



**washtenaw community
health organization**

**Financial Statements
And
Supplementary Information**

For The Year Ended September 30, 2007



WASHTENAW COMMUNITY HEALTH ORGANIZATION

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

May 16, 2008

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

We have audited the accompanying financial statements of the business-type activities and each major fund of the *Washtenaw Community Health Organization* as of and for the year ended September 30, 2007, which collectively comprise the Organization's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Washtenaw Community Health Organization's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 Washtenaw Community Health Organization as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2008, on our consideration of the Washtenaw Community Health Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Washtenaw Community Health Organization's basic financial statements. The individual fund financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

WASHTENAW COMMUNITY HEALTH ORGANIZATION
Management's Discussion and Analysis
Fiscal Year October 1, 2006 – September 30, 2007

The Washtenaw Community Health Organization (WCHO) provides integrated mental health, substance abuse, and physical health services for persons with severe and persistent mental illness, persons with developmental disabilities and persons with substance use disorders. The year ended September 30, 2007 completes WCHO's fifth year as a prepaid Health Plan for Medicaid covered services for this population in the Southeastern region of Michigan including the Counties of Lenawee, Livingston, Monroe and Washtenaw. Prior to October 1, 2002, only consumers in Washtenaw County were included within the WCHO realm of responsibility. This change has resulted in an increase in Medicaid funding from \$28,024,908 in the year ended September 30, 2002 to this year's funding level of \$82,802,670 for the Mental Health population and from \$553,549 to \$857,205 for the Substance Abuse population.

The information provided within this Management's Discussion and Analysis is supplemental to the basic financial statements. It is not intended to replace the basic financial statements, nor does it provide contrary financial data. The analysis section of this summary will identify major issues of importance for anyone reviewing these financial statements.

FINANCIAL OVERVIEW

The financial structure of the organization is based on fund accounting. Each fund represents the broad parameters within which financial decisions may be made. The WCHO currently has two major components within its financial structure: Mental Health and Substance Abuse. Each of the major funding separations includes restrictions and mandates as to how funds may be utilized in providing medically necessary services for identified populations. Within each of our funds, subsets of areas of responsibility are further delineated. This segregation of activities and objectives ensures and demonstrates compliance with financial requirements and regulatory restrictions and maintains a separation of funding streams.

The financial structure has also been designed to provide a financial presentation of the services provided by the organization. These services include: general outpatient services, inpatient hospitalization, licensed residential facilities, supported community living, substance abuse treatment and prevention, and special projects including state, local, and grant-supported activities. The vision of the WCHO is to provide integrated health care, including physical health, mental health, and substance abuse services. Because this integration is an area of potential growth for the organization, separation of this funding is designed to focus on this goal and to show that growth over time. Currently, physical health services are included within the Mental Health Fund; however, to maintain proper management of distinct funds, it is separated in a sub-section. Thereby, the integrity of these funds is maintained. This structural separation of activities maintains all the funding restrictions of the budget.

Government-wide Financial Statements

The *Statement of Net Assets* presents the financial status of the organization's assets and liabilities. During the year ended September 30, 2004, under the recently adopted GASB 34, the organization purchased four licensed residential homes. Long-term debt of \$350,000, in the form of a "Recoverable Grant" received from Washtenaw County, was incurred in August 2004 in anticipation of acquiring the four homes. The balance of this loan at September 30, 2007 was \$208,153. The homes have been capitalized and depreciated accordingly, beginning in Fiscal Year 2004/2005.

The *Statement of Activities* presents the financial data that resulted in a change to the net assets of the organization. This report presents the revenue earned and the expenses incurred during the fiscal period beginning October 1, 2006 and ending September 30, 2007. Operations during this period resulted in an increase in net assets of \$78,674. Major activities include mental health inpatient and outpatient services, support services, community inclusion activities, substance abuse prevention and treatment, and physical health services. Physical Health is a growth area for the organization to meet its vision of integrated health care for its identified populations.

Fund Financial Statements:

The *proprietary funds financial statements* are intended to provide an overview of the organization's major areas of service. Funds are separated to maintain the integrity of the reporting and to meet all funding and regulatory restrictions on the allowable expenses of each funding source.

Notes to the Financial Statements:

The Notes provide additional information that is essential to the full understanding of the financial data provided in the financial statements. These notes are an integral part of the financial statements and should be viewed in conjunction with the information included in the statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets:

Total Assets of the organization are \$16,346,229 at September 30, 2007. Total Liabilities are \$10,807,903 at September 30, 2007. Total net assets (fund balance) are \$5,538,326 at September 30, 2007. Total net assets at September 30, 2006 were \$5,459,652.

Assets	<u>09/30/07</u>	<u>09/30/06</u>
Cash and cash equivalents	\$ 11,684,514	\$ 13,097,290
Receivables & prepayments	3,729,538	3,799,027
Other assets	-	214,386
Capital assets	<u>932,177</u>	<u>971,413</u>
Total Assets	<u>\$ 16,346,229</u>	<u>\$ 18,082,116</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 8,896,490	\$ 10,441,340
Unearned revenue	1,703,260	1,928,389
Long-term debt		
Due within one year	54,148	48,691
Due in more than one year	<u>154,005</u>	<u>204,044</u>
Total Liabilities	<u>\$ 10,807,903</u>	<u>\$ 12,622,464</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 724,024	\$ 718,678
Unrestricted	<u>4,814,302</u>	<u>4,740,974</u>
Total Net Assets	<u>\$ 5,538,326</u>	<u>\$ 5,459,652</u>

Statement of Activities including Change in Net Assets:

The *Statement of Activities* lists the major areas and sub-areas of services provided by the WCHO: Mental Health, Substance Abuse and Physical Health.

Physical Health is a growth area for the organization. Currently, funding is from grants and contracts which focus on enrollment and access activities. During the 2006/2007 fiscal year, six integrated health clinics, opened since 2004, continued in operation, thereby enabling consumers to receive both their physical health care and mental health care at a single location. Other activities include the partnership with University of Michigan's Department of Health to coordinate all health care of shared populations through its Medical Management program. With our development of a shared database, reports showing all services provided to a single consumer now provide management and care provider's comprehensive information for improving quality of care and controlling costs.

WCHO's largest revenue source is its contract with Michigan Department of Community Health. The contract includes both Medicaid and General Funds, with the largest revenue source being Medicaid funding through special waiver provisions granted by the Federal Centers for Medicare and Medicaid Services. Other revenue sources include, Federal Block Grants, local funding from Washtenaw County, the Washtenaw Health Plan, the City of Ann Arbor and grant funding from various grantors.

During the fiscal year ended 09/30/07 net assets of the organization increased by a total of \$78,674 resulting in total net assets of \$5,538,326. This increase in net assets was due to local revenues earned exceeding local expenditures incurred.

Revenue	09/30/07	09/30/06
Charges for services	\$ 1,942,260	\$ 2,829,357
Operating grants and contributions	6,172,833	5,847,792
General Revenue:		
Medicaid - MH & DD	82,802,670	82,383,844
Medicaid - Substance abuse	857,205	715,985
Medicaid - fee for service	950,180	923,085
Adult benefit waiver	834,823	560,533
State General Funds	9,380,349	9,373,050
Local revenue	3,890,596	3,460,760
Unrestricted investment earnings	<u>865,493</u>	<u>905,352</u>
Total Revenue	\$ 107,696,409	\$ 106,999,758
Expenses		
Administration	\$ 10,625,252	\$ 9,871,521
Mental Health Services	90,519,847	91,462,585
Substance Abuse Services	5,676,476	5,515,613
Physical Health Services	789,855	794,505
Interest expense	<u>6,305</u>	<u>7,618</u>
Total Expenses	\$ 107,617,735	\$ 107,651,842
Change in net assets	\$ 78,674	\$ (652,084)
Net assets, beginning of year	<u>5,459,652</u>	<u>6,111,736</u>
Net assets, end of year	<u>\$ 5,538,326</u>	<u>\$ 5,459,652</u>

The total amount of the net assets (fund balance) at September 30, 2007 is 5.1% of fiscal year 2007 expenditures for Mental Health and Substance Abuse services. Accounting Best Practice recommends a fund balance of two to three months of operating expenditures. While not yet at that level, it does provide some financial protection against future funding shortages.

Factors Impacting the Future:

The budget for any particular fiscal year is developed several months prior to notification of funding levels. The WCHO Board reviews and approves a budget in September for the fiscal year beginning October 1. Development of the annual budget begins in June, four months prior to its implementation.

Funding levels from the state are often not determined until after the start of the fiscal year. Furthermore, funding is often subject to change during the course of the fiscal year. Such uncertainty increases the complexity of managing budgeted expenditures. In addition, Medicaid, the organization's largest funding source, fluctuates with the changing number of Medicaid eligibles, as well as, the state's criteria for Medicaid eligibility.

Uncertain funding, as indicated above, results in impacts on the level of spending approved by management. Continued improvements in our data collection system and increased monitoring of data integrity have favorably impacted Management's ability to make evidenced-based decisions regarding service capacity and service delivery.

The greatest impact to the organization's future standing is its contract with the Michigan Department of Community Health. Funding levels from the state are greatly affected by the condition of the Michigan economy, potential Executive Order reductions issued by the Governor and the approval of waiver provisions by the Centers for Medicare and Medicaid Services. The State also rebases revenue rates periodically based on prior years' encounter data and the level of available state funds.

Medicaid funding is dependent on the number of persons that meet Medicaid criteria as well as the rates assigned by the State for the various population, gender, and age categories. Over the past few years, the number of Medicaid eligibles has fluctuated significantly. The average monthly number of Medicaid eligibles was 48,426 during fiscal year 2001/2002; 60,930 during fiscal year 2002/2003; 57,563 during fiscal year 2003/2004, 53,888 during fiscal year 2004/2005, 56,534 during fiscal year 2005/2006 and 59,290 fiscal year 2007. During fiscal year 2006/2007, the average monthly number of eligibles ranged from 57,689 to 60,860. A reduction in the Medicaid population, however, may not impact the number of persons eligible to receive our services. Therefore, the rate paid per Medicaid eligible to the WCHO is critical in maintaining our ability to provide medically necessary services.

One further restriction challenging our ability to manage medically necessary services is the inability to interchange funds among consumer groups. Thus, Medicaid funding may not be utilized for services to non-Medicaid consumers. Also, there is the further restriction against interchanging funds between the various Medicaid waivers.

A final challenge as a Region is the difficulty in reassigning General Fund dollars across the region as we can with Medicaid funds. Presently, only the State may approve any transfer of General Funds between Counties. Unless this changes, we run the risk of having a two-tiered benefit package, one for Medicaid consumers and one for Indigent consumers. This occurrence is one that our Board would prefer does not happen.

Requests for Information

This financial report is designed to provide a general overview of the finances of the Washtenaw Community Health Organization, also doing business as The Partnership of Southeast Michigan. Questions concerning this information may be directed to Steve Holda, Deputy Finance Director, Washtenaw Community Health Organization, 555 Towner, P.O. Box 915, Ypsilanti, Michigan 48197-0915.

BASIC FINANCIAL STATEMENTS

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**

**Statement of Net Assets
September 30, 2007**

	<u>Enterprise Funds</u>			Total Business-type Activities
	<u>Mental Health</u>	<u>Substance Abuse Coordinating Agency</u>	<u>Eliminations</u>	
Assets				
Current assets:				
Cash and cash equivalents	\$ 9,753,332	\$ 1,931,182	\$ -	\$ 11,684,514
Receivables:				
Due from the Michigan Department of Community Health	772,111	-	-	772,111
Due from other agencies and governments	1,697,714	23,758	-	1,721,472
Due from other funds	292,349	553,129	(845,478)	-
Prepays	27,488	-	-	27,488
Total current assets	<u>12,542,994</u>	<u>2,508,069</u>	<u>(845,478)</u>	<u>14,205,585</u>
Non-current assets:				
Operating advances to other agencies	1,208,467	-	-	1,208,467
Capital assets not being depreciated	256,219	-	-	256,219
Capital assets being depreciated, net	675,958	-	-	675,958
Total non-current assets	<u>2,140,644</u>	<u>-</u>	<u>-</u>	<u>2,140,644</u>
 Total assets	 <u>14,683,638</u>	 <u>2,508,069</u>	 <u>(845,478)</u>	 <u>16,346,229</u>
Liabilities				
Current liabilities:				
Accounts payable	4,366,803	373,648	-	4,740,451
Accrued payroll	218,164	21,651	-	239,815
Due to the Michigan Department of Community Health	637,116	33,496	-	670,612
Due to other agencies and governments	2,647,808	597,804	-	3,245,612
Due to other funds	553,129	292,349	(845,478)	-
Unearned revenue	514,139	1,189,121	-	1,703,260
Current portion of long-term debt	54,148	-	-	54,148
Total current liabilities	<u>8,991,307</u>	<u>2,508,069</u>	<u>(845,478)</u>	<u>10,653,898</u>
Non-current liabilities:				
Long-term debt, net of current portion	154,005	-	-	154,005
 Total liabilities	 <u>9,145,312</u>	 <u>2,508,069</u>	 <u>(845,478)</u>	 <u>10,807,903</u>
Net assets				
Invested in capital assets, net of related debt	724,024	-	-	724,024
Unrestricted	4,814,302	-	-	4,814,302
 Total net assets	 <u>\$ 5,538,326</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 5,538,326</u>

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

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Revenue, Expenses, and Changes in Fund Net Assets
For the Year Ended September 30, 2007

	<u>Enterprise Funds</u>		<u>Total Business-type Activities</u>
	<u>Mental Health</u>	<u>Substance Abuse Coordinating Agency</u>	
Operating revenue			
Medicaid	\$ 82,802,670	\$ 857,205	\$ 83,659,875
Medicaid fee for service	950,180	-	950,180
State general fund indigent	9,380,349	-	9,380,349
Adult benefit waiver	791,540	43,283	834,823
Earned revenues, grants and federal programs	2,198,829	3,974,004	6,172,833
Charges for services	1,925,634	16,626	1,942,260
Local revenue:			
Community appropriations	1,633,576	-	1,633,576
Physical health revenue	642,747	-	642,747
Other local revenue	1,277,474	336,799	1,614,273
	<u>101,602,999</u>	<u>5,227,917</u>	<u>106,830,916</u>
Operating expenses			
Mental health services:			
Board administration	10,625,252	-	10,625,252
Access and care management	1,882,124	-	1,882,124
Comprehensive support and services	64,629,201	-	64,629,201
Residential and supported living	14,586,435	-	14,586,435
Inpatient services	6,635,189	-	6,635,189
Grants and contracts	1,069,615	-	1,069,615
Special projects	1,717,283	-	1,717,283
Physical health services:			
Health plan enrollment	444,644	-	444,644
Grants and contracts	345,211	-	345,211
Substance abuse services:			
Board administration	-	425,122	425,122
Access	-	268,401	268,401
Prevention	-	973,793	973,793
Treatment	324,827	2,522,645	2,847,472
Local projects	-	1,161,688	1,161,688
	<u>102,259,781</u>	<u>5,351,649</u>	<u>107,611,430</u>
Operating loss	<u>(656,782)</u>	<u>(123,732)</u>	<u>(780,514)</u>

continued...

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Revenue, Expenses, and Changes in Fund Net Assets (Concluded)
For the Year Ended September 30, 2007

	<u>Enterprise Funds</u>		<u>Total Business-type Activities</u>
	<u>Mental Health</u>	<u>Substance Abuse Coordinating Agency</u>	
Non-operating revenue (expense)			
Interest revenue	\$ 741,761	\$ 123,732	\$ 865,493
Interest expense	(6,305)	-	(6,305)
	<u>735,456</u>	<u>123,732</u>	<u>859,188</u>
Total non-operating revenue			
Change in net assets	78,674	-	78,674
Net assets, beginning of year	<u>5,459,652</u>	<u>-</u>	<u>5,459,652</u>
Net assets, end of year	<u><u>\$ 5,538,326</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,538,326</u></u>

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

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Cash Flows
For the Year Ended September 30, 2007

	Enterprise Funds		
	Mental Health	Substance Abuse Coordinating Agency	Total
Cash flows from operating activities			
Cash received from customers and contracts	\$ 103,100,281	\$ 4,706,045	\$ 107,806,326
Cash payments to suppliers for goods and services	(101,268,144)	(4,468,074)	(105,736,218)
Cash payments to employees for services	(3,902,808)	(394,682)	(4,297,490)
Cash received from interfund payments	1,378,504	75,402	1,453,906
Net cash used in operating activities	<u>(692,167)</u>	<u>(81,309)</u>	<u>(773,476)</u>
Cash flows from capital and related financing activities			
Principal payments	(44,582)	-	(44,582)
Interest payments	(6,305)	-	(6,305)
Net cash (used) by capital and related financing activities	<u>(50,887)</u>	<u>-</u>	<u>(50,887)</u>
Cash flows from investing activities			
Interest received	741,761	123,732	865,493
Increase (decrease) in cash and cash equivalents	(1,293)	42,423	41,130
Cash and cash equivalents, beginning of year	<u>9,754,625</u>	<u>1,888,759</u>	<u>11,643,384</u>
Cash and cash equivalents, end of year	<u><u>\$ 9,753,332</u></u>	<u><u>\$ 1,931,182</u></u>	<u><u>\$ 11,684,514</u></u>

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION
Statement of Cash Flows (Concluded)
For the Year Ended September 30, 2007**

	Enterprise Funds		
	Mental Health	Substance Abuse Coordinating Agency	Total
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$ (656,782)	\$ (123,732)	\$ (780,514)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense	39,236	-	39,236
Changes in assets and liabilities:			
Due from the Michigan Department of Community Health	(100,366)	-	(100,366)
Due from other agencies and governments	349,213	5,257	354,470
Due from other funds	1,248,435	(527,129)	721,306
Prepays	186,448	450	186,898
Operating advances to other agencies	(157,127)	-	(157,127)
Accounts payable	1,019,709	(100,145)	919,564
Accrued payroll	12,832	(1,780)	11,052
Due to the Michigan Department of Community Health	(2,001,128)	(15,122)	(2,016,250)
Due to other agencies and governments	(968,412)	509,196	(459,216)
Due to other funds	527,129	205,471	732,600
Unearned revenue	(191,354)	(33,775)	(225,129)
Net cash used in operating activities	<u>\$ (692,167)</u>	<u>\$ (81,309)</u>	<u>\$ (773,476)</u>

Non-Cash Transactions:

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

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

NOTES to the FINANCIAL STATEMENTS

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Washtenaw Community Health Organization (“WCHO” or the “Organization”) is a governmental entity created pursuant to an agreement between Washtenaw County (the “County”) and the University of Michigan (the “University”), as authorized by Public Act 7 of 1967 (the “Urban Cooperation Act”), providing services generally in the areas of mental health, comprehensive substance abuse treatment, and developmental disabilities for the Washtenaw County region. The Organization’s activities are funded through federal grants, state allocations, premium revenue, county appropriations, service fees, and local gifts and grants. WCHO is governed by a 12-member board appointed by the County and the University. WCHO is not considered a component unit of any other government according to the provisions of GASB Statement No. 14.

B. Government-Wide and Fund Financial Statements

As permitted by GASB Statement No. 34, WCHO uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets – Proprietary Funds and the Statement of Activities and Proprietary Fund Revenues, Expenses and Changes in Fund Net Assets. WCHO’s only major funds are reported as separate columns in the aforementioned financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The operations of the Organization are accounted for in two enterprise funds (proprietary fund type) which are designed to be self-supporting. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

The Organization reports the following major enterprise funds:

The *mental health fund* is the general operating fund of the Organization. It is used to account for all financial resources except those required to be accounted for in another fund.

The *substance abuse coordinating agency fund* is used to account for the operations of the Organization's substance abuse prevention and treatment services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Organization has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of WCHO's operating funds are contract revenues from MDCH, community appropriations, and first and third party billings. Operating expenses include the cost of providing mental health and substance abuse services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Equity

1. Deposits and Investments

WCHO's cash and cash equivalents consist of amounts on deposit with the Washtenaw County Treasurer.

State statutes authorize units of local government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. Interfund Receivables/Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

3. *Prepayments*

Payments made to vendors for services that will benefit periods beyond September 30, 2007, if any, are recorded as “prepaids” in the statement of net assets.

4. *Capital Assets*

Capital assets are capitalized and reported in the mental health fund, net of accumulated depreciation. The government defines capital assets as assets with an initial individual cost of at least \$5,000 and an estimated useful life of at least three years. Capital assets are depreciated on the straight-line basis over the estimated useful lives of those assets, which range from five to forty years. All purchased capital assets are recorded at cost where historical records are available and at estimated historical costs where no historical records exist.

Donated capital assets, if any, are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized.

5. *Compensated Absences*

WCHO leases all of its employees from Washtenaw County, and reimburses the County for the costs of fringe benefits provided. Accordingly, compensated absences are charged to operations when earned by employees. Any unused vacation benefits are the responsibility of the County, and are not recognized as a liability by WCHO.

6. *Unearned Revenue*

Unearned revenue represents that portion of the current-year MDCH contract amount that may be carried-over to and expended in subsequent fiscal years. Such carryover is generally limited to a percentage of the MDCH contract amount (7.5% for Medicaid and 5% for general fund), and may be categorized as either Medicaid saving, or state general fund carry-forwards.

Medicaid savings retain their character under the contract with MDCH, and may be spent in the next fiscal year in accordance with a Medicaid Reinvestment Strategy. State general funds carried over must generally be spent the following year.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

While it is authorized to deposit or invest in any accounts or institutions as permitted by State statutes, WCHO has chosen to participate in Washtenaw County's investment pool, which is managed by the County Treasurer. These funds are deposited in the Treasurer's pooled accounts, and are deposited by and in the name of the County Treasurer. Other County funds are also deposited in those accounts and, as such, because of the complexities of FDIC Regulation #330.8, it is not possible to readily determine the amount of insurance that would be allocated to WCHO's deposits.

B. Due from/to Michigan Department of Community Health

For the year ended September 30, 2007, the operations of the Organization were conducted under the terms and conditions of a managed specialty supports and services contract (the "Contract") with the Michigan Department of Community Health (MDCH). Among other provisions of this contract, the Organization has the authority to determine the nature and extent of institutional care, if any, to be provided to its clients. Thereunder, funds are advanced by the State in order for the Organization to pay for the costs of such institutional care, which is primarily procured from certain State institutions, as well as community hospitals.

Amounts due from the MDCH at September 30, 2007, are summarized as follows:

	<u>Mental Health</u>	<u>Substance Abuse Coordinating Agency</u>	<u>Total</u>
Medicaid Managed Care Capitation	\$ 590,724	\$ -	\$ 590,724
Other grants passed through MDCH	<u>181,387</u>	<u>-</u>	<u>181,387</u>
	<u>\$ 772,111</u>	<u>\$ -</u>	<u>\$ 772,111</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

Amounts due to the MDCH at September 30, 2007, are summarized as follows:

	<u>Mental Health</u>	Substance Abuse Coordinating <u>Agency</u>	<u>Total</u>
Institutional care services	\$ 485,255	\$ -	\$ 485,255
Cost settlement payable	<u>151,861</u>	<u>33,496</u>	<u>185,357</u>
	<u>\$ 637,116</u>	<u>\$ 33,496</u>	<u>\$ 670,612</u>

C. Due from Other Agencies and Governments

Receivables for service charges to first and third-party payors consisted of the following at September 30, 2007:

	<u>Mental Health</u>	Substance Abuse Coordinating <u>Agency</u>	<u>Total</u>
Due from:			
Other governments	\$ 487,363	\$ -	\$ 487,363
Hospitals	8,750	-	8,750
Other agencies	<u>1,201,601</u>	<u>23,758</u>	<u>1,225,359</u>
	<u>\$1,697,714</u>	<u>\$ 23,758</u>	<u>\$1,721,472</u>

D. Operating Advances to Other Agencies

Operating advances to other agencies consist primarily of advances made to providers for cash flow purposes.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

E. Due to Other Agencies and Governments

Payables to other agencies and governments consisted of the following at September 30, 2007:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Due to:			
Other governments	\$ 730,088	\$ 310,781	\$1,040,869
Hospitals	1,441,555	-	1,441,555
Other agencies	<u>476,165</u>	<u>287,023</u>	<u>763,188</u>
	<u>\$2,647,808</u>	<u>\$ 597,804</u>	<u>\$3,245,612</u>

F. Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 256,219	\$ -	\$ -	\$ 256,219
Capital assets being depreciated:				
Buildings and improvements	785,570	-	-	785,570
Less accumulated depreciation for:				
Buildings and improvements	<u>70,376</u>	<u>39,236</u>	<u>-</u>	<u>109,612</u>
Total capital assets being depreciated, net	<u>715,194</u>	<u>(39,236)</u>	<u>-</u>	<u>675,958</u>
Total capital assets, net	<u>\$ 971,413</u>	<u>\$ (39,236)</u>	<u>\$ -</u>	<u>\$ 932,177</u>

During the year ended September 30, 2007, WCHO recorded depreciation expense of \$39,236, which was charged entirely to the residential and supported living program.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

G. Long-term Debt

Loan Payable. During the year ended September 30, 2004, WCHO received a loan from Washtenaw County to provide funds for the acquisition and construction of residential group homes. The loan was structured as a “recoverable grant” with terms similar to a 7-year mortgage with interest at 2.735% and varying amounts of principal maturing each year. Future minimum payments on the loan are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 54,148	\$ 4,957	\$ 59,105
2009	51,425	3,571	54,996
2010	52,850	2,146	54,996
2011	<u>49,730</u>	<u>683</u>	<u>50,413</u>
Total	<u>\$ 208,153</u>	<u>\$ 11,357</u>	<u>\$ 219,510</u>

Following is a schedule of changes in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loan payable	<u>\$ 252,735</u>	<u>\$ -</u>	<u>\$ 44,582</u>	<u>\$ 208,153</u>	<u>\$ 54,148</u>

H. Interfund Receivables and Payables

The Organization has the following interfund receivables and payables:

	<u>Due from</u>		
	<u>Substance Abuse Coordinating Agency</u>		<u>Total</u>
	<u>Mental Health</u>		
Due to:			
Enterprise funds:			
Mental health	\$ -	\$ 292,349	\$ 292,349
Substance abuse	<u>553,129</u>	<u>-</u>	<u>553,129</u>
Total	<u>\$ 553,129</u>	<u>\$ 292,349</u>	<u>\$ 845,478</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

III. OTHER INFORMATION

A. Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The Organization manages its risk exposures through commercial insurance. On risks which are commercially insured, settlements have not exceeded insurance coverage in any of the past three years.

B. MDCH Revenue and Economic Dependency

The Organization provides mental health services on behalf of the Michigan Department of Community Health (MDCH) in accordance with a managed specialty supports and services contract (the “contract”). Under the contract, the Organization receives monthly capitation payments based on the number of the MDCH’s participants, regardless of services actually performed by the Organization. In addition, the MDCH makes fee-for-service payments to the Organization for certain covered services.

Revenues paid either directly or indirectly by the MDCH represent over 90% of the Organization’s total revenues and, therefore, the Organization is economically dependent on the revenues from MDCH.

C. Use of Estimates

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

D. Related Party Transactions

As indicated previously, WCHO was created as a joint venture between Washtenaw County and the University of Michigan. As part of the agreement that created WCHO, the Organization leases its workforce from Washtenaw County. These employees were, for the most part, formerly employed by the Washtenaw County Community Mental Health Fund.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

Employee compensation, including fringe benefits and retirement plans, are provided by Washtenaw County, and billed to WCHO. Leased employee costs paid to Washtenaw County amounted to \$6,156,279 for the year.

In addition, WCHO paid the County \$282,379 for central services during the year.

* * * * *

INDIVIDUAL FUND FINANCIAL SCHEDULES

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Schedule of Program Expenses
Mental Health Enterprise Fund
For the Year Ended September 30, 2007

	Mental Health Services				
	Board Administration	Access and Care Management	Comprehensive Services and Support	Residential and Supported Living	Inpatient Services
Expenses					
Personnel	\$ 3,492,436	\$ 1,795,595	\$ -	\$ -	\$ -
State inpatient	-	-	-	-	2,430,142
Local inpatient	-	-	-	-	491,728
Community inpatient	-	-	-	-	3,713,319
Client expenses	-	3,576	321,310	-	-
Contracts	1,630,502	52,080	63,072,131	13,820,915	-
Cost allocation	250,673	-	-	-	-
Operations	5,251,641	30,873	1,235,760	765,520	-
Total expenses	\$ 10,625,252	\$ 1,882,124	\$ 64,629,201	\$ 14,586,435	\$ 6,635,189

		Physician Health Services		Substance Abuse Services	
Grants and Contracts	Special Projects	Health Plan Enrollment	Grants and Contracts	Treatment	Total
\$ 17,030	\$ 5,192	\$ 263,753	\$ 54,953	\$ -	\$ 5,628,959
-	-	-	-	-	2,430,142
-	-	-	-	-	491,728
-	-	-	-	-	3,713,319
-	-	-	-	-	324,886
1,052,585	1,442,973	92,461	286,541	324,827	81,775,015
-	-	31,706	-	-	282,379
-	269,118	56,724	3,717	-	7,613,353
\$ 1,069,615	\$ 1,717,283	\$ 444,644	\$ 345,211	\$ 324,827	\$ 102,259,781

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Schedule of Program Expenses
Substance Abuse Coordinating Agency Enterprise Fund
For the Year Ended September 30, 2007

	Substance Abuse Services			
	Board Administration	Access	Prevention	Treatment
Expenses				
Personnel	\$ 322,240	\$ 232,264	\$ -	\$ -
Contracts	84,631	28,931	-	-
Operations	18,251	7,206	973,793	2,522,645
Total expenses	\$ 425,122	\$ 268,401	\$ 973,793	\$ 2,522,645

Local	
Projects	Total
\$ 7,816	\$ 562,320
32,133	145,695
1,121,739	4,643,634
<hr/>	
\$ 1,161,688	\$ 5,351,649

SINGLE AUDIT SECTION



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

 an independent member of
BAKER TILLY
INTERNATIONAL

**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**

May 16, 2008

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

We have audited the financial statements of the business-type activities and each major fund of *Washtenaw Community Health Organization*, as of and for the year ended September 30, 2007, which collectively comprise the *Washtenaw Community Health Organization's* basic financial statements, and have issued our report thereon dated May 16, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures 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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the accompanying schedule of findings and questioned costs, we consider item 2007-2 to be a material weakness.

Compliance and Other Matters

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

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

May 16, 2008

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

Compliance

We have audited the compliance of *Washtenaw Community Health Organization* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

As described in item 2007-3 in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding allowable costs / cost principles that are applicable to its Medical Assistance Program major federal program. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Organization's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-3 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 2007-3 to be a material weakness.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, the governing body, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

Washtenaw Community Health Organization
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2007

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services		
Passed through Michigan Department of Community Health:		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	\$ 134,825
Substance Abuse and Mental Health Services Grant - SIG Grant	93.243	40,685
Medical Assistance Program - OBRA - PASSAR	93.778	358,024
Community Mental Health Services Block Grant:		
Family Psychoeducation	93.958	58,585
Jail Diversion	93.958	56,250
Integrated Home Based Services	93.958	49,015
Youth Aging Out of Foster Care	93.958	66,430
Modular Web Based	93.958	27,734
Cognitive Impairment Training -- Difficult Behaviors	93.958	40,812
		<u>298,826</u>
Substance Abuse Prevention and Treatment Block Grant:		
Prevention	93.959	440,751
Community Grant	93.959	1,536,926
		<u>1,977,677</u>
Passed through the University of Michigan:		
Medical Assistance Program - Medicaid Match	93.778	496,207
Total expenditures of federal awards		<u>\$ 3,306,244</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Washtenaw Community Health Organization and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. SUBRECIPIENTS

Of the Federal expenditures presented in the schedule, Washtenaw Community Health Organization provided federal awards to subrecipients, as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Projects for Assistance in Transition From Homelessness (PATH)	93.150	\$ 134,825
Medical Assistance Program	93.778	358,024
Community Mental Health Services Block Grant	93.958	240,241
Substance Abuse Prevention and Treatment Block Grant	93.959	1,573,174
Substance Abuse Prevention and Treatment Block Grant SIG grant	93.243	40,685

* * * * *

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiencies identified
not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements
noted? yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? X yes no

Significant deficiencies identified
not considered to be material weaknesses? yes X none reported

Type of auditors' report issued on compliance
for major programs: Qualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? X yes no

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.778	Medical Assistance Programs
93.958	Community Mental Health Services Block Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

2007-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting fund financial statements including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many similar-sized entities, the Authority has historically relied on its independent external auditors to assist in preparing the financial statements and footnotes as part of its external financial reporting process.

Cause: This condition was caused by the Authority's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2007

2007-1 Preparation of Financial Statements in Accordance with GAAP (Concluded)

Effect: As a result of this condition, the Authority lacks internal controls over the preparation of its financial statements in accordance with GAAP, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible

Officials: WCHO Management is in agreement with this finding as it does not reflect any degradation, shortcoming or change in the accounting policies and practices of the organization. Rather, it reflects a change in the Government Audit Standards that would be prohibitively expensive to comply with. It has been deemed more cost efficient to utilize the services of the WCHO's external auditors rather than hire a qualified individual to satisfy this standard. Options will be investigated in the future to see if a cost effective solution exists to have the books of the WCHO reviewed by a third party to avoid the issuance of this finding.

2007-2 Material Audit Adjustment to Accrued Liabilities

Criteria: All significant asset and liability accounts should be reconciled to detailed schedules on a periodic basis. The reconciliations should also be reviewed for accuracy to ensure that balances are properly stated.

Condition: The detailed schedule that is maintained for accrued liabilities in the Substance Abuse Fund was determined to be inaccurate during audit procedures performed. It was noted that many invoices included on the detailed schedule had actually been paid prior to year end.

Cause: This condition resulted from the lack of proper review of the supporting schedule combined with the fact that the schedule is only updated at the end of each fiscal year.

Effect: As a result, an audit adjustment of approximately \$96,000 was necessary to properly state accrued liabilities and expenses.

Recommendation: We recommend that the Authority perform periodic reconciliations of the accrued liability detail to ensure that accurate balances are maintained throughout the fiscal year. In addition, we recommend that the reconciliations be reviewed by an individual knowledgeable of the expected activity for the accounts.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2007

2007-2 Material Audit Adjustment to Accrued Liabilities (Concluded)

View of Responsible

Officials:

WCHO Management is in agreement with this finding. The condition described by the finding was corrected upon discovery so that the FY 2007 financial statements were stated correctly. This problem will not repeat itself due to new accounting procedures that have been put into place. All invoices that are received after the close of accounts payable are detailed in an EXCEL spreadsheet and accrued prior to the month-end close. An auto-reverse journal entry backs this amount out of the subsequent month. This process is repeated on a monthly basis and the detail is reconciled to the JDE account for accrued liabilities, also completed on a monthly basis.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2007-3 Insufficient Documentation of Payroll Expenses

Program: CFDA #93.778 – Medical Assistance Program – Passed through the University of Michigan

Compliance

Requirement: Allowable Costs/Cost Principles

Criteria: The Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports, except when a substitute system has been approved by the cognizant Federal agency. The Circular requires these reports be prepared at least monthly and must coincide with one or more pay periods. For employees charged entirely to one federal program, the use of semiannual certifications is also permissible.

Condition: During the year ended September 30, 2007, payroll charges to the Medical Assistance Program were supported by personnel activity reports which were based on budgeted, not actual hours, did not coincide with one or more pay periods, and were not signed by the employee or a supervisor.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2007

2007-3 Insufficient Documentation of Payroll Expenses (Concluded)

Cause: The root cause of the noncompliance was the loss of personnel that were not immediately replaced which resulted in excessive workloads. Because of the increased workloads, budgeted hours were used instead of actual hours to develop the Medical Assistance Program charges and the budgeted hours were not adjusted to actual hours by year-end.

Effect: The Authority is not in compliance with the payroll documentation guidelines established in OMB Circular A-87.

Recommendation: We recommend that the Authority establish procedures to ensure that all payroll costs are properly documented in accordance with OMB A-87. Employees should track on their timesheets the number of hours spent working for each federal program. The timesheets should be signed by the employee and a supervisor who had direct knowledge of the employee's work schedule. Using the information from the timesheets, salaries and wages could be allocated to the various federal programs and tracked through the accounting system. For employees charged entirely to one cost center, payroll certifications should be prepared and signed on a semiannual basis.

View of Responsible

Officials: WCHO Management is in agreement with this finding. The auditor's recommendations will be followed and procedures will be established to ensure that employees track their actual hours worked on all Federal Programs, and that their timesheets coincide with pay periods and are signed by the employee and their supervisor on a monthly basis.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

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