Northeast Michigan Community
Mental Health Authority

Financial Statements

September 30, 2025

Straley Lamp & Kraenzlein P.C.

Contents

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of revenue, expenses and changes in net position provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

The Authority is using an allowable alternative approach to present its financial information. Governmental entities that have single programs are allowed to present a combined government-wide and fund financial statement by using a columnar format that requires no reconciliation between fund types. The operations of the Authority are therefore presented using an Enterprise Fund accounting methodology. Thus, the financial information is presented in a manner similar to a private business enterprise. It is the intent of management that this reporting approach gives the reader a clearer picture of its financial condition.

The Authority as a Whole

The table below shows a comparison of the net position of the Authority as of September 30, 2025 compared to the prior year.

	Total business-type activities	
	2024-25	2023-24
Current and other assets	$ 8,566,147	$ 8,575,059
Non-current capital assets	4,534,304	4,146,264
Total assets	13,100,451	12,721,323
Current liabilities	4,362,937	4,328,444
Long-term debt outstanding	1,724,640	1,823,626
Total liabilities	6,087,577	6,152,070
Net Position		
Net investment in capital assets and capital leases	2,560,347	3,120,940
Restricted	40,151	39,895
Unrestricted	4,412,376	3,408,418
Total net position	$ 7,012,874	$ 6,569,253

Unrestricted net position consists of $1,089,223, an internally reserved amount to pay staff their earned leave pay, and $3,323,153, an unreserved amount used to finance day-to-day operations. The $3,323,153 used to finance day-to-day operations represents about 8.2% of current year expenditures, which is an increase of 2.6% when compared with 2023-24.

The net position invested in capital assets decreased $560,593 from 2023-24. The net investment in capital assets represents 36.5% of total net position as of September 30, 2025, a decrease of 11.0% when compared with 2023-2024.

As allowed by the Michigan Mental Health Code and the Authority's intergovernmental contracts, the Authority may establish internal service funds to reserve a portion of its cash balances to fund self- insurance risk. No funds are reserved in any internal service fund in either 2024-25 or 2023-24.

The Authority has designated a portion of its cash balance to fund 100% of its long-term debt obligations to pay for staff earned leave time. The Authority's total designated debt cash balance fund decreased $73,058, or 6.3%, as compared to a year ago.

The table below shows a comparison of the change in net position of the Authority as of September 30, 2025 compared to the prior year.

	Total business-type activities	
	2024-25	2023-24
Total revenues	$ 40,883,593	$ 39,520,963
Health and human service expenses:		
Mental health services expense	12,288,175	12,828,697
Developmental disability services expense	21,521,700	19,887,470
Other support services expense	4,144,822	4,560,643
Board administration expense	2,485,275	2,533,446
Total health and human service expenses	40,439,972	39,810,256
Change in net position	$ 443,621	$ (289,293)

Total revenues and expenses both experienced increases, with an increase of 3.4% for revenue and 1.6% for expenses in 2024-25 as compared to 2023-24.

<u>Enterprise Fund Budgetary Highlights</u>

The Michigan legislature continued the mandated $3.20 per hour wage increase to all direct care workers effective October 1, 2023. This continues to be passed through to all direct care workers (both contractual and employees).

During 2024-25, Medicaid benefit expenditures of $34,796,732 were $316,912 less than paid by the (NMRE). The NMRE holds the Medicaid and Healthy Michigan contracts with the Michigan Department of Health and Human Services (MDHHS) and maintains a risk fund to cover the cost of services that exceed funds paid. The Authority will reimburse the NMRE for this overage to be added to their allowable risk fund.

During 2024-25, actual Health Michigan Plan (HMP) benefit expenditures of $2,222,048 were $312,167 more than paid by the NMRE. The NMRE will reimburse the Authority for this shortage to be deducted from their allowable risk fund. It will net with the Medicaid amount listed above.

During 2024-25, actual Behavior Health Home (BHH) benefit expenditures of $365,229 were $92,228 less than paid by the NMRE. The Authority will retain this amount as local funds for the FY 2025-26 fiscal year.

During 2024-25, actual General Fund expenditures of $1,410,950 were $95,991 more than allocated by the MDHHS. The Authority was able to cover all of the $95,991 using current year local funding.

The total change in net position of $443,621 represents a surplus of local funds which are primarily earned by the Authority's participation in the MDHHS Special Fund program which allows a CMH to utilize payments received from individuals and participating insurance companies (i.e., Medicare, Blue Cross Blue Shield, etc.) as local matching funds and from incentive payments received from insurance companies and the NMRE.

The Authority's net revenues were more than planned levels by $2,557,239 during 2024-25.

The Authority's net expenditures were more than planned levels by $2,113,618 during 2024-25. In 2024-25 the Authority overspent its contracted employees and services budget by $1,363,825 and its salaries budget by $750,509.94.

The Authority continued making changes in 2024-25 due to funding, direct expenditures and regulations (Direct Care Wage), which has continued since the COVID-19 pandemic. Revenue projections from the NMRE were much lower when the Authority produced the FY 2024-25 budget. A mid-year rate adjustment from MDHHS provided additional revenues for FY 2024-25. An initiative from the NMRE also occurred regarding HSW payments and this produced payments that were previously omitted in payments received by the Authority. This increase in revenue enabled the Authority to increase salaries as well as increase rates for some contractors. The budget was not amended as the payments received came in randomly. The Authority chose to monitor income in relevance to expenditures to make sure the increase in revenue would be offset by the increase in spending.

Capital/Leased Assets and Debt Administration

Capital assets are items costing more than $5,000 per item with an estimated useful life exceeding one year. As of September 30, 2025, the Authority had $9,218,547 invested in capital assets, including land, buildings, building/land improvements, equipment, vehicles, leasehold improvements, right-to-use leased buildings, and right-to-use SBITAs. This is an increase of $14,881 or 0.1% as compared to 2023-24.

Capital assets purchased during fiscal year 2024-25 include leasehold improvements on several of the Authority's group homes, right-to-use leased buildings, and the replacement of 7 agency vehicles. The Authority has a long-term vehicle replacement plan in place to replace high mileage and high maintenance vehicles.

Economic Factors and Next Year's Budgets

The Authority's preliminary budget for 2025-26 is $42,259,849. This is $2,069,832 more than actual expenditures for 2024-25 and $4,183,450 more than budgeted for 2024-25. The budget will be amended as needed to reflect changes in enrollment, federal and state insurance plans, and funding availability that normally impact the Medicaid and Healthy Michigan benefit plans.

The Authority plans to continue its strong emphasis on self-determined individualized arrangements for community support, employment, and independent living services for persons with serious mental illnesses or intellectual/developmental disabilities. The Authority is also anticipating an increase in prevention and treatment services for Veterans and persons with substance use disorders which co-occur with a serious and persistent illness, serious emotional disturbance and/or intellectual/developmental disability. All programs are reviewed on an ongoing basis to prioritize the needs of our clients and communities served and to keep expenditures in line with available funding.

The Authority is planning no new long-term debt borrowing in 2025-26.

Contacting the Authority's Management

This financial report is intended to provide all readers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Finance Office.

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Independent Auditor's Report

To the Board of Directors
Northeast Michigan Community
 Mental Health Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the major fund of Northeast Michigan Community Mental Health Authority (the "Authority"), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority'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 the major fund information of Northeast Michigan Community Mental Health Authority, as of September 30, 2025, and the respective changes in financial position and 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 Authority 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 these 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 Authority'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 Authority'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 Authority'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, as noted in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the 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 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 10, 2026, 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 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 Authority'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 the Authority's internal control over financial reporting and compliance.

Straley Lamp & Kraenzlein P.C.

Alpena, MI
March 10, 2026

Northeast Michigan Community Mental Health Authority
Statement of Net Position
Proprietary Fund
September 30, 2025

	Enterprise Fund
Assets	
Current assets	
Cash and cash equivalents	$ 7,393,659
Designated cash and cash equivalents	90,732
Accounts receivable	560,411
Beneficial interest	5,008
Inventory	11,235
Prepaid items	505,102
Total current assets	8,566,147
Non-current assets	
Designated cash and cash equivalents	998,491
Beneficial interest	11,445
Capital assets not being depreciated	80,000
Capital/right-of-use assets being depreciated/amortized, net	3,444,368
Total non-current assets	4,534,304
Total assets	13,100,451
Liabilities	
Current liabilities	
Accounts payable	2,511,547
Accrued payroll and payroll taxes	1,492,407
Unearned revenue	30,379
Current portion of lease payable	237,872
Current portion of long-term debt	90,732
Total current liabilities	4,362,937
Non-current liabilities	
Long-term lease payable, net of current portion	726,149
Long-term debt, net of current portion	998,491
Total long-term liabilities	1,724,640
Total liabilities	6,087,577
Net position	
Net investment in capital assets	2,560,347
Restricted	40,151
Unrestricted	4,412,376
Total net position	$ 7,012,874

The accompanying notes are an integral part of these financial statements.

Northeast Michigan Community Mental Health Authority
Statement of Revenue, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended September 30, 2025

	Enterprise Fund
Operating revenue	
State contracts	$ 38,694,845
Contributions from local units	526,180
Charges for services	780,785
Other revenue and reimbursements	884,895
Total operating revenue	40,886,705
Operating expenses - Health and Human Services	
Mental health services	
Outpatient clinic and case management	5,696,235
Inpatient	1,546,306
Prevention	3,073,627
Community support	1,134,581
Behavior health and home	298,174
Employment	89,127
Other	450,125
Developmental disability services	
Residential	11,013,714
Community support	3,945,157
Supported living and housing	2,661,310
Employment	644,471
Clinical support and case management	2,999,148
Other	257,900
Other support services	4,144,822
Administration	2,485,275
Total operating expenses	40,439,972
Operating income	446,733
Non-operating revenue (expenses)	
Interest revenue	44,787
Gain (loss) on sale of asset	(47,179)
Gain (loss) on beneficial interest	(720)
Total non-operating revenue (expenses)	(3,112)
Change in net position	443,621
Net position, beginning of year	6,569,253
Net position, end of year	$ 7,012,874

The accompanying notes are an integral part of these financial statements.

Northeast Michigan Community Mental Health Authority
Statement of Cash Flows
Proprietary Fund
For the Year Ended September 30, 2025

	Enterprise Fund
Cash flows from operating activities	
Cash received from providing services	$ 44,484,770
Cash payments to suppliers and affiliates	(19,248,144)
Cash payments for personnel services	(20,290,304)
Net cash provided by operating activities	4,946,322
Cash flows from capital and related financing activities	
Purchase of capital assets	(514,701)
Proceeds from sale of capital assets	39,398
Issuance of lease liability	249,979
Principal and interest lease payments	(353,617)
Net cash used by capital and related financing activities	(578,941)
Cash flows from investing activities	
Proceeds from redemption of certificates of deposit	750,000
Purchase of certificates of deposit	(750,000)
Interest received	44,787
Net cash provided by investing activities	44,787
Increase in cash and cash equivalents	4,412,168
Cash and cash equivalents, beginning of the year	4,070,714
Cash and cash equivalents, end of the year	$ 8,482,882
Cash and cash equivalents per the statement of net position	
Cash and cash equivalents	$ 7,393,659
Designated cash and cash equivalents	1,089,223
	$ 8,482,882
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 446,733
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation/amortization	1,050,020
Interest paid on leases	42,335
Changes in assets and liabilities:	
Accounts receivable	3,421,225
Inventory	2,365
Prepaid items	(13,166)
Accounts payable	(311,729)
Accrued payroll and payroll taxes	381,300
Unearned revenue	297
Long-term debt	(73,058)
Net cash provided by operating activities	$ 4,946,322

Non-cash transactions: There were no significant non-cash investing or financing activities during the year.

The accompanying notes are an integral part of these financial statements.

Note 1. Summary of Significant Accounting Policies.

The Northeast Michigan Community Mental Health Authority (the "Authority"), is a multi-county governmental authority serving Alcona, Alpena, Montmorency and Presque Isle Counties, located in northeastern Michigan. The Authority provides community services to individuals diagnosed with severe mental illnesses, intellectual/developmental disabilities, and/or substance abuse conditions. Services provided by the Authority include inpatient treatment, residential services, case management, outpatient treatment, employment, supported living and housing, and prevention services. The Authority operates under a 12-member Board of Directors.

Reporting Entity - These financial statements represent the financial condition and the results of operations of the Authority. The Authority is not a component of any other reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity.* Based on these same criteria, management has not identified any potential component units requiring consideration for inclusion in the Authority's financial statements.

Government-Wide and Fund Financial Statements - As permitted by GASB Statement No. 34, the Authority uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements. The Authority's only major fund comprises the government-wide financial statements. Accordingly, this is presented in the statement of net position and the statement of revenue, expenses and changes in net position.

The operations of the Authority are accounted for as an Enterprise Fund (a proprietary fund) which is designed to be self-supporting. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services 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 net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Risk Reserve Internal Service Fund (a proprietary fund type) is used to account for assets held as a reserve against potential liabilities relative to and as allowed by its contract with the Michigan Department of Health and Human Services ("MDHHS"). Pursuant to these contractual provisions, the Risk Reserve Internal Service Fund has not been presented in these financial statements as there is no current year activity or net position at September 30, 2025.

Measurement Focus, Basis of Accounting and Financial Statement Presentation - The government-wide proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. There has been no inter-fund activity for the year ended September 30, 2025.

The Enterprise Fund is the Authority's primary operating fund, and only major fund. It accounts for all financial resources of the Authority, except those accounted for in another fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's operating fund are contract revenues from MDHHS and first- and third-party payers. Operating expenses include the cost of providing mental health and intellectual/developmental disability services together with related support services and administration. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Note 1. Summary of Significant Accounting Policies. (*continued*)

Cash and Investments - The Authority's cash consists of cash on hand, demand deposits and certificate of deposits with an original maturity date of twelve months or less. Designated cash and cash equivalents represent amounts held in reserve accounts as authorized by resolution of the Authority's Board. The Authority had no investments during the year ended September 30, 2025.

Receivables - Receivables consist primarily of amounts due from individuals and private or governmental insurance programs and grant reimbursements under the terms of contracts with other agencies, governments and organizations for services rendered. Receivables from first- and third-party payers are presented net of an allowance for uncollectible accounts as estimated by management. The allowance is $4,600 at September 30, 2025.

Inventory and Prepaid Items - Inventory is valued at the lower of cost or net realizable value, primarily determined on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets - Capital assets, which include buildings, improvements, equipment and vehicles are capitalized and reported in the financial statements. Capital assets are defined as assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded for reporting purposes at historical cost or estimated historical cost if constructed or purchased.

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

Assets	Years
Buildings	20-40
Leasehold and building improvements	10-15
Equipment	5-7
Vehicles	4
Right-to-use buildings	3-10
Right-to-use SBITAs	2-3

Leases - The Authority is a lessee for noncancelable leases of several residential property and office facilities used to shelter and serve individuals in need. The Authority recognizes a lease liability and an intangible right-to-use lease asset (lease asset). The Authority recognizes lease assets and liabilities with an initial value that would be material to the users of the financial statements.

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

Note 1. Summary of Significant Accounting Policies. (*continued*)

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets on the statement of net position.

Subscription Based Technology Arrangements - The Authority implemented Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, as of October 1, 2023.

The Authority recognizes subscription-based information technology arrangements (SBITA) as intangible right-to-use assets for software arrangements on the statement of net position. The Authority does not have a SBITA liability to recognize on the statement of net position because the full amount of payments to the SBITA vendors is prepaid, consequently there is no liability to recognize for future payments. The software amortization expense is included on the statement of activities related to the Authority's intangible assets for the software arrangements, which is included as intangible right-to-use software arrangements in Note 5.

The initial subscription liability is measured at the present value of the subscription payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of the subscription payments made. The Authority has no future subscription payments expected to be paid during the subscription term.

The subscription asset is initially measured as the initial amount of the subscription liability, adjusted for subscription payments made at or before the subscription commencement date, plus certain initial implementation costs. Subsequently, the subscription asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to subscriptions include how the Authority determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The Authority uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for subscriptions.

- The subscription term includes the noncancellable period of the subscription. In addition, the subscription term includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise the option) and options to terminate (if it is reasonably certain that the government or SBITA vendor will exercise that option).

The Authority has two software arrangements that commenced on August 1, 2023 and ending September 30, 2025. The Authority has no future payments due on the SBITA arrangements. There is no option to purchase the software. The Authority monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Unearned Revenue - The Authority reported unearned revenue in connection with resources that have been received, but not yet earned, including the portion of the current year MDHHS contract amount that may be carried-over to and expensed in subsequent fiscal years. Such carryover is generally limited to five percent of the MDHHS contract amount.

Note 1. Summary of Significant Accounting Policies. (*continued*)

Compensated Absences - Reflects the accrual of compensated absences adjusted to current salary costs in accordance with Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*. Permanent employees earn annual leave based upon full or part-time status proportionate to the time worked. Annual leave is 100% vested when earned and may be accrued to a total of 360 hours. Employees are paid 100% of annual accumulated leave when they terminate employment. A small number of employees have accrued leave hours exceeding 360 as allowed by a revision in the leave policy enacted in April 2000. Upon termination, these employees are paid a percentage of their unused leave balances exceeding 360 hours, depending upon the number of hours accumulated and their employment classification.

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors grantors, laws or regulations of other governments. Unrestricted net position is the remaining net position that does not fall into any of the criteria for the previously defined categories. When both restricted and unrestricted resources are available for use, the Authority would use restricted resources first, then unrestricted resources. As of September 30, 2025, there was $23,698 and $16,453 of net position restricted for clients and held in a fund at the Community Foundation of Northeast Michigan, respectively.

MDHHS Revenue

MDHHS revenue is recognized as earned.

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Health and Human Services ("MDHHS"). Currently, the Authority contracts directly with the MDHHS for General Fund revenues to support the services provided for priority population residing in Alcona, Alpena, Montmorency and Presque Isle Counties. The Authority performs an annual settlement of General Funds with MDHHS.

Medicaid Revenue

Northeast Michigan Community Mental Health Authority receives Medicaid revenue from the Northern Michigan Regional Entity (the "NMRE") Pre-Paid Inpatient Health Plan. The NMRE contracts directly with the MDHHS to administer Medicaid revenues for Medicaid-qualified services provided to the residents of the covered counties.

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

Initial cash settlements under managed care contracts require substantial use of judgment and are subject to review by the Michigan Department of Health and Human Services. Accordingly, the reported amounts of revenue, deferred revenue and due from/to the State could change.

Change in Accounting Principle - The Authority adopted Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*, as of October 1, 2024. This statement is required to be applied retroactively by restating financial statements for all prior periods presented. The implementation of this statement did not have a material effect on the financial statements.

Note 2. Deposits and Investments.

The captions on the financial statements relating to cash and cash equivalents are as follows:

	Business-Type Activities
Cash and cash equivalents	$ 7,393,659
Designated cash and cash equivalents	1,089,223
	$ 8,482,882

Cash and investments are comprised of the following at year-end:

Petty cash	$ 3,014
Checking and savings accounts	7,700,521
Certificates of deposit (due within one year)	779,347
	$ 8,482,882

Deposit Risk

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require, and the Authority does not have a policy for deposit custodial credit risk. As of year-end, $7,685,031 of the Authority's bank balance of $8,685,031 was exposed to custodial credit risk because it exceeded FDIC and NCUA Insurance limits as of September 30, 2024. The amount of custodial credit risk varies throughout the fiscal year. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC and NCUA insurance, it is impractical to insure all deposits. As a result, the Authority 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.

Interest Rate Risk. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate changes.

Statutory Authority

The Authority is authorized by the State of Michigan to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

- Bankers acceptances of United States banks.

Note 2. Deposits and Investments. (*continued*)

- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.

- Mutual funds registered under the Investment Company Act of 1940 with the Authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Note 3. Long-term Debt.

The following is a summary of long-term debt transactions of the Authority for the year ended September 30, 2025:

	Beginning Balance	Increases	(Decreases)	Ending Balance	Due within one year
Lease liability	$ 1,025,324	$ 249,979	$ (311,282)	$ 964,021	$ 237,872
Compensated absences*	1,162,281	-	(73,058)	1,089,223	90,732
Total long-term debt	$ 2,187,605	$ 249,979	$ (384,340)	$ 2,053,244	$ 328,604

*The change in compensated absences' liability is presented as a net change.

Note 4. Leases.

The Authority is party to numerous leases. These leases are for residential property and office facilities used to shelter and serve individuals in need. Payments are generally fixed monthly rates with escalation in payments over the term of the lease.

Lease asset activity of the Authority is included in Note 5.

Future principal and interest payment requirements related to the Authority's lease liability at September 30, 2025 are as follows:

Years Ending	Principal	Interest	Total
2026	$ 237,872	$ 33,827	$ 271,699
2027	216,481	25,027	241,508
2028	130,367	18,647	149,014
2029	85,392	16,441	101,833
2030	74,085	13,050	87,135
2031-thereafter	219,824	22,375	242,199
	$ 964,021	$ 129,367	$ 1,093,388

Note 5. Capital Assets.

Capital asset activity for the year ended September 30, 2025 was as follows:

	Beginning Balance	Increases	Reclassifications/ Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 80,000	$ -	$ -	$ 80,000
Capital assets being depreciated				
Buildings	1,731,537	-	(56,006)	1,675,531
Building and land improvements	1,140,782	-	256,680	1,397,462
Leasehold improvements	606,701	-	(232,474)	374,227
Vehicles	2,140,400	264,722	(211,793)	2,193,329
Computer equipment	1,137,767	-	-	1,137,767
Client equipment	78,969	-	(18,483)	60,486
Other equipment	600,262	-	(6,063)	594,199
Right-to-use leased building	1,477,145	249,979	(231,681)	1,495,443
Right-to-use SBITAs	210,103	-	-	210,103
Total capital assets being depreciated	9,123,666	514,701	(499,820)	9,138,547
Accumulated depreciation/amortizatio				
Buildings	$ (1,097,535)	$ (32,571)	$ 9,485	$ (1,120,621)
Building and land improvements	(404,881)	(64,571)	(268,570)	(738,022)
Leasehold improvements	(333,135)	(24,048)	225,501	(131,682)
Vehicles	(1,400,956)	(339,725)	188,985	(1,551,696)
Computer equipment	(741,370)	(148,164)	-	(889,534)
Client equipment	(78,078)	(891)	18,483	(60,486)
Other equipment	(415,864)	(42,524)	25,053	(433,335)
Right-to-use leased building	(466,583)	(306,423)	214,306	(558,700)
Right-to-use SBITAs	(119,000)	(91,103)	-	(210,103)
Total accumulated depreciation/ amortization	(5,057,402)	(1,050,020)	413,243	(5,694,179)
Capital assets being depreciated, net	4,066,264	(535,319)	(86,577)	3,444,368
Capital assets, net	$ 4,146,264	$ (535,319)	$ (86,577)	$ 3,524,368

Depreciation and amortization expense of $1,050,020 was charged entirely to a single Health and Human Services function.

Note 6. Pension Plans.

Defined Contribution Plan

The Authority has adopted a defined contribution retirement plan administered by Voya Institutional Trust Co. The Authority's plan covers all full-time employees. Employees may start contributing on the first month following their regular full-time employment. For participants with a full-time seniority date of at least December 1, 2003 they will be vested 100% immediately. All other participants will be vested 100% after three years of service. Forfeitures of non-vested participants are available to reduce future employer contribution and expenses. Employer contributions of up to 7.5% of gross wages are paid to the plan trustees on a biweekly basis at the same time that wages are paid. The covered payroll for the plan was $13,557,016. Total employer contributions for the year ended September 30, 2025 were $886,344, of which $87,962 was accrued.

Alternative Social Security Plan

The Authority contributes 5.7% of all non-union employees' salary to the plan. Employees are also required to contribute 6.2% of their salary to the plan. The contributions to the plan are made in lieu of federal social security contributions. Under this plan, employees are 100% vested in their account at inception. Employees of the Authority not eligible to participate in this plan are covered by the Federal Social Security System. The covered payroll for the plan was $8,201,788. Total employer contributions for the year ended September 30, 2025 were $483,763.

Note 7. Contingencies.

Under the terms of various federal and state grants and regulatory requirements, the Authority is subject to periodic audits of its agreements. Such audits could lead to questioned costs and/or requests for reimbursement to grantor or regulatory agencies.

As is the case with other entities, the Authority faces exposure from potential claims and legal proceedings involving environmental and other matters. No such claims or proceedings have been asserted as of September 30, 2025.

Note 8. Risk Management.

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee's injuries (workers compensation), as well as medical and death benefits provided to employees.

The Authority is a member in the Michigan Municipal Risk Management Authority ("MMRMA"). The MMRMA is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of MMRMA is to administer a risk management fund, which provides members with loss protection for general and property liability. The Authority has joined with numerous other governmental agencies in Michigan as a participant in MMRMA's pooled insurance program.

The Authority's coverage limits include $15,000,000 for general liability, $1,500,000 for vehicle damage and $9,366,961 for buildings and personal property.

The Authority has purchased commercial insurance for all other risks of loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years, and there was no reduction of coverage in the current year.

The Authority provides medical benefits to its employees through self-insurance. Blue Cross Blue Shield is the third party administrator. The Authority has stop loss coverage for any claims exceeding $150,000 per member.

Note 8. Risk Management. (*continued*)

The Authority has claims incurred but not paid at September 30, 2025. GASB Statement No. 10 requires that a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

The changes in claims in the year ended September 30, 2025 is as follows:

Estimate of claims payable, beginning of year	$	(153,683)
Incurred claims and changes in estimates		(2,051,057)
Claim payments		2,042,259
Estimate of claims payable, end of year	$	(162,481)

Note 9. Community Foundation of Northeast Michigan Fund.

The Community Foundation for Northeast Michigan (the "CFNEM") carries certain funds which are for the benefit of the Authority. These funds are not included in the Authority's financial statements as they are considered assets of the CFNEM, but limited amounts would be available upon a successful grant application to the Foundation's Trustees. As of September 30, 2025, the Northeast Michigan Community Mental Health Fund had a balance of $140,365, of which $24,710 would be available upon a successful grant application.

Note 10. Subsequent Events.

Management has evaluated subsequent events through March 10, 2026, the date on which the financial statements were available to be issued.

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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 Board of Directors
Northeast Michigan Community
Mental Health Authority

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 the major fund information of ***Northeast Michigan Community Mental Health Authority*** (the "Authority"), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 10, 2026.

Report on 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) 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 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority'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 have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 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.

Straley Lamp & Kraenzlein P.C.

March 10, 2026

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Audit Communications

To the Board of Directors
Northeast Michigan Community
Mental Health Authority

We have audited the financial statements of the business-type activities and the major fund information of Northeast Michigan Community Mental Health Authority (the "Authority") 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 dated January 14, 2026. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Matters</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Authority changed accounting policies related to compensated absences by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 101, *Compensated Absences*, in 2025. The implementation of this statement did not have a material effect on the financial statements. We noted no transactions entered into by the Authority 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 financial statements were:

> Management's estimate of useful lives of capital assets in determining depreciation expense, incurred but not reported, employee health care claims and the settlements under state contracts.
>
> Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

The financial statements 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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management as 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 dated March 12, 2026.

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 Authority'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 Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Matters</u>

We applied certain limited procedures to management's discussion and analysis, which is 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.

Recent Pronouncements

The Governmental Accounting Standards Board (GASB) continues to issue pronouncements that affect local government accounting and financial reporting. Below is a brief summary of those new GASB Statements:

A. GASB Statement No. 103, Financial Reporting Model Improvements. This statement improves key components of the financial reporting model to enhance the effectiveness of providing information that is essential for decision making and assessing a government's accountability. Key changes include: (1) enhancements to management's discussion and analysis; (2) description and requirements for unusual or infrequent items; (3) changes to the presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; (4) new requirements for major component unit information; and (5) new requirements for budgetary comparison information, including its presentation as RSI and to show the variances between the original and final budget amounts.

The requirements of this statement are effective for reporting periods beginning after June 15, 2025, (the Authority's financial statements for the fiscal year ending September 30, 2026).

B. GASB Statement No. 104, Disclosure of Certain Capital Assets. Governments must provide detailed capital asset disclosures in accordance with GASB Statement No. 34, including information by major asset class. The new standard enhances the following requirements: (1) lease assets in accordance with

GASB 87, right-to-use intangible assets in accordance with GASB 94, and subscription-based IT assets in accordance with GASB 96, must be disclosed separately by major underlying asset class; (2) other intangible assets must also be disclosed separately by major class; and (3) capital assets held for sale require additional disclosures if it is probable they will be sold within one year. In addition, disclosures must include: (1) ending balances (historical cost and accumulated depreciation) by major class; (2) any related debt for which the asset is pledged as collateral. These changes aim to improve transparency and provide users with clearer, more useful information about governmental capital assets.

The requirements of this statement are effective for reporting periods beginning after June 15, 2025, (the Authority's financial statements for the fiscal year ending September 30, 2026).

Restriction on Use

This information is intended solely for the information and use of the Authority's governing body and management, and is not intended to be, and should not be, used by anyone other than these specified parties. We appreciate the opportunity to serve Northeast Michigan Community Mental Health Authority. If you have any questions, or if we can be of further service, please feel free to contact us.

We wish to thank the staff of Authority for their assistance during the audit.

Very truly yours,

Straley Lamp & Kraenzlein P.C.

March 10, 2026