

Pivotal

Financial Statements
September 30, 2025



Pivotal
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Independent Auditor's Report

To the Members of the Board
Pivotal
Centreville, Michigan

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CMHSP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CMHSP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CMHSP's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2026, on our consideration of the CMHSP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CMHSP's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CMHSP's internal control over financial reporting and compliance.

Sincerely,



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

March 31, 2026

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



Pivotal
Financial Statements for the Fiscal Year Ended September 30, 2025

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") introduces the financial statements of Pivotal (the "Authority") for the fiscal year ending September 30, 2025. This presentation is an effort to inform the reader of the financial statements and presents an analysis and overview of the financial activities and conditions of the organization during the past fiscal year 2024.

The Authority was established by the Board of Commissioners of St. Joseph County, pursuant to the Michigan Mental Health Code, to operate, control, and manage an integrated behavioral healthcare system to better serve the citizens of St. Joseph County. The members of the Mental Health Board are appointed by the County Board of Commissioners. The Mental Health Board governs the Authority.

Financing History

In 1998, the Community Mental Health system went from a fee-for-service system to a capitated arrangement. In such an arrangement, each Community Mental Health Services Program (CMHSP) receives a payment each month for each Medicaid recipient in the county. This payment is designed to cover the cost of providing mental healthcare to those Medicaid recipients in need of such services. A similar arrangement, using primarily historical data, provides funding to the CMHSP system to serve the non-Medicaid residents of the county. Under this arrangement, the revenue does not change when the Authority serves more people or provides more care.

Prior to the switch to a capitated system, and for nearly two decades, the CMH system in Michigan received an ever-increasing share of its funding through the federal Medicaid system, on a fee-for-service basis. Therefore, the more services provided, the more money the Authority received. The Authority received approximately one federal dollar for every state dollar that was spent serving a Medicaid recipient. State funding during this period was not increased. The state funds used to match the federal dollars were those state funds that were already in our budget.

The CMH system took on several mental health responsibilities formerly held by the state, including community placement of former state hospital residents, oversight of AIS homes, and utilization and payment for local inpatient psychiatric hospital care. These were the primary sources of revenue growth for the CMH system over the past decades, and they constitute a transfer of responsibility more than a true increase in revenue sources. No new state dollars were added to the system during this time, so true revenues remained relatively flat or decreased.

Beginning January 1, 2014, the Michigan Department of Community Mental Health (now the Michigan Department of Health and Human Services) contracted with a newly formed Prepaid Inpatient Health Plan ("PIHP") for Medicaid services. This new PIHP – Southwest Michigan Behavioral Healthcare (SWMBH), is comprised of Barry, Berrien, Branch, Calhoun, Cass,

Kalamazoo, St. Joseph and Van Buren counties. As such, SWMBH receives Medicaid funding from the State each month based on the number of Medicaid residents who live within the geographic area. SWMBH then entered into a Medicaid sub-contract agreement with the eight CMHSP's in the geographic area.

The amount of funding varies with changes in the number of Medicaid enrollees in the eight counties. SWMBH distributes a portion of the total Medicaid received to each of the other eight CMHSP's. Medicaid is an entitlement program; therefore, services must be provided as defined in the Michigan Medicaid Provider Manual. SWMBH assumes the financial risk associated with this entitlement program.

A separate General Fund contract is issued by the State of Michigan to the Authority. This contract provides funding for an array of services for non-Medicaid individuals with low incomes. The Authority bears the financial risk associated with these services.

Overview of the 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. These financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner like a private sector business. This is done by reporting the Authority's assets and liabilities using the full accrual method of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Statement of Net Position presents information on all the Authority's assets and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the Authority's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's revenue and expenses changed during the most recent fiscal year. All changes in revenue and expenses are reported as soon as the underlying event that gives rise to the change occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. In addition, this statement discloses non-cash expenditures, such as depreciation, which affects the ending book value of capital assets.

The Statement of Cash Flows presents information about the sources and uses of cash and cash equivalents and classifies this information into four categories: operating, noncapital financing, capital and related financing, and investing. The Authority's operations generate and use cash in the normal flow of activity: the collection of revenues and payments to contractors, plus the non-cash activity add-backs such as depreciation. Financing activities include borrowing and repaying long-term debt, as well as purchasing equipment. Investing includes investment in cash and other long-term assets.

The following table summarizes the Authority’s assets, liabilities, and net position as of September 30, 2025, and 2024:

	2024	2025	Change	% Change
Assets				
Capital Assets	2,326,793	2,584,529	257,736	11.1%
Other Assets	<u>10,318,237</u>	<u>14,312,261</u>	3,994,024	38.7%
Total Assets	<u>12,645,030</u>	<u>16,896,790</u>	4,251,760	33.6%
Liabilities				
Long-Term Liabilities	1,115,251	1,044,157	-71,094	-6.4%
Other Liabilities	<u>2,969,718</u>	<u>2,676,425</u>	-293,293	-9.9%
Total Liabilities	<u>4,084,969</u>	<u>3,720,582</u>	-364,387	-8.9%
Net Position				
Net Investment in Capital Assets	1,023,478	1,424,806	401,328	39.2%
Unrestricted	<u>7,536,583</u>	<u>11,751,402</u>	4,214,819	55.9%
Total Net Position	<u>8,560,061</u>	<u>13,176,208</u>	4,616,147	53.9%

The notes provide essential information for a full understanding of the data presented in the financial statements. The accompanying notes are an integral part of the financial statements and must be reviewed in conjunction with the information reported on the financial statements to provide a full understanding of the Authority’s financial condition.

The following table summarizes the Authority’s revenues, expenses, and changes in net position for the years ended September 30, 2025, and 2024:

Operating Revenues	2024	2025	Change	% Change
Medicaid	29,771,667	30,748,143	976,476.00	3.3%
State & Federal Grants	2,243,462	1,941,461	(302,001.00)	-13.5%
County Appropriation	257,268	257,268	0.00	0.0%
Charges for Services	598,140	677,732	79,592.00	13.3%
Other Revenue	23,168	20,573	(2,595.00)	-11.2%
Total Revenues	32,893,705	33,645,177	751,472.00	2.3%
Operating Expenses				
Mental Health Services	27,409,609	25,881,782	(1,527,826.90)	-5.6%
Management and General	2,917,558	3,212,736	295,177.90	10.1%
Total Expenses	30,327,167	29,094,518	(1,232,649.00)	-4.1%
Operating Income (loss)	2,566,538	4,550,659	1,984,121.00	77.3%
Nonoperating Revenues				
Investment Earnings	93,721	88,789	(4,932.00)	-5.3%
Total Earnings	93,721	88,789	(4,932.00)	-5.3%
Nonoperating Expenses				
Interest Expense	35,387	27,801	(7,586.13)	-21.4%
Total Expenses	35,387	27,801	(7,586.13)	-21.4%
Change in Net Position	2,624,872	4,616,147	1,991,275.00	75.9%
Prior Year Adjustment	0	0	0.00	0.0%
Net Position,				
Beginning of Year	5,935,189	8,560,061	2,624,872.00	44.2%

Future Financing

Future funding for the Community Mental Health System in the State of Michigan is subject to numerous variables. Historically, the Authority has been significantly underfunded by state General Fund revenue. Pivotal CMHSP is currently receiving GF funding totaling \$1,042,561 per year. Additional funds have been appropriated to cover CCBHC GF expenses when applicable. However, this amount is not sufficient in covering ongoing costs for non-Medicaid CCBHC consumers.

Fiscal pressures at the federal level are expected to reduce future Medicaid funding allocations. Medicaid revenue is also subject to fluctuations resulting from rate rebasing and variations in Medicaid-eligible enrollment. Post-COVID-19, the decline in Medicaid enrollment has continued year over year. Consequently, the aggregate impact of these factors on future funding levels for the Authority appears to trend downwards. In response to potential funding challenges, the Authority will proactively pursue strategic cost-containment measures and explore diversified revenue streams.

In October 2021, the Authority implemented the Certified Community Behavioral Health Center (CCBHC) program. This integrated care model facilitates coordinated physical and mental health services for individuals with mild to moderate conditions within the community mental health (CMH) framework. After 4 years of operation, the CCBHC program has expanded service delivery to a previously underserved demographic. Projected growth in this population necessitates increased staffing capacity and expanded service offerings. Given the evolving regulatory landscape and the inherent uncertainties surrounding the future of the CCBHC model, potential funding vulnerabilities may arise. In addition to expanding staff, there is now a need for additional space to serve those currently unserved in St. Joseph County. This expansion is set to take place in FY 26.

Furthermore, ongoing healthcare reform initiatives, potential Medicaid expansion or contraction, the establishment of local Federally Qualified Health Centers (FQHCs), and the strategic placement of local medical homes are anticipated to significantly reshape the community mental health service delivery landscape within St. Joseph County.

Emily Versteeg
Chief Finance Officer
Pivotal

BASIC FINANCIAL STATEMENTS



Pivotal
Statement of Net Position
September 30, 2025

Current assets

Cash and cash equivalents - unrestricted	\$	3,766,909
Investments		6,054,752
Accounts receivable		44,685
Due from other governmental units		4,188,360
Prepaid expenses		257,555
Total current assets		14,312,261

Noncurrent assets

Cash and cash equivalents - restricted		295,004
Capital assets not being depreciated		621,329
Capital assets being depreciated, net		1,668,196
Total noncurrent assets		2,584,529

Total assets		16,896,790
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Current liabilities

Accounts payable		1,967,337
Accrued payroll and benefits		206,224
Incurred but not reported		132,284
Unearned revenue		15,976
Long-term liabilities, due within one year		354,604
Total current liabilities		2,676,425

Noncurrent liabilities

Long-term liabilities, due beyond one year		1,044,157
Total noncurrent liabilities		1,044,157

Total liabilities		3,720,582
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Net position

Net investment in capital assets		1,424,806
Unrestricted		11,751,402
Total net position	\$	13,176,208

Pivotal
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ending September 30, 2025

Operating revenues	
Medicaid	\$ 30,748,143
State and federal grants	1,941,461
County appropriations	257,268
Charges for services	677,732
Other	20,573
Total operating revenues	<u>33,645,177</u>
Operating expenses	
Salary and wages	6,748,149
Fringe benefits	2,328,057
Contracted services	18,634,392
Depreciation	280,061
Inpatient	42,812
Insurance	115,264
Local match drawdown	64,536
Miscellaneous	203,264
Professional fees	34,074
Rent	24,196
Repairs and maintenance	162,704
Supplies	155,739
Training and education	73,246
Travel	102,803
Utilities	125,221
Total operating expenses	<u>29,094,518</u>
Operating income (loss)	4,550,659
Nonoperating revenues (expenses)	
Gain/(loss) on sale of assets	4,500
Investment earnings/(loss)	88,789
Interest expense	(27,801)
Total nonoperating revenues (expenses)	<u>65,488</u>
Change in net position	4,616,147
Net position, beginning of year	<u>8,560,061</u>
Net position, end of year	<u><u>\$ 13,176,208</u></u>

Pivotal
Statement of Cash Flows
For the Year Ending September 30, 2025

Cash flows from operating activities	
Receipts from the State and other local governments	\$ 35,014,451
Receipts from customers and users	718,947
Payments to suppliers and service providers	(20,166,568)
Payments to employees for salaries and benefits	(8,796,214)
Net cash provided by (used in) operating activities	<u>6,770,616</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(416,938)
Proceeds from sale of capital assets	4,500
Principal payments on long-term obligations	(264,451)
Interest payments on long-term obligations	(27,801)
Net cash flows provided by (used in) capital and related financing activities	<u>(704,690)</u>
Cash flows from investing activities	
Purchase of investments	(4,578,534)
Investment earnings/(loss)	88,789
Net cash flows provided by (used in) investing activities	<u>(4,489,745)</u>
Net increase in cash and cash equivalents	1,576,181
Cash and cash equivalents, beginning of year	<u>2,485,732</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,061,913</u></u>
Reconciliation of operating income to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ 4,550,659
Adjustments to reconcile operating income to net cash provided by (used in) by operating activities:	
Depreciation	280,061
Accounts receivable	20,642
Due from other governmental units	2,067,579
Prepaid expenses	(48,389)
Accounts payable	265,570
Accrued payroll and benefits	40,736
Incurred but not reported	(478,606)
Due to other governmental units	(175,010)
Unearned revenue	8,118
Compensated absences	239,256
Net cash provided by (used in) operating activities	<u><u>\$ 6,770,616</u></u>

**NOTES TO THE
FINANCIAL STATEMENTS**



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Financial Statement Presentation

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

All amounts shown are in U.S. dollars.

Fund Accounting

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

The CMHSP reports the following major enterprise fund:

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

Basis of Accounting and Measurement Focus

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

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

Cash and Cash Equivalents

The CMHSP’s cash and cash equivalents are considered to be demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments for the CMHSP are reported at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Accounts Receivable/Payable

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

Due from/Due to Other Governmental Units

Due from/due to other governmental units consist primarily of amounts due from/to the regional entity and the State of Michigan.

Inventories

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

Prepaid Expenses

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

Capital Assets

Capital assets are tangible and intangible assets, defined by the CMHSP as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed (except for intangible right-to-use assets, the measurement of which is discussed in the lessee policy below). Donated capital assets are recorded at estimated acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible capital assets in the appropriate capital asset class.

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

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

Assets	Years
Buildings and improvements	10-25
Equipment and furnishings	5-15
Computers	5
Vehicles	4-5
Right to use – equipment	5
Right to use – building space	5

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

Accrued Payroll and Benefits

Accrued payroll and benefits relate to salaries and wages earned in September but not paid until October.

Unearned Revenue

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

Incurred But Not Reported (IBNR)

The amounts recorded in liabilities include amounts for incurred inpatient, residential and community provider claims liability based on management’s estimate. The CMHSP may not be billed for these until several months after the date of service. The actual cost may vary from the estimated amount for a variety of reasons that include, but are not limited to, retroactive consumer eligibility or cost recovery from other third-party payers.

The methodology used in estimating reserves considers factors such as historical data adjusted for payment patterns, cost trends, service and benefit mixes, seasonality, utilization of health care services, internal processing changes, the amount of time it took to pay claims from prior periods, changes in the past few months in the claims adjudication procedures, changes in benefits, events that would lead to excessive claims, large increases or decreases in membership, and other relevant factors.

Compensated Absences

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The CMHSP has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The CMHSP has no items that qualify for reporting in this category.

Long-Term Obligations

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

Lessee

The CMHSP is a lessee for noncancelable leases. The CMHSP recognizes a lease liability and an intangible right-to-use lease asset in the financial statements.

At the commencement of a lease, the CMHSP 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 judgements related to leases include how the CMHSP determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The CMHSP uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the CMHSP 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 CMHSP is reasonably certain to exercise.

The CMHSP 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 and lease liabilities are reported with long-term obligations on the statement of net position.

Net Position

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

- *Net investment in capital assets* consist of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- *Restricted* net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- *Unrestricted* net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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

MDHHS Revenue

General Fund Revenue

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

Medicaid Revenue

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

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Custodial Credit Risk

In the case of deposits, this is the risk that, in the event of a bank’s failure, the CMHSP’s deposits may not be returned to it. The CMHSP evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. The CMHSP bank balance was \$4,080,607 and \$3,830,607 of that amount was exposed to custodial credit risk because it was uninsured by FDIC.

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

Description	Amount
Cash and Cash Equivalents – Unrestricted	3,766,909
Cash and Cash Equivalents – Restricted	295,004
Total	4,061,913

Cash and Cash Equivalents - Restricted

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

Investments

State statutes authorize investments in obligations of the U.S. Treasury and U.S. Agencies, mutual funds with portfolios of securities issued or guaranteed by the United States Government, or agreements to repurchase these same obligations, negotiable and non-negotiable certificates of deposit, municipal bonds, commercial paper, corporate bonds, and the State Investment Pools.

Interest Rate Risk

Under state statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The CMHSP’s investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Description	1 - 5	6 - 10	11 - 15	Total
U.S. agencies	899,507	-	-	899,507
Total	899,507	-	-	899,507

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker’s acceptances with United States banks. The CMHSP’s investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Pivotal
Notes to the Financial Statements
September 30, 2025

As of September 30th, the CMHSP had the following investments:

Description	Rating	Rating Agency	Amount
U.S. agencies	AA*/Aa1 - AA+-Aa1	Moody's/S&P	899,507
U.S. obligations (EFT)	AA*/Aa1 - AA+-Aa1	Moody's/S&P	127,903
Money market funds	Not applicable	N/A	4,930,531
CDs held in investment account	Not applicable	N/A	96,811
Total			6,054,752

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the CMHSP will not be able to recover the value of its investments that are in the possession of an outside party. The CMHSP requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third-party custodian and must be evidenced by safekeeping receipts. The CMHSP does not have any additional policies for custodial credit risk over investments.

Concentration of Credit Risk

The CMHSP's investment policy places no limit on the amount it may invest in any one issuer. At September 30th, concentrations in securities of any one issuer greater than 5% of investment fair value were as follows:

Description	Issuer	% of Portfolio
U.S. agencies	Federal Home Bank Loan	9.91%
U.S. agencies	Federal Farm Credit Bank	4.95%

Fair Value of Investments

The CMHSP measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1*: Quoted prices for identical investments in active markets;
- *Level 2*: Observable inputs other than quoted market prices; and,
- *Level 3*: Unobservable inputs.

At year-end, the CMHSP had the following recurring fair value measurements.

Description	Value as of Sept 30 th	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
U.S. agencies	899,507	899,507	-	-
US obligations (EFT)	127,903	127,903	-	-
Total investments by fair value level	1,027,410	1,027,410	-	-

The CMHSP voluntarily invests certain excess funds in money market funds. These funds are not subject to fair value disclosures.

Description	Amortized Cost
Money market funds	4,930,531

NOTE 3 – ACCOUNTS RECEIVABLE

The CMHSP believes that the accounts receivable will be collected in full and therefore the receivable balance has not been offset by an allowance for doubtful accounts.

Pivotal
Notes to the Financial Statements
September 30, 2025

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

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

Description	Amount
Southwest Michigan Behavioral Health	4,116,171
State of Michigan	7,872
St. Joseph County	64,317
Total	4,188,360

NOTE 5 - CAPITAL ASSETS

A summary of changes in capital assets is as follows:

Description	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depr/amort					
Land	309,398	-	-	-	309,398
Construction in process	67,097	244,834	-	-	311,931
Total capital assets not being depr/amort	376,495	244,834	-	-	621,329
Capital assets being depr/amort					
Buildings and improvements	2,756,446	-	-	-	2,756,446
Equipment and furnishings	315,579	31,127	-	-	346,706
Computers	178,900	-	-	-	178,900
Vehicles	181,115	140,977	(19,700)	-	302,392
Right to use – equipment	91,103	-	-	-	91,103
Right to use – building space	509,102	-	-	-	509,102
Total capital assets being depr/amort	4,032,245	172,104	(19,700)	-	4,184,649
Accumulated depr/amort					
Buildings and improvements	(1,543,711)	(113,927)	-	-	(1,657,638)
Equipment and furnishings	(165,376)	(19,721)	-	-	(185,097)
Computers	(178,900)	-	-	-	(178,900)
Vehicles	(125,880)	(26,372)	19,700	-	(132,552)
Right to use – equipment	(47,070)	(18,221)	-	-	(65,291)
Right to use – building space	(195,155)	(101,820)	-	-	(296,975)
Total accumulated depr/amort	(2,256,092)	(280,061)	19,700	-	(2,516,453)
Capital assets being depr/amort, net	1,776,153	(107,957)	-	-	1,668,196
Capital assets, net	2,152,648	136,877	-	-	2,289,525

Pivotal
Notes to the Financial Statements
September 30, 2025

NOTE 6 - UNEARNED REVENUE

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

Description	Amount
Affinity House restricted donations	15,044
Other	932
Total	15,976

NOTE 7 - LONG-TERM LIABILITIES

Direct Borrowing

The detail of direct borrowings for the fiscal year is as follows:

Description	Original Borrowing	Interest Rate	Final Maturity	Outstanding at Year-end
2021 Building refinance	1,165,815	2.49%	2029	609,183

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

Summary of long-term debt

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

Description	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Compensated absences	294,786	283,474	(44,218)	534,042	80,106
Direct borrowing	753,560	-	(144,377)	609,183	148,049
Leases (NOTE 8)	375,610	-	(120,074)	255,536	126,449
Totals	1,423,956	283,474	(308,669)	1,398,761	354,604

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

Year Ended September 30	Direct Borrowings	
	Principal	Interest
2026	148,049	13,485
2027	151,778	9,756
2028	155,600	5,933
2029	153,756	2,014
Total	609,183	31,188

NOTE 8 – LEASES

The CMHSP is involved in agreements as a lessee that qualify as long-term lease agreements. Below is a summary of the nature of these agreements. These agreements qualify as intangible, right-to-use assets and not financed purchases, as the CMHSP will not own the assets at the end of the contract terms and the noncancelable terms of the agreements surpass one year.

The right-to-use assets and the related activity are included in the capital asset disclosure. The lease liabilities and related activity are presented in the changes in long-term debt table included in the LONG-TERM LIABILITIES disclosure.

Description	Issuance Date	Interest Rate	Original Amount	Ending Balance
2022 Equipment lease	3/20/2022	8.64%	91,103	29,905
2023 Building lease – Sturgis	11/1/2022	2.49%	179,767	77,467
2023 Building lease – Three Rivers	11/1/2022	2.49%	329,335	148,164
Total				255,536

The requirements to pay principal and interest on the long-term lease arrangements outstanding at year-end, are shown below:

Year Ended September 30	Leases	
	Principal	Interest
2026	126,449	6,195
2027	119,746	1,931
2028	9,341	32
Total	255,536	8,158

NOTE 9 – RETIREMENT PLANS

Defined Contribution Retirement Plan – Alternative Social Security Plan

Plan Description

Effective February 1, 1989, certain employees of the CMHSP participate in a tax qualified retirement plan in lieu of the Social Security Retirement System. All non-union employees of the CMHSP are eligible to participate in the plan. Employees not eligible to participate in this plan are covered by the federal social security system.

Eligibility

All non-union employees are eligible to participate in the plan.

Contributions

Employer and employee contributions to this plan are at the rate of 6.2% of gross wages.

Normal Retirement Age & Vesting

Retirement age as defined by the plan is 55 years of age. All contributions are 100% vested immediately.

Forfeitures

Contributions are 100% vested immediately. Therefore, there are no forfeitures.

For the year ended September 30th, employer contributions amounted to \$110,311. Employee contributions amounted to \$110,311. The outstanding liability to the plan at year-end was \$0.

Defined Contribution Retirement Plan – Money Purchase Pension Plan

Plan Description

The CMHSP offers all employees a money purchase pension plan created in accordance with the Internal Revenue Code, Section 401(a). The name of the plan is the “Community Mental Health Services of St. Joseph County Money

Purchase Pension Plan". The assets of the plan were held in trust for the exclusive benefit of the participants (employees) and their beneficiaries. Empower acts as the custodian for the plan and holds the custodial account for the beneficiaries of this plan. This plan is funded by employer contributions.

Eligibility

All full-time employees are eligible to participate in the plan. Part time employees and contract employees are excluded from the plan.

Contributions

Employer contributions to this plan are at the rate of 9.5% of gross wages for non-union employees and 5.0% of gross wages for union employees.

Normal Retirement Age & Vesting

Retirement age as defined by the plan is 65.

Forfeitures

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

For the year ended September 30th, employer contributions amounted to \$399,527. The outstanding liability to the plan at year-end was \$0.

Defined Contribution Retirement Plan – 457 Plan

Plan Description

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

The assets may not be diverted to any other use. Empower are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters.

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

Eligibility

All employees are eligible to participate in the plan.

Contributions

This plan is funded by employee contributions.

Normal Retirement Age & Vesting

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

Forfeitures

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

For the year ended September 30th, employee contributions amounted to \$260,240. The outstanding liability to the plan at year-end was \$0.

NOTE 10 - NET INVESTMENT IN CAPITAL ASSETS

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

Description	Amount
Capital assets not being depreciated	621,329
Capital assets being depreciated, net	1,668,196
Capital related direct borrowing liability	(609,183)
Capital related lease liability	(255,536)
Net investment in capital assets	1,424,806

NOTE 11 - RISK MANAGEMENT

The CMHSP is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker’s compensation), as well as medical benefits provided to employees. The CMHSP has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 12 – INCURRED BUT NOT REPORTED (IBNR)

The CMHSP estimates certain provider related liabilities which include amounts for incurred inpatient, residential and community provider claims liability based on management’s estimate. The CMHSP may not be billed for these until several months after the date of service. The actual cost may vary from the estimated amount for a variety of reasons that include, but are not limited to, retroactive consumer eligibility or cost recovery from other third-party payers.

The change in the claims liability is as follows:

Fiscal Year	Beginning of Year Liability	Claims and Changes in Estimates	Claim Payments	End of Year Liability
2023	244,550	18,152,236	(17,898,529)	498,257
2024	498,257	20,480,848	(20,368,215)	610,890
2025	610,890	18,155,786	(18,634,392)	132,284

NOTE 13 – RELATED PARTY TRANSACTIONS

The CMHSP provides services to consumers in the regional entity’s geographic region through a contract with the regional entity. The CMHSP receives prepaid sub capitation payments from the regional entity for these services on a “per member per month” basis. The amounts received from the regional entity are disclosed on page 2 under the heading: Medicaid and State and federal grants (a portion of which is passed through the regional entity).

NOTE 14 – CONTINGENT LIABILITIES

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

NOTE 15 – ECONOMIC DEPENDENCE

The CMHSP receives over 90% of its revenues from the State of Michigan either directly from MDHHS or indirectly through the CMHSP’s regional entity.

NOTE 16 – CONSTRUCTION COMMITMENTS

The CMHSP has active construction projects as of September 30th. The projects include construction of a building. At September 30th, the CMHSP’s commitments with contractors are as follows:

Description	Spent-to-Date	Remaining Commitment
Diekema Hamann Architecture, Inc - Contract 2	230,449	32,262

NOTE 17 – SUBSEQUENT EVENTS

On October 3, 2025, the CMHSP secured a construction loan of \$4,600,000 for a new building. The interest rate on the loan is 5.5%. Once construction of the building is completed, the loan will be converted to a full mortgage at 5.5% with a maturity date of September 1, 2051.

NOTE 18 - UPCOMING ACCOUNTING PRONOUNCEMENTS

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

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

Pivotal
Notes to the Financial Statements
September 30, 2025

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, was issued by the GASB in September 2024 and will be effective for the fiscal year 2026. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale.



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

To the Members of the Board
Pivotal
Centreville, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of Pivotal (the CMHSP) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the CMHSP's basic financial statements, and have issued our report thereon dated March 31, 2026.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Sincerely,

Roslund, Prestage & Company, P.C.

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

March 31, 2026



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

To the Members of the Board
Pivotal
Centreville, Michigan

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

Significant Audit Matters

Qualitative Aspects of Accounting Practices

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

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

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

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

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

Management's estimated incremental borrowing rate used to discount future lease payments under GASB 87 is based on the entity's current borrowing rate. We evaluated the key factors and assumptions used to develop the estimated intrinsic borrowing rate in determining that it is reasonable in relation to the financial statements taken as a whole.

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

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

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

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

Restriction on Use

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

Sincerely,



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



**Pivotal
Financial Statements
September 30, 2025**