BAY ARENAC
BEHAVIORAL HEALTH

BOARD OF DIRECTORS
SPECIAL MEETING

Thursday, March 28, 2024 at 5:00 pm
William B. Cammin Clinic, Bay Room, 1010 N. Madison Avenue, Bay City, MI 48708

AGENDA

Page

1. CALL TO ORDER & ROLL CALL

2. PUBLIC INPUT (3 Minute Maximum Per Person)

3. FINANCIAL STATEMENT AUDIT FOR FISCAL YEAR 2023

2-39 3.1 Consideration of motion to adopt the financial statement audit report for fiscal year ending September 30, 2023 – *See pages 2-39*

4. COMPLIANCE AUDIT STATUS FOR FISCAL YEAR 2023

   4.1 No action necessary

5. ADJOURNMENT

March 22, 2024

Management and the Board of Directors
Bay-Arenac Behavioral Health Authority
Bay City, Michigan

We have audited the financial statements of Bay-Arenac Behavioral Health Authority (the Authority) as of and for the year ended September 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 engagement letter to you dated August 9, 2023. Professional standards also require that we communicate to you the following information related to our audit.

We discussed these matters with various personnel in the Authority during the audit including management. We would also be pleased to meet with you to discuss these matters at your convenience.

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 Authority are described in the footnotes of the financial statements. The Authority has adopted the following Governmental Accounting Standards Board Statements effective October 1, 2022:

- Statement No. 96, *Subscription-Based Information Technology Arrangements* is based on the standards established in Statement No. 87 *Leases.* This statement (1) defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction (2) requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and (3) provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA.

We noted no transactions entered into by the Authority during the year for which there is 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 Authority's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.

- Right of use assets and lease liabilities

- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

- Net other postemployment benefits (OPEB) asset, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Disclosures in the financial statements are neutral, consistent and clear.

A significant risk is an identified and assessed risk of material misstatement that, in the auditors' professional judgment, requires special audit consideration. Within our audit, we focused on the following areas:

- Management override of controls
- Improper revenue recognition
- Implementation of new accounting standard

Accounting Standards and Regulatory Updates

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in the footnotes of the financial statements.

Implementation Guide No 2021-1, *Implementation Guidance Update-2021* has an amended response related to the capitalization of assets purchased as a group. Under the amended guidance, governments *should* capitalize individual items when the purchase in the aggregate is considered significant, even if the individual items are less than the capitalization threshold of the government. The effective date for implementation is for reporting periods beginning after June 15, 2023 (effectively, for the first year ended June 30, 2024 or later) and requires retroactive implementation.

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.

There were no known uncorrected misstatements that were more than trivial.

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 auditors' 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 as of the date of the audit report.

Management's Consultations with Other 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 auditors' 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.

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Charge in Report Presentation

As described in Note 11 to the financial statements, Bay-Arenac Behavioral Health Authority has changed the report presentation from a governmental fund and government-wide conversation reporting format to that of an enterprise fund. This was as a result of evaluating the operations of Bay-Arenac Behavioral Health Authority and concluding it is a better representation of the activities. Our opinion are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Please read all information included in that report to ensure you are aware of relevant information.

Report on Required Supplementary Information

We applied certain limited procedures to management's discussion and analysis and the remaining required supplementary information (RSI) as described in the table of contents of the financial statements 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 of Directors and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan

Bay-Arenac Behavioral Health Authority

Financial Statements

September 30, 2023

YEO & YEO

BUSINESS SUCCESS PARTNERS

Table of Contents

Independent Auditors' Report

Management and the Board of Directors
Bay-Arenac Behavioral Health Authority
Bay City, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Bay-Arenac Behavioral Health Authority, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise Bay-Arenac Behavioral Health 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 Bay-Arenac Behavioral Health Authority as of September 30, 2023, 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bay-Arenac Behavioral Health 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.

Change in Report Presentation

As described in Note 11 to the financial statements, Bay-Arenac Behavioral Health Authority has changed the report presentation from a governmental fund and government-wide conversation reporting format to that of an enterprise fund. This was as a result of evaluating the operations of Bay-Arenac Behavioral Health Authority and concluding it is a better representation of their activities. Our opinion is not modified with respect to this matter.

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 Bay-Arenac Behavioral Health 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2024 on our consideration of Bay-Arenac Behavioral Health 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 Bay-Arenac Behavioral Health 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 Bay-Arenac Behavioral Health Authority's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Saginaw, Michigan
March 22, 2024

This section of the Bay-Arenac Behavioral Health Authority (the "*Authority*") annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2023. 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 and with our financial statements, notes to financial statements and supplemental information taken as a whole.

During fiscal year 2014, the Authority became a member of Mid-State Health Network (MSHN), the newly formed, designated Prepaid Inpatient Health Plan (PIHP) for a twenty-one county region consisting of Arenac, Bay, Clare, Clinton, Eaton, Gladwin, Gratiot, Hillsdale, Huron, Ingham, Ionia, Isabella, Jackson, Mecosta, Midland, Montcalm, Newaygo, Osceola, Saginaw, Shiawassee and Tuscola counties. The Authority subcontracts for Medicaid services and supports through an agreement with MSHN while State General Fund revenue and other grants and earned contracts continue to be sourced directly from the State and are exclusively related to Arenac and Bay counties.

Effective October 1, 2015, MSHN no longer subcontracted with the Authority for the provision of substance use disorder services in a twelve county area which included, Arenac, Bay, Clare, Gladwin, Huron, Isabella, Mecosta, Midland, Montcalm, Osceola, Shiawassee and Tuscola counties. MSHN began contracting directly with substance use disorder providers for those services.

Overview of the Financial Statements

The Statement of Net Position presents information of all of the Authority's assets, liabilities, deferred outflows and inflows of resources, and net position. Changes in net position serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position presents operating and non-operating revenues, expenses and the change in net position.

The Statement of Cash Flows summarizes the incoming and outgoing cash outlay for operating activities. This report discloses the total cash and cash equivalents at fiscal year-end by determining the change in cash flow total during the year. This report shows summarized changes in cash flow, which reconciles to the net increase or decrease in cash and cash equivalents and is then added to or subtracted from cash and cash equivalents at the beginning of the year. The total of cash and cash equivalents at the end of the year is reported in the assets section of the Statement of Net Positions.

SUMMARY OF NET POSITION

The following summarizes the assets, liabilities and net position on an authority-wide basis as of September 30, 2023:

Summary of Net Position
As of September 30, 2023
(In $000s)

	2023	2022
Assets		
Current assets	$ 12,916	$ 10,246
Net OPEB asset	14,391	18,919
Net Pension asset	-	17,458
Right to use assets	1,864	2,068
Capital assets	2,890	3,111
Total assets	32,061	51,802
Deferred outflows of resources	14,600	2,010
Total assets and deferred outflows of resources	46,661	53,812
Liabilities		
Current liabilities	$ 5,903	$ 4,692
Net Pension liability	2,834	-
Noncurrent liabilities	2,681	2,670
Total liabilities	11,418	7,362
Deferred inflows of resources	2,817	15,597
Total liabilities and deferred inflows of resources	14,235	22,959
Net Position		
Investment in capital assets	2,598	2,817
Restricted for net pension asset	-	8,939
Restricted for net OPEB asset	15,417	13,851
Unrestricted	14,441	5,246
Total net position	**$ 32,426**	**$ 30,853**

Total Net Position increased $1.5 million primarily as a result of GASB 68 and 75 reporting requirements which were implemented in fiscal years 2015 and 2018, respectively.

Current financial position is defined as the excess of current assets over current liabilities. When current assets exceed current liabilities, this is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive $7.0 million, an increase of $1.4 million from the prior year.

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. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

Capital assets consist of property and equipment having an estimated useful life of more than one year. In fiscal 2023, $43 thousand was expended for capital acquisitions. Depreciation expense on previously existing and newly acquired capital assets was $462 thousand. The net change in capital assets was an decrease of

$425 thousand for the year, which is primarily related to depreciation expense. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources. Conversely, a net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 31.8% of the original book value, as compared to 34.4% in 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.

Noncurrent liabilities consist of the liability for compensated absences and long-term debt. Compensated absences include vested earned time off obligations. Long-term debt consists of a mortgage obtained to purchase and renovate property on Madison Avenue.

Unrestricted net position at the end of the year was $14.1 million, as compared to $5.2 million from the prior year. Unrestricted net position was 44.1% of total assets, 34.0% higher than the prior year. GASB 68 and 75 reporting requirements have a large impact on unrestricted net position.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

The following summarizes the revenue, expenses and change in net position on a business-type basis for the years ended September 30, 2023.

Summary of Activities
For the years ended September 30, 2023
(In $000s)

	2023	2022
Revenue		
Medicaid specialty supports and services		
Arenac & Bay counties	$ 64,603	$ 58,996
Program service revenue	427	459
Other earned contract revenue	1,273	1,271
Grants	2,139	1,718
County appropriation	787	787
Interest revenue	116	29
Other local income	$ 472	$ 498
Total revenue	69,817	63,757
Expense		
Personnel expense	18,209	11,281
Contractual services	47,442	42,144
Facilities operating expense	434	482
Vehicle operating expense	94	85
Conferences, trainings, and travel	210	209
Supplies and materials	163	166
Depreciation and amortization	462	477
Other expenses	1,231	1,330
Total expense	68,245	56,102
Change in fund balance	**$ 1,572**	**$ 7,655**

Excess of revenue over expenses from activities for the current year was $1.6 million or 2.3% of revenue.

Revenue for the year was $69.8 million, an increase of $6.1 million or 9.5% from the prior year.

Medicaid specialty supports and services revenue of $64.6 million represents 92.5% of total revenue and increased $5.6 million or 9.5% compared to the prior year.

Program service revenue of $427 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent .6% of total revenue and have decreased $32 thousand or 7.0% from the prior year.

Grants of $2.1 million includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 3.1% of total revenue and have increased $421 thousand over the prior year.

County appropriation revenue, **interest income and other local income** of $1.4 million are available to meet state matching fund requirements. These revenues have increased $61 thousand from the prior year

Total expense of $68.2 million has increased $12.1 million or 21.6% compared to the prior year.

Personnel expense of $18.5 million is 27.1% of total expense and has increased $6.9 million or 60.0%.

Operating expense of $47.3 million is 69.3% of total expense and has increased $4.9 million or 11.6%.

FUTURE OUTLOOK

BABH as a community mental health program has emerged from the COVID-19 Pandemic with increasing public demand for inpatient psychiatric hospital services, outpatient care and access to specialty behavioral health services for children and families. This is compounded by demographic and population trends in Michigan over the last 20 years that have expanded Medicaid insurance coverages but also revealed significant shortages of viable service providers in both public and private markets. BABH continues to research options to address the behavioral health needs of all individuals within our two Counties, including new "reverse integration" service and payment models which focus on managing all the behavioral and physical health care needs of an individual to ensure the best outcomes possible. This includes strategic efforts to expand crisis residential alternatives to inpatient care, increased options for accessing group and individual outpatient services, and development of targeted models for mobile response teams and early childhood intervention. In addition, BABH will continue to evaluate the state-wide deployment of the Certified Community Behavioral Health Clinics (CCBHCs) and/or Behavioral Health Home delivery systems and their related objectives of increasing access to high-quality care, integrating behavioral health and physical health needs, encouraging the use of evidence-based practices, and focusing on accessible 24/7/365 crisis response. These efforts, along with strategic initiatives including same-day access to services, coordination with the Arenac County Recovery Court objectives and the deployment of NARCAN vending machines will reduce hospitalizations, emergency room visits and improve the overall public safety of the BABH service area.

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As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to Marci Rozek, Chief Financial Officer, at 201 Mulholland, Bay City, MI 48708. Marci Rozek can be reached at (989) 895-2228.

Bay-Arenac Behavioral Health Authority
Statement of Net Position
September 30, 2023

Assets	
Current assets	
Cash and cash equivalents	$ 4,603,410
Receivables	840,489
Due from other governmental units	7,068,213
Prepaid items	404,032
Total current assets	12,916,144
Noncurrent assets	
Net OPEB asset	14,391,778
Capital assets not being depreciated	424,500
Capital assets, net of accumulated depreciation/amortization	4,329,209
Total noncurrent assets	19,145,487
Total assets	32,061,631
Deferred Outflows of Resources	
Deferred amount relating to net pension liability	11,230,973
Deferred amount relating to net OPEB asset	3,368,713
Total deferred outflows of resources	14,599,686
Liabilities	
Current liabilities	
Accounts payable	4,122,176
Accrued interest	2,744
Accrued wages and other payroll liabilities	315,675
Due to other units of government	250,747
Unearned revenue	2,504
Current portion of noncurrent liabilities	1,209,665
Total current liabilities	5,903,511
Noncurrent liabilities	
Net pension liability	2,833,847
Compensated absences, net of current portion	734,688
Long-term debt, net of current portion	1,945,994
Total noncurrent liabilities	5,514,529
Total liabilities	11,418,040
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	473,312
Deferred amount relating to net OPEB asset	2,343,739
Total deferred inflows of resources	2,817,051
Net Position	
Net investment in capital assets	2,598,050
Restricted for	
Net OPEB asset	15,416,752
Unrestricted	14,411,424
Total net position	$ 32,426,226

See Accompanying Notes to the Financial Statements

Bay-Arenac Behavioral Health Authority
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended September 30, 2023

Operating revenue	
Medicaid	$ 64,602,851
State grants	1,704,356
Federal grants	434,521
County appropriations	787,054
Third party pay	426,993
Other earned contract revenue	1,273,670
Other revenue	472,311
Total operating revenue	69,701,756
Operating expenses	
Salaries and wages	14,204,860
Benefits	4,003,867
Contracted services	47,442,213
Facilities operating expense	433,834
Vehicle operating expense	93,919
Supplies and materials	162,941
Conferences, training, and travel	209,407
Depreciation and amortization	462,237
Local match drawdown	214,868
Other expenses	973,236
Total operating expenses	68,201,382
Operating income (loss)	1,500,374
Nonoperating revenue (expenses)	
Interest income	115,518
Interest expense	(43,131)
Total nonoperating revenues (expenses)	72,387
Change in net position	1,572,761
Net position - beginning of year	30,853,465
Net position - end of year	$ 32,426,226

See Accompanying Notes to the Financial Statements

Bay-Arenac Behavioral Health Authority
Statement of Cash Flows
For the Year Ended September 30, 2023

Cash flows from operating activities	
Receipts from the state and other governments	$ 49,160
Receipts from customers	63,384,709
Payments to suppliers	(49,646,522)
Payments to employees	(13,983,979)
Net cash provided (used) by operating activities	(196,632)
Cash flows from capital and related financing activities	
Purchases/construction of capital assets	(37,018)
Principal and interest paid on long-term debt	(249,227)
Net cash provided (used) by capital and related financing activities	(286,245)
Cash flows from investing activities	
Interest received	115,518
Net increase (decrease) in cash and cash equivalents	(367,359)
Cash and cash equivalents - beginning of year	4,970,769
Cash and cash equivalents - end of year	$ 4,603,410
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	$ 1,500,374
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization expense	462,237
Changes in assets and liabilities	
Accounts receivable, net	(130,990)
Due from other units of government	(2,876,771)
Prepaid items	(29,629)
Net OPEB asset	4,527,107
Net pension liability	17,457,685
Deferred outflow of resources - related to pension	(9,679,101)
Deferred outflow of resources - related to OPEB	(2,910,621)
Accounts payable	1,207,977
Accrued wages and other payroll liabilities	71,204
Due to other units of government	6,847
Unearned revenue	(78,302)
Compensated absences	220,881
Net pension liability	2,833,847
Deferred inflow of resources - related to pension	(9,597,553)
Deferred inflow of resources - leases receivable	(3,181,824)
Net cash provided (used) by operating activities	$ (196,632)

See Accompanying Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Bay-Arenac Behavioral Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America 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 Authority.

Reporting Entity

The Authority operates under the provisions of Act 258 – Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for and provides supports and services for persons with developmental disability, adults with severe mental illness, and children with serious emotional disturbance. These supports and services are made available to residents of Arenac and Bay counties who meet eligibility and other criteria. As the community mental health services program for Arenac and Bay counties, the Authority also serves to represent community members, assuring local access, organizing, and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving the public interest.

The Authority is a member of the Mid-State Health Network (MSHN). This affiliation is composed of the community mental health services programs serving Arenac, Bay, Clare, Clinton, Eaton, Gladwin, Gratiot, Hillsdale, Huron, Ingham, Ionia, Isabella, Jackson, Mecosta, Midland, Montcalm, Newaygo, Osceola, Saginaw, Shiawassee and Tuscola counties and was formed under the authority of the Intergovernmental Transfer of Functions and Responsibilities Act.

In accordance with U.S. GAAP these financial statements present all of the Authority's funds. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has no component units.

Measurement Focus, Basis of Accounting and Financial Statements Presentation

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. The proprietary funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The proprietary funds are accounted for on a cost of services or economic resources measurement focus. This means that all assets and all liabilities associated with their activity are included on the statement of net position.

Adoption of New Accounting Standards

Statement No. 96, *Subscription-Based Information Technology Arrangements,* is based on the standards established in Statement No. 87 *Leases.* This statement (1) defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction (2) requires governments with SBITAs to recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and (3) provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA.

Upcoming Accounting and Reporting Changes

Statement No. 100, *Accounting Changes and Error Corrections*, improves the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. More understandable, reliable, relevant, consistent and comparable information will be provided to financial statement users for making decisions or assessing accountability.

Additionally, the display and note disclosure requirements will result in more consistent, decision useful, understandable and comprehensive information for users about accounting changes and error corrections. This statement is effective for the year ending September 30, 2024.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This statement is effective for the year ending September 30, 2025.

The Authority is evaluating the impact that the above GASB Statements will have on its financial reporting.

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

Deposits and Investments
The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and/or certificates of deposit which mature within 90 days. The Authority considers all highly liquid investments with original maturities of 180 days or less to be cash equivalents.

Statutory Authority
Michigan law authorizes the Authority to deposit and invest in:

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

b) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified institution.

c) Commercial paper rate 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.

d) Banker's acceptances of United States banks.
e) 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.

f) Mutual funds registered under the investments company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

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

The Authority's investment policy allows for all of these types of investments.

Receivables
Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts of $0 as of September 30, 2023.

Due from other governmental entities consist primarily of amounts due from the Mid-State Health Network.

Inventories
The Authority does not recognize as an asset inventories of supplies. 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 Items
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Capital Assets
Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the Authority as individual assets with an initial cost equal to or more than $5,000 for acquisitions on or after October 1, 2002 and $1,000 for acquisitions before October 1, 2002 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

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

Category	Useful Lives
Equipment and furnishings	5 years
Computers	3 - 5 years
Vehicles	5 years
Leasehold improvements	7 - 30 years
Buildings	40 years
Software development	3 years

Deferred Outflows of Resources
A deferred outflow of resources is a consumption of net assets by the Authority that is applicable to a future reporting period. The Authority may report deferred outflows of resources as a result of pension and OPEB earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension liability and net OPEB asset are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan. The Authority also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce net pension liability in subsequent years.

Incurred but Not Reported Claims Liability
The amounts recorded in current liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management's estimate. The Authority may not be billed for these until

several months after the date of service. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount for a variety of reasons that include, but are not limited to, retroactive consumer eligibility or cost recovery from other third-party payers.

Unearned Revenue

Unearned revenue arises when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for unearned revenue is removed from the financial statements, and revenue is recognized.

Compensated Absences

The Authority's policy allows full time employees to accumulate earned time off at various rates, depending on the employees' length of service with the Authority. The financial statements record expenses when employees are paid for these compensated absences. The financial statements record expenses and the related liability when these compensated absences are earned by employees.

Pensions

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 the Bay County Employees' Retirement System (BCERS) and additions to/deductions from BCERS' fiduciary net position have been determined on the same basis as they are reported to the plan. 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.

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB asset, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Bay County Voluntary Employees' Beneficiary Association – Other Postemployment Benefits and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by Bay County Voluntary Employees' Beneficiary Association – Other Postemployment Benefits. For this purpose, Bay County Voluntary Employees' Beneficiary Association – Other Postemployment Benefits recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net assets by the Authority that is applicable to a future reporting period. The Authority reports deferred inflows of resources as a result of pension and OPEB earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions and experience differences relating to the net pension liability are deferred and amortized over the expected remaining services lives of the employees and retirees in the plan.

Note 2 – Deposits and Investments

The breakdown between deposits and investments for the Authority is as follows:

Deposits	$	4,601,085
Cash on hand		2,325
Total	$	4,603,410

Interest rate risk – State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 of the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of State law on investment credit.

Custodial credit risk – deposits – 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 September 30, 2023, $4,537,736 of the Authority's bank balance of $5,297,947 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require, and the Authority does not have a policy for investment custodial credit risk. As of September 30, 2023, there were no amounts exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of credit risk – State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The Authority's investment policy requires diversification by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than one-third of the total investment portfolio will be invested in a single security type or with a single financial institution.

Note 3 – Due from Other Governmental Units

As of September 30, 2023, this receivable consisted of the following:

State of Michigan	$	44,753
Affiliates		65,486
Other governmental units		6,957,974
	$	7,068,213

Note 4 – Capital Assets

A summary of changes in capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	$ 424,500	$ -	$ -	$ 424,500
Construction-in-progress	5,885	-	5,885	-
Total capital assets not being depreciated	430,385	-	5,885	424,500
Capital assets being depreciated				
Equipment	188,583	5,344	-	193,927
Furniture and fixtures	16,566	-	-	16,566
Buildings	2,263,754	-	-	2,263,754
Building improvements	1,353,321	37,559	-	1,390,880
Vehicles	863,810	-	-	863,810
Leasehold improvements	606,495	-	-	606,495
Computers	1,048,774	-	-	1,048,774
Right to use asset - buildings	2,272,819	-	-	2,272,819
Total capital assets being depreciated	8,614,122	42,903	-	8,657,025
Less accumulated depreciation for				
Equipment	185,708	1,684	-	187,392
Furniture and fixtures	16,566	-	-	16,566
Buildings	871,022	62,240	-	933,262
Building improvements	436,640	41,255	-	477,895
Vehicles	684,987	79,086	-	764,073
Leasehold improvements	474,164	37,912	-	512,076
Computers	991,884	35,452	-	1,027,336
Right to use asset - buildings	204,608	204,608	-	409,216
Total accumulated depreciation	3,865,579	462,237	-	4,327,816
Net capital assets being depreciated	4,748,543	(419,334)	-	4,329,209
Net capital assets	$ 5,178,928	$ (419,334)	$ 5,885	$ 4,753,709

Note 5 – Due to Other Governmental Units

As of September 30, 2023, this liability consists of the following:

State of Michigan	$	250,747

Note 6 – Leases

Lease Liability

The Authority has two significant agreements. The agreements consist of building and building improvement leases between the Authority and various lessors.

Annual requirements to amortize the lease liability and related interest are as follows:

Year Ending September 30,	Principal	Interest
2024	$ 193,451	$ 31,393
2025	196,844	28,000
2026	200,297	24,547
2027	203,810	21,034
2028	207,385	17,459
2029-2033	890,786	34,275
	$ 1,892,573	$ 156,708

Note 7 – Net Investment in Capital Assets

The composition of net investment in capital assets as of September 30, 2023 was as follows:

Capital assets	
Capital assets not being depreciated	$ 424,500
Capital assets, net of accumulated depreciation	2,465,606
Right to use assets, net of amortization	1,863,603
Total capital assets	4,753,709
Less:	
Notes from direct borrowing and direct placements	(263,086)
Leases	(1,892,573)
Total related debt	(2,155,659)
Net investment in capital assets	$ 2,598,050

Note 8 – Long Term Liabilities

The September 30, 2023 balance of long-term debt was comprised of leases, mortgages payable and compensated absences. The mortgages are secured by real property acquired with the proceeds of the mortgages. The obligations are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Leases	$ 2,082,689	$ -	$ 190,116	$ 1,892,573	$ 193,451
Direct Borrowings					
Mortgages payable	278,790	-	15,704	263,086	16,213
Compensated absences	1,513,807	1,489,626	1,268,745	1,734,688	1,000,000
Total long-term debt	$ 3,875,286	$ 1,489,626	$ 1,474,565	$ 3,890,347	$ 1,209,664

Annual debt service requirements to maturity for the mortgages payable are as follows:

Year Ending	Notes from Direct Borrowings	
September 30,	Principal	Interest
2024	$ 16,213	$ 8,167
2025	16,738	7,644
2026	17,281	7,399
2027	17,841	6,539
2028	18,419	5,961
2029 - 2033	101,446	20,522
2034 - 2037	75,148	4,068
	$ 263,086	$ 60,300

The Authority is required to maintain debt coverage ratio of not less than 1.25 times. As of September 30, 2023, the Authority is in compliance with their debt covenant.

Note 9 – Risk Management

Michigan Municipal Risk Management Authority (MMRMA)

The Authority participates in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property 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 Authority 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 MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

MMRMAs coverage limits are $15,000,000 for liability, $1,500,000 for vehicle physical damage, and $25,000,000 for combined aggregate property coverage. There is a $250 deductible per vehicle for vehicle physical damage and $1,000 per occurrence for property and crime.

There have been no significant changes in insurance coverage in the past two years. There have been no claim settlements that have exceeded excess insurance limits.

Travelers Casualty and Surety Company of America

The Authority has crime coverage through Travelers Casualty and Surety Company of America. The coverage limit is $4,000,000. If a covered loss exceeds the coverage limit, all further payments for such loss are the sole obligation of the Authority.

Managed Care Risk Contracts

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The State General Fund risk contract covers only the Authority's specific service area. The Authority is at risk if, in any one fiscal year, it finds it necessary to expend more than current resources to provide contractually obligated supports and services for eligible individuals. The Authority is required to cover these excess costs with unrestricted net position.

Note 10 – Employee Retirement and Benefit Systems

Defined Benefit Pension Plan

Plan description – The Authority participates in the Bay County Employees' Retirement System (the Plan), an agent multiple-employer defined benefit pension plan that covers substantially all of the employees of the Authority. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The Plan's financial statements may be obtained upon request of the County of Bay, Michigan.

Benefits provided – Benefits provided include plans with multipliers ranging from 1.60% to 2.25%. Normal retirement age is 55 to 62 with early retirement at 55 with 30 years of service. Final average compensation is calculated based on 5 years. Member contributions are 4.00%.

Employees covered by benefit terms – At the December 31, 2022 valuation date, the following employees were covered by benefit terms:

Retirees or beneficiaries currently receiving benefits	157
Inactive employees entitled to, but not yet receiving benefits	35
Active employees	240
	432

Contributions – The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the Bay County Retirement System Board of Trustees. 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 employer may establish contribution rates to be paid by its covered employees. Employer contributions were 4.17% based on annual payroll for open divisions.

Net pension liability – The employer's net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of December 31, 2021.

Actuarial assumptions – The total pension liability in the December 31, 2021 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement include: 1) Wage inflation 3.25%; 2) Price inflation 2.50%; 3) Salary increases 4.00% to 6.25% including inflation 4) Investment rate of return of 7.25%, net of investment expense, including inflation.

Mortality rates used were based on the following:

Healthy pre-retirement: RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using MP-2016.

Healthy post-retirement: RP-2014 Healthy Annuitant Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using MP-2016.

Disability retirement: RP-2014 Disabled Generational Mortality Tables, extended via cubic spline. This table is adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using MP-2016.

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

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 or arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Allocation Range
Domestic equity	48.00%	7.50%
International equity	20.00%	8.50%
U.S. fixed income	25.00%	2.50%
Real estate	7.00%	4.50%
	100.00%	

Discount rate – The discount rate used to measure the total pension liability is 7.25%. 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 plans 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.

Total Pension Liability	
Service cost	$ 1,362,800
Interest on the total pension liability	4,345,897
Experience differences	1,295,830
Changes in actuarial assumptions	2,204,648
Benefit payments and refunds	(3,707,956)
Net change in total pension liability	5,501,219
Total pension liability - beginning	61,115,988
Total pension liability - ending (a)	$ 66,617,207
Plan Fiduciary Net Position	
Employer contributions	$ 672,876
Employee contributions	539,302
Pension plan net investment income (loss)	(12,240,885)
Benefit payments and refunds	(3,707,956)
Pension plan administrative expense	(53,650)
Net change in plan fiduciary net position	(14,790,313)
Plan fiduciary net position - beginning	78,573,673
Plan fiduciary net position - ending (b)	$ 63,783,360
Net pension liability (a-b)	$ 2,833,847
Plan fiduciary net position as a percentage of total pension liability	95.75%
Covered employee payroll	$ 13,718,472
Net pension liability as a percentage of covered employee payroll	20.66%

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the employer, calculated using the discount rate of 7.25%, as well as what the employer's net pension liability would be using a discount rate that is 1% point lower (6.25%) or 1% higher (8.25%) than the current rate.

	1% Decrease	Discount Rate	1% Increase
Net pension liability (asset)	$ 11,165,895	$ 2,833,847	$ (4,110,121)

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions. For the year ended September 30, 2023, the employer recognized pension expense of $1,627,166. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total to Amortize
Differences in experience	$ 1,642,777	$ (473,312)	$ 1,169,465
Differences in assumptions	1,959,853	-	1,959,853
Net difference between projected and actual earning on plan investments	7,184,274	-	7,184,274
Contributions subsequent to the measurement date*	444,069	-	-
Total	$ 11,230,973	$ (473,312)	$ 10,313,592

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a decrease in the net pension liability in the subsequent year.

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

Year ended,	
2024	$ 309,572
2025	1,927,666
2026	3,000,331
2027	4,177,644
2028	603,173
Thereafter	295,206
	$ 10,313,592

Other Post-Employment Benefits (OPEB)

Plan description – The Authority participates in the Bay County Voluntary Employees Beneficiary Association (VEBA) trust (the Plan). The Plan is an agent multiple employer defined benefit public retiree healthcare plan. The Authority provides retiree health care benefits to eligible employees and their spouses, as defined in the employee handbook. The benefits are provided under and may be amended by the Authority Board of Directors with the approval of the County Board of Commissioners. The Plan's financial statements may be obtained upon request of the County of Bay, Michigan.

Basis of accounting – The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable, in accordance with the terms of the Plan. Administrative costs are financed through investment earnings.

Plan membership – At December 31, 2022, the date of the most recent actuarial valuation, the plan membership consisted of the following:

Retirees or beneficiaries currently receiving benefits	81
Active plan members	233
	314

Benefits provided – Upon retirement, an eligible retiree and his or her spouse may be provided with health insurance coverage based on credited years of service. Each credit year of service equates to a 5% employer paid health insurance premium with the employee being vested after 8 years of service. Health insurance benefits will not be provided to deferred retirees, but only to those who will be drawing retirement benefits immediately upon retirement form the Authority, according to the approved vesting schedule.

Contributions – the Plan requires the Authority to pay the insurance premium/claim costs of the retiree and spouse until death. Actively employed plan members and retirees are currently not obligated to make contributions to the Plan. The Authority obtains health care coverage for retirees through private insurers. Upon eligibility for Medicare, the Authority pays the difference between the Plan costs and the amount covered by Medicare. The Authority has no obligation to make contributions in advance of when the insurance premiums or claims are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). The Authority, at its discretion, contributes amounts that are determined annually using the actuarially determined amount necessary to fund the Plan as a reference but not as a definitive requirement.

Net OPEB asset – The net OPEB asset was measured as of December 31, 2022, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2021.

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of December 31, 2021, using the following assumptions, applied to all periods included in the measurement.

Price inflation	2.50%
Wage inflation	3.25%
Salary increases	4.00% to 6.25%, including wage inflation
Investment rate of return	7.00%, net of OPEB plan investment expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	Healthy Pre-Retirement: The RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. Healthy Post-Retirement: The RP-2014 Healthy Annuitant Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. Disability Retirement: The RP-2014 Disabled Mortality Table, extended via cubic spline. These tables are adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2016.
Health care trend rates	8.25% trend, gradually decreasing to 3.50% in year 10

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2017 through December 31, 2021.

Investment policy – The Plan's policy in regard to the allocation of invested assets is established and may be amended by the County Board of Commissioners by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The policy requires that no manager hold more than 5% of its portion of the total fund in any single company and no more than 5% may be held in any single common stock. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of September 30, 2023:

Asset Class	Target Allocation	Allocation Range
Domestic equity	49.00%	7.50%
International equity	21.00%	8.50%
U.S. fixed income	23.00%	2.50%
Real estate	7.00%	4.50%
	100.00%	

Discount rate – The discount rate used to measure the total OPEB liability (asset) was 7.00%. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Total OPEB Liability	
Service cost	$ 178,462
Interest	514,384
Differences between expected and actual experience	97,303
Changes in assumptions	531,523
Benefit payments	(573,376)
Net change in total OPEB liability	748,296
Total OPEB liability - beginning	7,545,806
Total OPEB liability - ending (a)	$ 8,294,102
Plan Fiduciary Net Position	
Employer contributions	$ 573,376
Net investment income (loss)	(3,765,082)
Benefit payments	(573,376)
Administrative expense	(13,729)
Net change in plan fiduciary net position	(3,778,811)
Plan fiduciary net position - beginning	26,464,691
Plan fiduciary net position - ending (b)	$ 22,685,880
Net OPEB asset (a-b)	$ (14,391,778)
Plan fiduciary net position as a percentage of total OPEB asset	273.52%
Covered payroll	$ 13,287,872
Net OPEB asset as a percentage of covered payroll	(108.31%)

Sensitivity of the net OPEB asset to changes in the discount rate –The following presents the net OPEB asset of the Authority, as well as what the Authority's net OPEB asset would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current discount rate.

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB asset	$ (13,317,140)	$ (14,391,778)	$ (15,279,682)

Sensitivity of the net OPEB asset to changes in the healthcare cost trend rates – The following presents the net OPEB asset of the Authority, as well as what the Authority's net OPEB asset would be if were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB asset	$ (15,425,079)	$ (14,391,778)	$ (13,115,089)

OPEB expense and deferred inflows of resources related to OPEB – For the year ended September 30, 2023 the employer recognized OPEB expense of $(991,962). The employer reported deferred inflows of resources related to OPEB from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources	Total	Total to Amortize
Differences in experience	$ 136,022	$ (2,298,635)	$ (2,162,613)	$ (2,162,613)
Differences in assumptions	812,091	(45,104)	766,987	766,987
Net difference between projected and actual earnings on OPEB plan investments	2,420,600	-	2,420,600	2,420,600
Total	$ 3,368,713	$ (2,343,739)	$ 1,024,974	$ 1,024,974

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2024	$ (259,163)
2025	188,934
2026	598,151
2027	873,089
2028	(249,912)
Thereafter	(126,125)
	$ 1,024,974

Note 11 – Change in Report Presentation

The Authority has modified its report presentation and elected to present the financial statements as an enterprise fund (a type of proprietary fund), which is designed to be self-supporting.

Bay-Arenac Behavioral Health Authority
Required Supplementary Information
Bay County Employees' Retirement System
Schedule of Employer Contributions
September 30, 2023

Fiscal Year Ending September 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	$ 1,078,379	$ 1,078,379	$ -	$ 10,392,494	10.38%
2015	1,037,841	1,037,841	-	10,219,867	10.16%
2016	3,010,074	3,010,074	-	10,577,562	28.46%
2017	1,243,668	1,243,668	-	10,692,948	11.63%
2018	990,600	990,600	-	10,953,344	9.04%
2019	1,048,380	1,048,380	-	11,157,196	9.40%
2020	867,444	867,444	-	11,591,724	7.48%
2021	917,988	917,988	-	11,550,549	7.95%
2022	797,844	797,844	-	12,045,965	6.62%
2023	672,876	672,876	-	13,718,572	4.90%

Note: Actuarially determined contribution amounts are calculated as of December 31 each year, which is 21 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent-of-payroll
Remaining amortization period	20 years open, 10 years closed for Early Retirement Incentive Program (ERIP)
Asset valuation method	5-Year smoothed market
Wage inflation	3.25%
Price inflation	2.50%
Salary increases	4.00% to 6.25% including inflation
Investment rate of return	7.25%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	Healthy Pre-Retirement - RP-2014 Employee Generational Mortality Tables, Healthy Post-Retirement - RP-2014 Healthy Annuitant Generational Mortality Tables and Disabled Retirement - RP-2014 Disabled Generational Mortality Tables

Bay-Arenac Behavioral Health Authority
Required Supplementary Information
Bay County Employees' Retirement System
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
September 30, 2023

Fiscal year ended September 30,	2023	2022	2021	2020	2019
Total Pension Liability					
Service cost	$ 1,362,800	$ 1,222,665	$ 1,202,412	$ 1,179,103	$ 1,157,296
Interest on the total pension liability	4,345,897	4,160,009	4,063,605	3,938,726	3,819,676
Changes in benefit terms	-	-	-	34,350	-
Experience differences	1,295,830	782,577	(473,846)	(186,368)	(192,251)
Changes in assumptions	2,204,648	-	-	-	-
Benefit payments and refunds	(3,707,956)	(3,634,725)	(3,310,465)	(3,199,523)	(3,107,574)
Net change in total pension liability	5,501,219	2,530,526	1,481,706	1,766,288	1,677,147
Total pension liability - beginning	61,115,988	58,585,462	57,103,756	55,337,468	53,660,321
Total pension liability - ending (a)	$ 66,617,207	$ 61,115,988	$ 58,585,462	$ 57,103,756	$ 55,337,468
Plan Fiduciary Net Position					
Employer contributions	$ 672,876	$ 797,844	$ 917,988	$ 867,444	$ 1,048,380
Employee contributions	539,302	508,607	465,845	443,228	447,888
Pension plan net investment income (loss)	(12,240,885)	10,659,024	9,686,574	11,813,230	(3,469,686)
Benefit payments and refunds	(3,707,956)	(3,634,725)	(3,310,465)	(3,199,523)	(3,107,574)
Pension plan administrative expense	(53,650)	(32,375)	(38,810)	(37,576)	(31,604)
Other*	-	-	-	-	-
Net change in plan fiduciary net position	(14,790,313)	8,298,375	7,721,132	9,886,803	(5,112,596)
Plan fiduciary net position - beginning	78,573,673	70,275,298	62,554,166	52,667,363	57,779,959
Plan fiduciary net position - ending (b)	$ 63,783,360	$ 78,573,673	$ 70,275,298	$ 62,554,166	$ 52,667,363
Net pension liability (asset) (a-b)	$ 2,833,847	$ (17,457,685)	$ (11,689,836)	$ (5,450,410)	$ 2,670,105
Plan fiduciary net position as a percentage of total pension liability	95.75%	128.56%	119.95%	109.54%	95.17%
Covered payroll	$ 13,718,472	$ 12,045,965	$ 11,550,549	$ 11,591,724	$ 11,157,196
Net pension liability (asset) as a percentage of covered employee payroll	20.66%	(144.93%)	(101.21%)	(47.02%)	23.93%

Data will be added as information is available until 10 years of such data is available.

Bay-Arenac Behavioral Health Authority
Required Supplementary Information
Bay County Employees' Retirement System
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
September 30, 2023

Fiscal year ended September 30,	2018	2017	2016	2015
Total Pension Liability				
Service cost	$ 1,167,054	$ 1,132,527	$ 1,136,567	$ 1,210,632
Interest on the total pension liability	3,732,959	3,579,804	3,454,353	3,381,797
Changes in benefit terms	-	-	-	-
Experience differences	(646,430)	(121,814)	-	(670,788)
Changes in assumptions	-	2,135,064	-	-
Benefit payments and refunds	(2,997,659)	(2,971,277)	(2,861,173)	(2,973,217)
Net change in total pension liability	1,255,924	3,754,304	1,729,747	948,424
Total pension liability - beginning	52,404,397	48,650,093	46,920,346	45,971,922
Total pension liability - ending (a)	$ 53,660,321	$ 52,404,397	$ 48,650,093	$ 46,920,346
Plan Fiduciary Net Position				
Employer contributions	$ 990,600	$ 1,243,668	$ 3,010,074	$ 1,037,841
Employee contributions	434,013	515,921	420,482	451,008
Pension plan net investment income (loss)	9,394,957	3,610,840	464,588	4,118,214
Benefit payments and refunds	(2,997,659)	(2,971,277)	(2,861,173)	(2,973,217)
Pension plan administrative expense	(55,748)	(54,536)	(55,795)	(42,121)
Other*	-	(8,556,709)	-	-
Net change in plan fiduciary net position	7,766,163	(6,212,093)	978,176	2,591,725
Plan fiduciary net position - beginning	50,013,796	56,225,889	55,247,713	52,655,988
Plan fiduciary net position - ending (b)	$ 57,779,959	$ 50,013,796	$ 56,225,889	$ 55,247,713
Net pension liability (asset) (a-b)	$ (4,119,638)	$ 2,390,601	$ (7,575,796)	$ (8,327,367)
Plan fiduciary net position as a percentage of total pension liability	107.68%	95.44%	115.57%	117.75%
Covered payroll	$ 10,953,344	$ 10,692,948	$ 10,577,562	$ 10,219,867
Net pension liability (asset) as a percentage of covered employee payroll	(37.61%)	22.36%	(71.62%)	(81.48%)

Data will be added as information is available until 10 years of such data is available.

Bay-Arenac Behavioral Health Authority
Required Supplementary Information
Bay County Voluntary Employees' Beneficiary Association - Other Postemployment Benefits
Schedule of Employer Contributions
September 30, 2023

Fiscal Year Ending September 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2018	$ -	$ 411,769	$ (411,769)	$ 10,876,409	3.79%
2019	-	456,347	(456,347)	11,197,133	4.08%
2020	-	561,533	(561,533)	11,440,965	4.91%
2021	-	582,978	(582,978)	11,508,997	5.07%
2022	-	545,944	(545,944)	12,492,043	4.37%
2023	-	573,376	(573,376)	13,287,872	4.32%

Note: Actuarially determined contribution amounts are calculated as of December 31 each year, which is 30 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of payroll
Remaining amortization period	16 years, closed
Asset valuation method	Market value of assets
Price inflation	2.50%
Wage inflation	3.25%
Salary increases	4.00% to 6.25%, including wage inflation
Investment rate of return	7.00%, net of OPEB plan investment expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	Healthy Pre-Retirement: The RP-2014 Employee Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. Healthy Post-Retirement: The RP-2014 Healthy Annuitant Generational Mortality Tables, with blue-collar adjustments and extended via cubic spline. Disability Retirement: The RP-2014 Disabled Mortality Table, extended via cubic spline. These tables are adjusted backwards to 2006 with the MP-2014 scale, resulting in a base year of 2006 with future mortality improvements assumed each year using scale MP-2016.
Health care trend rates	8.25% trend, gradually decreasing to 3.50% in year 10
Aging factors	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death"

Bay-Arenac Behavioral Health Authority
Required Supplementary Information
Bay County Voluntary Employees' Beneficiary Association - Other Postemployment Benefits
Schedule of Changes in Net OPEB Asset and Related Ratios
September 30, 2023

Fiscal year ended September 30,	2023	2022	2021
Total OPEB Liability			
Service cost	$ 178,462	$ 171,218	$ 168,443
Interest	514,384	553,315	680,126
Changes of benefit terms	-	-	-
Difference between expected and actual experience	97,303	(859,101)	(2,458,645)
Changes in assumptions	531,523	134,450	361,573
Benefit payments and refunds	(573,376)	(545,944)	(582,978)
Net change in total OPEB liability	748,296	(546,062)	(1,831,481)
Total OPEB liability - beginning	7,545,806	8,091,868	9,923,349
Total OPEB liability - ending (a)	$ 8,294,102	$ 7,545,806	$ 8,091,868
Plan Fiduciary Net Position			
Employer contributions	$ 573,376	$ 545,944	$ 582,978
Net investment income (loss)	(3,765,082)	2,993,714	3,442,337
Benefit payments and refunds	(573,376)	(545,944)	(582,978)
Administrative expense	(13,729)	(23,111)	(31,778)
Other	-	-	-
Net change in plan fiduciary net position	(3,778,811)	2,970,603	3,410,559
Plan fiduciary net position - beginning	26,464,691	23,494,088	20,083,529
Plan fiduciary net position - ending (b)	$ 22,685,880	$ 26,464,691	$ 23,494,088
Net OPEB asset (a-b)	$ (14,391,778)	$ (18,918,885)	$ (15,402,220)
Plan fiduciary net position as a percentage of total OPEB liability	273.52%	350.72%	290.34%
Covered payroll	$ 13,287,872	$ 12,492,043	$ 11,508,997
Net OPEB asset as a percentage of covered employee payroll	(108.31%)	(151.45%)	(133.83%)

Note: GASB Statement No. 75 was implemented for the fiscal year ended September 30, 2018 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

Bay-Arenac Behavioral Health Authority
Required Supplementary Information
Bay County Voluntary Employees' Beneficiary Association - Other Postemployment Benefits
Schedule of Changes in Net OPEB Asset and Related Ratios
September 30, 2023

Fiscal year ended September 30,	2020	2019	2018
Total OPEB Liability			
Service cost	$ 236,071	$ 207,144	$ 210,192
Interest	659,272	631,430	608,543
Changes of benefit terms	-	60,545	-
Difference between expected and actual experience	90,957	(6,898)	(56,191)
Changes in assumptions	(82,324)	-	-
Benefit payments and refunds	(561,533)	(456,347)	(411,769)
Net change in total OPEB liability	342,443	435,874	350,775
Total OPEB liability - beginning	9,580,906	9,145,032	8,794,257
Total OPEB liability - ending (a)	$ 9,923,349	$ 9,580,906	$ 9,145,032
Plan Fiduciary Net Position			
Employer contributions	$ 561,533	$ 456,347	$ 411,769
Net investment income (loss)	3,408,665	(835,611)	1,979,860
Benefit payments and refunds	(561,533)	(456,347)	(411,769)
Administrative expense	(26,669)	(6,563)	(21,908)
Other	-	962	-
Net change in plan fiduciary net position	3,381,996	(841,212)	1,957,952
Plan fiduciary net position - beginning	16,701,533	17,542,745	15,584,793
Plan fiduciary net position - ending (b)	$ 20,083,529	$ 16,701,533	$ 17,542,745
Net OPEB asset (a-b)	$ (10,160,180)	$ (7,120,627)	$ (8,397,713)
Plan fiduciary net position as a percentage of total OPEB liability	202.39%	174.32%	191.83%
Covered payroll	$ 11,440,965	$ 11,197,133	$ 10,876,409
Net OPEB asset as a percentage of covered employee payroll	(88.81%)	(63.59%)	(77.21%)

Note: GASB Statement No. 75 was implemented for the fiscal year ended September 30, 2018 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

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*

Independent Auditors' Report

Management and the Board of Directors
Bay-Arenac Behavioral Health Authority
Bay City, 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 Bay-Arenac Behavioral Health Authority, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise Bay-Arenac Behavioral Health Authority's basic financial statements, and have issued our report thereon dated March 22, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bay-Arenac Behavioral Health Authority's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bay-Arenac Behavioral Health Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Bay-Arenac Behavioral Health 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 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 been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay-Arenac Behavioral Health 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 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.

Yeo & Yeo, P.C.

Saginaw, Michigan
March 22, 2024