilities include amounts for medical, pharmacy and dental claims liability based on management's estimate. The CMHSP may not be billed for these until several months after the date of service. The actual cost may vary from the estimated amount for a variety of reasons. The methodology used in estimating reserves considers factors such as historical data adjusted for payment patterns, cost trends, service and benefit mixes, seasonality, utilization of health care services, internal processing changes, the amount of time it took to pay claims from prior periods, changes in the past few months in the claims adjudication procedures, changes in benefits, events that would lead to excessive claims, large increases or decreases in membership, and other relevant factors.

Unearned Revenue
The CMHSP reports unearned revenue when revenue does not meet either the "measurable" and "available" criteria for recognition in the current period, or when resources are received by the CMHSP before it has a legal claim to them, such as when grant money is received prior to the incurrence of qualifying expenses. In subsequent periods, when both revenue recognition criteria are met, or when the CMHSP has legal claim to the resources, the liability for unearned revenue is removed and the revenue is recognized.

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

Net Pension Liability
For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources
In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The CMHSP has one item that qualifies for reporting in this category: pension related items.

The deferred amounts related to pension relate to differences between estimated and actual investment earnings, changes in actuarial assumptions, and other pension-related changes. These amounts are recognized in the plan year in which they apply.

Deferred Inflows of Resources
In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The CMHSP has one item that qualifies for reporting in this category: future resources yet to be recognized in relation to the pension actuarial calculation.

The deferred amounts for future resources related to the pension benefit actuarial calculation arise from differences between estimated and actual investment earnings, changes in actuarial assumptions, and other pension benefit related changes. These amounts are recognized in the plan year in which they apply.

Long-Term Obligations
Long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Net Position
The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- *Net investment in capital assets* consist of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

- *Restricted* net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either

by external parties or by law through constitutional provision or enabling legislation.

- *Unrestricted* net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the CMHSP will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the CMHSP's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

MDHHS Revenue

General Fund Revenue

The CMHSP provides mental health services on behalf of the Michigan Department of Health and Human Services (MDHHS). Currently, the CMHSP contracts directly with the MDHHS for General Fund revenues to support the services provided for the priority population residing in the County. The CMHSP performs an annual cost settlement of General Funds with MDHHS.

Medicaid Revenue

Beginning January 2014, Mid-State Health Network assumed the regional entity contract with MDHHS. The CMHSP contracts to receive Medicaid, Healthy Michigan, Autism and other revenues through the regional entity. The CMHSP performs an annual cost settlement of capitated funding with the regional entity.

NOTE 2 – CASH AND CASH EQUIVALENTS

Custodial Credit Risk

In the case of deposits, this is the risk that, in the event of a bank's failure, the CMHSP's deposits may not be returned to it. The CMHSP evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. The CMHSP bank balance was $6,382,685 and that entire amount was insured by FDIC.

A reconciliation of carrying amounts to the basic financial statements follows:

Description	Amount
Cash and cash equivalents – unrestricted	5,423,946
Cash and cash equivalents – restricted	904,606
Total	6,328,552

Cash and Cash Equivalents - Restricted

The CMHSP has charged to MDHHS for the vested portion of compensated absences as of September 30th. The CMHSP holds, in a separate bank account, funds restricted for the payment of the compensated absences as they come due.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable, net of allowances as of September 30th consists of the following:

Description	Amount
Accounts receivable, gross	205,787
Less: allowance for doubtful accounts	(95,622)
Accounts receivable, net	110,165

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units as of September 30th consists of the following:

Description	Amount
State of Michigan	68,389
Tuscola County	144,122
Mid-State Health Network	185,415
Total	397,926

NOTE 5 - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

Description	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated					
Land	172,600	-	-	-	172,600
Capital assets being depreciated					
Buildings and improvements	3,298,585	58,780	-	-	3,357,365
Computers and software	220,576	-	-	-	220,576
Furniture and equipment	80,154	-	-	-	80,154
Vehicles	1,225,054	88,650	(46,314)	-	1,267,390
Total capital assets being depreciated	4,824,369	147,430	(46,314)	-	4,925,485
Accumulated depreciation					
Buildings and improvements	(2,267,218)	(118,165)	-	-	(2,385,383)
Computers and software	(197,805)	(15,180)	-	-	(212,985)
Furniture and equipment	(72,485)	(4,088)	-	-	(76,573)
Vehicles	(918,170)	(117,545)	46,314	-	(989,401)
Total accumulated depreciation	(3,455,678)	(254,978)	46,314	-	(3,664,342)
Total capital assets being depreciated, net	1,368,691	(107,548)	-	-	1,261,143
Total capital assets, net	1,541,291	(107,548)	-	-	1,433,743

NOTE 6 - DUE TO OTHER GOVERNMENTAL UNITS

Due to other governmental units as of September 30th consists of the following:

Description	Amount
State of Michigan	176,786
Mid-State Health Network	1,452,073
Total	1,628,859

NOTE 7 - UNEARNED REVENUE

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

Description	Amount
State of Michigan	13,728
Other	52,398
Total	66,126

NOTE 8 – LONG-TERM LIABILITIES

Direct borrowings
During the current fiscal year, the CMHSP issued a vehicle loan with Mayville State Bank in the amount of $59,280. The note pays principal and interest on the 28th of every month at an interest rate of 5.25%. The proceeds from the loan are being used for the purchase of two 2025 Chevrolet Equinox SUVs.

During the current fiscal year, the CMHSP issued a vehicle loan with Mayville State Bank in the amount of $29,870. The note pays principal and interest on the 16th of every month at an interest rate of 5.25%. The proceeds from the loan are being used for the purchase of one 2025 Chevrolet Equinox SUV.

Direct borrowings as of year-end are comprised of the following:

Description	Original Borrowing	Interest Rates	Final Maturity	Outstanding at Year-end
Direct borrowings				
Building Loan – 2004	172,000	4.15%	2034	75,767
Building Loan – 2014	1,022,423	3.60%	2029	284,140
Vehicle Loan – 2020	28,007	2.48%	2025	472
Vehicle Loan – 2021	28,010	2.50%	2026	2,944
Vehicle Loan – 2021	35,038	2.50%	2026	7,915
Vehicle Loan – 2022	99,373	2.50%	2027	30,905
Vehicle Loan – 2022	82,038	3.90%	2027	34,559
Vehicle Loan – 2023	131,990	3.90%	2027	60,312
Vehicle Loan – 2023	38,461	3.90%	2028	18,759
Vehicle Loan – 2023	79,744	6.00%	2028	48,053
Vehicle Loan – 2025	59,280	5.25%	2030	51,418
Vehicle Loan – 2025	29,870	5.25%	2030	26,230
Total direct borrowings				641,474

The CMHSP's outstanding loans from direct borrowings related to mental health operations contain provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The changes in long-term liabilities during the fiscal year are as follows:

Description	Beginning Balance	Additions	(Deletions)	Ending Balance	Due Within One Year
Direct borrowings	754,295	89,150	(201,971)	641,474	203,071
Compensated absences	545,316	218,257	(81,797)	681,776	102,266
Total	1,299,611	307,407	(283,768)	1,323,250	305,337

The requirements to pay principal and interest on the direct borrowings outstanding at year-end, are shown below:

	Direct Borrowings	
Year Ended September 30	Principal	Interest
2026	203,071	22,116
2027	189,435	14,431
2028	134,362	7,546
2029	62,979	3,219
2030	14,094	1,813
2031-2035	37,533	3,302
Total	641,474	52,427

NOTE 9 – RETIREMENT PLANS

Defined Contribution Retirement Plan – 414(h) Social Security Opt-Out

Plan Description

The CMHSP offers all full-time employees a retirement plan created in accordance with the Internal Revenue Code, Section 414. The assets of the plan were held in trust for the exclusive benefit of the participants (employees) and their beneficiaries. Principal Life acts as the custodian for the plan and holds the custodial account for the beneficiaries of this Section 414 plan.

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

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

Eligibility

All full-time employees are considered eligible.

Contributions

Employees contribute a mandatory 6.2% of their wages. The CMHSP also contributes 6.2% of employee wages.

Normal Retirement Age & Vesting

Retirement age as defined by the plan is 65 years of age. All contributions are 100% vested immediately.

Forfeitures

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

For the year ended September 30th, employer contributions amounted to $396,999. Employee contributions amounted to $396,999. The outstanding liability to the plan at year-end was $0.

Deferred Compensation Retirement Plan – 457

Plan Description

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

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

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

Eligibility

All full-time employees are eligible.

Contributions

Pre-tax employee deferrals and catch up contributions are allowed up to the maximum allowed by law. This plan is funded solely by employee contributions.

Normal Retirement Age & Vesting

Retirement age as defined by the plan is 65 years of age. All contributions are 100% vested immediately.

Forfeitures

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

For the year ended September 30th, employee contributions amounted to $79,541. The outstanding liability to the plan at year-end was $0.

Defined Benefit Pension Plan

General Information about the Pension Plan – Plan Description

The CMHSP's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The CMHSP participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine-member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided

The CMHSP's plan offer the following benefits:

- Benefits provided include plans with benefit multipliers of 2.00%.
- Vesting period is 10 years.
- Normal retirement age is age 60 with early retirement allowed at age 55 with 15 years of service, or at age 50 with 25 years of service.
- Final Average Compensation is calculated based on 5 years.
- Member (employee) contribution rate is 5.00%.

Employees Covered by Benefit Terms
As of the December 31, 2024 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	90
Inactive employees entitled to but not yet receiving benefits	140
Active employees	106
Total	336

Contributions
The CMHSP is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The CMHSP may establish contribution rates to be paid by its covered employees.

Employer contributions for the year were $459,984. The outstanding liability to the plan at year-end was $36,728.

Net Pension Liability
The CMHSP's Net Pension Liability was measured as of December 31, 2024, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

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

- Inflation: 2.50%
- Salary Increases: 3.00% in the long-term
- Investment rate of return: 6.93%, net of investment and administrative expenses, including inflation
- Actuarial Cost Method: Entry-age normal
- Asset Valuation Method: Market Value
- Discount Rate: 7.18%

Although no specific price inflation assumptions are needed for the valuation, the long-term wage inflation assumption would be consistent with the price inflation.

Mortality rates used were based on a version of Pub-2010, fully generational MP-2019.

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study conducted.

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

Asset Class	Target Allocation	Target Allocation Gross Rate of Return	Long-Term Expected Gross Rate of Return	Inflation Assumption	Long-Term Expected Real Rate of Return
Global Equity	60.00%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20.00%	4.66%	0.93%	2.50%	0.43%
Private Investments	20.00%	9.00%	1.80%	2.50%	1.30%
Total	100.00%		6.93%		4.43%

Discount Rate

The discount rate used to measure the total pension liability was 7.18% for the plan year. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

Calculating the Net Pension Liability			
Changes in net pension liability	Total pension liability (a)	Increase (decrease) plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at beginning of plan year	26,317,402	23,087,436	3,229,966
Changes for the year			
Service cost	656,480	-	656,480
Interest on total pension liability	1,866,322	-	1,866,322
Changes in benefits	-	-	-
Difference between expected and actual experience	(322,076)	-	(322,076)
Changes in assumptions	(14,210)	-	(14,210)
Employer contributions	-	376,102	(376,102)
Employee contributions	-	306,615	(306,615)
Net investment income	-	1,720,701	(1,720,701)
Benefit payments, including employee refunds	(1,304,604)	(1,304,604)	-
Administrative expense	-	(51,035)	51,035
Other changes	-	-	-
Net changes	881,912	1,047,779	(165,867)
Balances as of end of plan year	27,199,314	24,135,215	3,064,099

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

The following presents the Net Pension Liability of the CMHSP, calculated using the discount rate of 7.18%, as well as what the CMHSP's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.18%) or 1 percentage point higher (8.18%) than the current rate.

Description	1% Decrease 6.18%	Current Discount Rate 7.18%	1% Increase 8.18%
Net Pension Liability at End of Plan Year	3,064,099	3,064,099	3,064,099
Change in Net Pension Liability (NPL)	3,385,562	-	(2,801,259)
Calculated Net Pension Liability	6,449,661	3,064,099	262,840
Note: the current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes it is net of administrative expenses.			

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
For the year ended September 30, 2025, the CMHSP recognized pension expense of $920,794. The CMHSP reported deferred outflows and inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Experience	125,571	(214,717)
Differences in Assumptions	70,480	(9,473)
(Excess) Deficit Investment Returns	764,654	-
Contributions Subsequent to Plan Year End*	449,050	-
Totals	1,409,754	(224,191)

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability in the following fiscal year.

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

Plan year ended	Amount
2025	430,475
2026	508,575
2027	(185,102)
2028	(17,435)

NOTE 10 – OTHER POST EMPLOYMENT BENEFIT PLANS

Defined Contribution OPEB Plan - Health Care Savings Program

Plan Description
The employer's defined contribution OPEB plan (Health Care Savings Program) provides certain health care benefits to plan members and legal dependents upon termination of employment. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee defined contribution OPEB plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the MERS website at www.mersofmich.com.

Eligibility
Full time and part time employees, based accumulated hours of compensated absences leave.

Contributions
The CMHSP makes the following employer contributions to each eligible Plan participant's account: 1) roll over of accrued sick leave, based on years of service, 2) discretionary payment to the plan. The employee is also allowed to contribute to the plan.

Vesting
All contributions are 100% vested immediately.

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

Funding
For the year ended September 30th, employer contributions amounted to $0 for discretionary payments and $37,908 for rollover of accrued sick leave. Employee contributions amounted to $8,067. The outstanding liability to the plan at year-end was $0.

NOTE 11 - NET INVESTMENT IN CAPITAL ASSETS

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

Description	Amount
Capital assets not being depreciated	172,600
Capital assets being depreciated, net	1,261,143
Capital related direct borrowing	(641,474)
Net investment in capital assets	792,269

NOTE 12 - RISK MANAGEMENT

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

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

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

The CMHSP's coverage limits are $10,000,000 for liability, $1,500,000 for vehicle physical damage, and approximately $12,050,241 for buildings and personal property.

NOTE 13 – BENEFITS – SELF INSURANCE

The CMHSP maintains a self-insurance program for employee medical, pharmacy and vision insurance claims. The CMHSP also maintains insurance coverage in these areas for claims in excess of the self-insured retentions. There were no significant changes in insurance coverage from coverage in the prior year. The CMHSP has a stop-loss agreement that limits its exposure per participant to $50,000 per year.

The CMHSP believes the estimated liabilities for all unsettled employee medical and pharmacy insurance claims at September 30th are adequate to reflect all claims for events that have occurred through that date. The estimation of unpaid claims liability was based on the "Developmental Method". The Developmental Method measures the runoff pattern of claims payments. These payment patterns are assumed to remain stable over time and therefore historical carrier payment speed is presumed to accurately forecast current payment speed. All of the September 30th balance is expected to be paid the following year.

The change in the claims liability is as follows:

Fiscal Year	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2023	123,000	1,310,992	(1,363,492)	70,500
2024	70,500	1,406,051	(1,297,551)	179,000
2025	179,000	1,067,862	(1,140,862)	106,000

NOTE 14 – RELATED PARTY TRANSACTIONS

The CMHSP provides services to consumers in the regional entity's geographic region through a contract with the regional entity. The CMHSP receives prepaid sub capitation payments from the regional entity for these services on a "per member per month" basis. The amounts received from the regional entity are disclosed on page 2 under the heading: Medicaid revenue.

NOTE 15 – CONTINGENT LIABILITIES

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

NOTE 16 – ECONOMIC DEPENDENCE

The CMHSP receives over 80% of its revenues from the State of Michigan either directly from MDHHS or indirectly through the CMHSP's regional entity.

NOTE 17 - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 103, *Financial Reporting Model Improvements*, was issued by the GASB in April of 2024 and will be effective for fiscal year 2026. This Statement establishes new accounting and financial reporting requirements—or modifies existing requirements—related to the following:

a. Management's discussion and analysis (MD&A);
    i. Requires that the information presented in MD&A be limited to the related topics discussed in five specific sections:
        1) Overview of the Financial Statements,
        2) Financial Summary,
        3) Detailed Analyses,
        4) Significant Capital Asset and Long-Term Financing Activity,
        5) Currently Known Facts, Decisions, or Conditions;
    ii. Stresses detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed;
    iii. Removes the requirement for discussion of significant variations between original and final budget amounts and between final budget amounts and actual results;
b. Unusual or infrequent items;
c. Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position;
    i. Requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses and clarifies the definition of operating and nonoperating revenues and expenses;
    ii. Requires that a subtotal for *operating income (loss) and noncapital subsidies* be presented before reporting other nonoperating revenues and expenses and defines subsidies;
d. Information about major component units in basic financial statements should be presented separately in the statement of net position and statement of activities unless it reduces the readability of the statements in which case combining statements of should be presented after the fund financial statements;
e. Budgetary comparison information should include variances between original and final budget amounts and variances between final budget and actual amounts with explanations of significant variances required to be presented in the notes to RSI.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, was issued by the GASB in September 2024 and will be effective for the fiscal year 2026. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription

assets recognized in accordance with Statement No. 96, Subscription-based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale.

REQUIRED SUPPLEMENTAL INFORMATION



Tuscola County Community Mental Health Authority
MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Changes in Net Pension Liability and Related Ratios

	Plan Year Ended December 31,				
	2015	2016	2017	2018	2019
Total Pension Liability (TPL)					
Service Cost	468,615	487,224	488,918	476,739	556,076
Interest	1,118,705	1,211,010	1,270,535	1,328,445	1,407,409
Changes of Benefit Terms	-	-	-	-	-
Difference between expected & actual experience	(26,783)	(252,956)	(267,797)	(41,973)	797,448
Changes in assumptions	709,232	-	-	-	577,862
Benefit payments including employee refunds	(711,772)	(691,248)	(712,880)	(810,491)	(821,203)
Other	-	-	-	1	-
Net Change in Total Pension Liability	1,557,997	754,030	778,776	952,721	2,517,592
Total Pension Liability beginning	13,681,640	15,239,637	15,993,667	16,772,443	17,725,164
Total Pension Liability ending	15,239,637	15,993,667	16,772,443	17,725,164	20,242,756
Plan Fiduciary Net Position					
Contributions - employer	281,818	225,876	584,223	543,534	607,504
Contributions - employee	275,356	273,090	267,906	275,523	304,100
Net investment income	(199,361)	1,465,738	1,887,924	(642,011)	2,115,713
Benefit payments including employee refunds	(711,772)	(691,248)	(712,880)	(810,491)	(821,203)
Administrative expense	(29,056)	(28,931)	(29,816)	(31,439)	(36,469)
Other	-	-	1	-	-
Net Change in Plan Fiduciary Net Position	(383,015)	1,244,525	1,997,358	(664,884)	2,169,645
Plan Fiduciary Net Position beginning	13,242,775	12,859,759	14,104,284	16,101,642	15,436,758
Plan Fiduciary Net Position ending	12,859,760	14,104,284	16,101,642	15,436,758	17,606,403
Net Pension Liability (NPL)	2,379,877	1,889,383	670,801	2,288,406	2,636,353
Plan Fiduciary Net Position as a percentage of the TPL	84%	88%	96%	87%	87%
Covered Employee Payroll	5,212,620	5,227,721	5,285,600	5,142,820	6,011,636
Employer's NPL as a percentage of covered employee payroll	46%	36%	13%	44%	44%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of December 31 of the preceding year

Tuscola County Community Mental Health Authority
MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Changes in Net Pension Liability and Related Ratios

	Plan Year Ended December 31,				
	2020	2021	2022	2023	2024
Total Pension Liability (TPL)					
Service Cost	610,273	542,350	640,014	653,437	656,480
Interest	1,528,848	1,746,941	1,666,405	1,760,037	1,866,322
Changes of Benefit Terms	-	-	-	-	-
Difference between expected & actual experience	613,531	(2,238,839)	144,182	376,712	(322,076)
Changes in assumptions	1,076,973	926,102	-	211,440	(14,210)
Benefit payments including employee refunds	(862,944)	(989,105)	(1,063,951)	(1,267,760)	(1,304,604)
Other	-	(1)	-	1	-
Net Change in Total Pension Liability	2,966,681	(12,552)	1,386,650	1,733,867	881,912
Total Pension Liability beginning	20,242,756	23,209,437	23,196,885	24,583,535	26,317,402
Total Pension Liability ending	23,209,437	23,196,885	24,583,535	26,317,402	27,199,314
Plan Fiduciary Net Position					
Contributions - employer	560,634	874,658	1,040,316	1,062,729	376,102
Contributions - employee	328,510	291,355	286,855	303,217	306,615
Net investment income	2,294,949	2,818,151	(2,363,903)	2,327,164	1,720,701
Benefit payments including employee refunds	(862,944)	(989,105)	(1,063,952)	(1,267,760)	(1,304,604)
Administrative expense	(35,695)	(32,305)	(42,489)	(49,352)	(51,035)
Other	1	-	-	(1)	-
Net Change in Plan Fiduciary Net Position	2,285,455	2,962,754	(2,143,173)	2,375,997	1,047,779
Plan Fiduciary Net Position beginning	17,606,403	19,891,858	22,854,612	20,711,439	23,087,436
Plan Fiduciary Net Position ending	19,891,858	22,854,612	20,711,439	23,087,436	24,135,215
Net Pension Liability (NPL)	3,317,579	342,273	3,872,096	3,229,966	3,064,099
Plan Fiduciary Net Position as a percentage of the TPL	86%	99%	84%	88%	89%
Covered Employee Payroll	6,555,027	5,456,241	6,009,523	6,028,012	5,903,599
Employer's NPL as a percentage of covered employee payroll	51%	6%	64%	54%	52%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of December 31 of the preceding year

Tuscola County Community Mental Health Authority
MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Employer Contributions

	Fiscal Year Ended September 30,				
	2016	2017	2018	2019	2020
Actuarial Determined Contributions	$ 225,345	$ 523,018	$ 532,818	$ 626,113	$ 513,791
Contributions in relation to the actuarially determined contribution	225,345	523,018	532,818	626,113	513,791
Contribution deficiency (excess)	-	-	-	-	-
Covered Employee Payroll	$ 5,606,243	$ 5,349,967	$ 5,445,170	$ 5,940,490	$ 6,153,194
Contributions as a Percentage of Covered Employee Payroll	4%	10%	10%	11%	8%

Notes to Schedule of Contributions

Actuarial valuation date	December 31, 2024
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value
Investment rate of return	6.93%
Discount rate	7.18%
Remaining amortization period	15 years
Inflation	2.50%
Salary increases	3.00%
Retirement age	60 with early retirement allowed (unreduced) at age 55 with 15 years of service, or reduced at age 50 with 25 years of service
Mortality	A version of Pub-2010, fully generational MP-2021

Previous actuarial methods and assumptions:
Plan year 2024 investment rate of return was 6.93%

*Actuarially Determined Contributions are found in the actuarial valuation in Table 1.
Above dates are based on fiscal year, not necessarily the measurement date.
Note that these are employer contributions, not employee contributions.

Tuscola County Community Mental Health Authority
MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Employer Contributions

	Fiscal Year Ended September 30,				
	2021	2022	2023	2024	2025
Actuarial Determined Contributions	$ 802,309	$ 906,220	$ 1,334,996	$ 457,165	$ 459,984
Contributions in relation to the actuarially determined contribution	802,309	906,220	1,334,996	457,165	459,984
Contribution deficiency (excess)	-	-	-	-	-
Covered Employee Payroll	$ 5,886,346	$ 5,604,956	$ 6,059,952	$ 6,072,802	$ 6,198,923
Contributions as a Percentage of Covered Employee Payroll	14%	16%	22%	8%	7%

Notes to Schedule of Contributions

Actuarial valuation date	December 31, 2024
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value
Investment rate of return	6.93%
Discount rate	7.18%
Remaining amortization period	15 years
Inflation	2.50%
Salary increases	3.00%
Retirement age	60 with early retirement allowed (unreduced) at age 55 with 15 years of service, or reduced at age 50 with 25 years of service
Mortality	A version of Pub-2010, fully generational MP-2021

Previous actuarial methods and assumptions:
Plan year 2024 investment rate of return was 6.93%

*Actuarially Determined Contributions are found in the actuarial valuation in Table 1.
Above dates are based on fiscal year, not necessarily the measurement date.
Note that these are employer contributions, not employee contributions.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the Board
Tuscola County Community Mental Health Authority
Caro, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of Tuscola County Community Mental Health Authority (the CMHSP) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the CMHSP's basic financial statements, and have issued our report thereon dated March 26, 2026.

Report on Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the CMHSP's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CMHSP's internal control. Accordingly, we do not express an opinion on the effectiveness of the CMHSP's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters
As part of obtaining reasonable assurance about whether the CMHSP's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Sincerely,



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

March 26, 2026

Communication with Those Charged with Governance at the Conclusion of the Audit

To the Members of the Board
Tuscola County Community Mental Health Authority
Caro, Michigan

We have audited the financial statements of the business-type activities and each major fund of Tuscola County Community Mental Health Authority (the CMHSP) for the year ended September 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you during planning. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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

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

Management's estimate of the payout of employee compensated absences is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's allocation of current and noncurrent compensated absences is based on an estimate of the percentage of employee's use of compensated absences.

Management's estimated lives of capital assets are based on the expected life of the asset. We evaluated the key factors and assumptions used to develop the estimated lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

The assumptions used in the actuarial valuations of the pension plan are based on historical trends and industry standards. We evaluated the key factors and assumptions used to develop the information used in the financial statements in determining that they are reasonable in relation to the financial statements taken as a whole.

Management 's estimated IBNR liability is based on historical data adjusted for payment patterns, cost trends, service and benefit mixes, seasonality, utilization of health care services, internal processing changes, the amount of time it took to pay claims from prior periods, changes in the past few months in the claims adjudication procedures, changes in benefits, events that would lead to excessive claims, large increases or decreases in membership, and other relevant factors.

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

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

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

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

Management Representations
We have requested certain representations from management that are included in the management representation letter.

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

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

Other Matters
We applied certain limited procedures to management's discussion and analysis, and the prospective 10-year trend information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use
This information is intended solely for the information and use of the Board and management of the CMHSP and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Roslund, Prestage & Company, P.C.

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



Tuscola County Community Mental Health Authority
Financial Statements
September 30, 2025