



**washtenaw community
health organization**

**Financial Statements
And
Supplementary Information**

For the Year Ended September 30, 2008



WASHTENAW COMMUNITY HEALTH ORGANIZATION

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INDEPENDENT AUDITORS' REPORT

April 21, 2009

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

We have audited the accompanying financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the ***Washtenaw Community Health Organization*** as of and for the year ended September 30, 2008, 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, each major fund and the aggregate remaining fund information of the Washtenaw Community Health Organization as of September 30, 2008, 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 April 21, 2009, 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 cursive script that reads "Lehmann Johnson".

MANAGEMENT'S DISCUSSION and ANALYSIS

WASHTENAW COMMUNITY HEALTH ORGANIZATION
Management's Discussion and Analysis
Fiscal Year October 1, 2007 – September 30, 2008

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, 2008 completes WCHO's sixth 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 \$92,162,527 for the Mental Health population and from \$553,549 to \$767,482 for the Substance Abuse population served by the WCHO Coordinating Agency.

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. In addition, the WCHO has a non-major fund (WCHO Consulting) and an Internal Service Fund. 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 Washenaw County, was incurred in August 2004 in anticipation of acquiring the four homes. The balance of this loan at September 30, 2008 was \$154,005. 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, 2007 and ending September 30, 2008. Operations during this period resulted in an increase in net assets of \$269,173. 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 \$16,411,510 at September 30, 2008. Total Liabilities are \$10,604,011 at September 30, 2008. Total net assets (fund balance) are \$5,807,499 at September 30, 2008. Total net assets at September 30, 2007 were \$5,538,326.

Assets	<u>09/30/08</u>	<u>09/30/07</u>
Cash and cash equivalents	\$ 9,067,890	\$ 11,684,514
Receivables & prepayments	5,418,381	3,729,538
Other assets	-	-
Capital assets	<u>1,925,239</u>	<u>932,177</u>
Total Assets	<u>\$ 16,411,510</u>	<u>\$ 16,346,229</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 8,860,273	\$ 8,896,490
Unearned revenue	1,589,733	1,703,260
Long-term debt		
Due within one year	51,425	54,148
Due in more than one year	<u>102,580</u>	<u>154,005</u>
Total Liabilities	<u>\$ 10,604,011</u>	<u>\$ 10,807,903</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 1,771,234	\$ 724,024
Unrestricted	<u>4,036,265</u>	<u>4,814,302</u>
Total Net Assets	<u>\$ 5,807,499</u>	<u>\$ 5,538,326</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 2007/2008 fiscal year, six integrated health clinics open 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 City of Ann Arbor and grant funding from various grantor agencies.

During the fiscal year ended September 30, 2008 net assets of the organization increased by a total of \$269,173 resulting in total net assets of \$5,807,499. This increase in net assets was due primarily to Medicaid revenues exceeding Medicaid expenditures incurred, and was used to establish an Internal Service Fund (Mental Health Risk Reserve) in the amount of \$216,783.

Revenue	09/30/08	09/30/07
Charges for services	\$ 2,365,979	\$ 1,942,260
Operating grants and contributions	6,444,942	6,172,833
Medicaid - MH & DD	92,162,527	82,802,670
Medicaid - Substance abuse	767,482	857,205
Medicaid - fee for service	1,222,341	950,180
Adult benefit waiver	642,652	834,823
State General Funds	9,536,841	9,380,349
Local revenue	3,154,912	3,890,596
Unrestricted investment earnings	538,932	865,493
Capital Contributions	572,967	-
Total Revenue	\$ 117,409,575	\$ 107,696,409
Expenses		
Administration	\$ 11,344,835	\$ 10,625,252
Mental Health Services	99,417,857	90,519,847
Substance Abuse Services	6,007,428	5,676,476
Physical Health Services	365,325	789,855
Interest expense	4,957	6,305
Total Expenses	\$ 117,140,402	\$ 107,617,735
Change in net assets	\$ 269,173	\$ 78,674
Net assets, beginning of year	<u>5,538,326</u>	<u>5,459,652</u>
Net assets, end of year	<u>\$ 5,807,499</u>	<u>\$ 5,538,326</u>

The total amount of the net assets (fund balance) at September 30, 2008 is 5.0% of fiscal year 2008 operating 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 May, five 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 wavier 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, 59,290 during fiscal year 2006/2007 and 60,376 during fiscal year 2007/2008. During fiscal year 2007/2008, the monthly number of eligibles ranged from 58,312 to 61,695. 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, 2008

	<u>Enterprise Funds</u>			<u>Internal</u>	<u>Eliminations</u>	<u>Total</u>
	<u>Mental</u>	<u>Substance</u>	<u>Nonmajor</u>	<u>Service Fund</u>		
	<u>Health</u>	<u>Abuse</u>	<u>WCHO</u>	<u>Mental</u>		<u>Business-type</u>
		<u>Coordinating</u>	<u>Consulting</u>	<u>Health Risk</u>		<u>Activities</u>
		<u>Agency</u>		<u>Reserve</u>		
Assets						
Current assets:						
Cash and cash equivalents	\$ 7,131,397	\$ 1,936,493	\$ -	\$ -	\$ -	\$ 9,067,890
Receivables:						
Due from the Michigan Department of Community Health	461,635	-	-	-	-	461,635
Due from other agencies and governments	3,127,194	503,344	18,442	-	-	3,648,980
Due from other funds	361,672	253,889	17,894	216,783	(850,238)	-
Prepays	92,618	-	-	-	-	92,618
Total current assets	<u>11,174,516</u>	<u>2,693,726</u>	<u>36,336</u>	<u>216,783</u>	<u>(850,238)</u>	<u>13,271,123</u>
Non-current assets:						
Operating advances to other agencies	1,215,148	-	-	-	-	1,215,148
Capital assets not being depreciated	567,413	-	-	-	-	567,413
Capital assets being depreciated, net	1,357,826	-	-	-	-	1,357,826
Total non-current assets	<u>3,140,387</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,140,387</u>
Total assets	<u>14,314,903</u>	<u>2,693,726</u>	<u>36,336</u>	<u>216,783</u>	<u>(850,238)</u>	<u>16,411,510</u>
Liabilities						
Current liabilities:						
Accounts payable	4,149,806	435,749	1,933	-	-	4,587,488
Accrued payroll	235,705	23,034	-	-	-	258,739
Due to the Michigan Department of Community Health	687,452	-	-	-	-	687,452
Due to other agencies and governments	2,853,581	472,174	839	-	-	3,326,594
Due to other funds	488,566	328,108	33,564	-	(850,238)	-
Unearned revenue	155,072	1,434,661	-	-	-	1,589,733
Current portion of long-term debt	51,425	-	-	-	-	51,425
Total current liabilities	<u>8,621,607</u>	<u>2,693,726</u>	<u>36,336</u>	<u>-</u>	<u>(850,238)</u>	<u>10,501,431</u>
Non-current liabilities:						
Long-term debt, net of current portion	102,580	-	-	-	-	102,580
Total liabilities	<u>8,724,187</u>	<u>2,693,726</u>	<u>36,336</u>	<u>-</u>	<u>(850,238)</u>	<u>10,604,011</u>
Net assets						
Invested in capital assets, net of related debt	1,771,234	-	-	-	-	1,771,234
Unrestricted	3,819,482	-	-	216,783	-	4,036,265
Total net assets	<u>\$ 5,590,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216,783</u>	<u>\$ -</u>	<u>\$ 5,807,499</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, 2008

	<u>Enterprise Funds</u>			<u>Internal</u>	<u>Eliminations</u>	<u>Total</u>
	<u>Mental</u>	<u>Substance</u>	<u>Nonmajor</u>	<u>Service Fund</u>		
	<u>Health</u>	<u>Abuse</u>	<u>WCHO</u>	<u>Mental</u>		<u>Business-type</u>
	<u>Agency</u>	<u>Coordinating</u>	<u>Consulting</u>	<u>Health Risk</u>		<u>Activities</u>
				<u>Reserve</u>		
Operating revenue						
Medicaid - mental health	\$ 91,642,010	\$ -	\$ -	\$ -	\$ -	\$ 91,642,010
Medicaid - substance abuse	1,287,999	767,482	-	-	(767,482)	1,287,999
Medicaid fee for service	1,222,341	-	-	-	-	1,222,341
State general fund indigent	9,536,841	-	-	-	-	9,536,841
Adult benefit waiver	602,053	40,599	-	-	-	642,652
Earned revenues, grants and federal programs	2,093,266	4,251,737	99,939	-	-	6,444,942
Charges for services	2,365,979	-	-	216,783	(216,783)	2,365,979
Local revenue:						
Community appropriations	1,557,332	-	5,394	-	-	1,562,726
Physical health revenue	129,430	-	-	-	-	129,430
Other local revenue	1,103,886	350,655	8,215	-	-	1,462,756
Total operating revenue	<u>111,541,137</u>	<u>5,410,473</u>	<u>113,548</u>	<u>216,783</u>	<u>(984,265)</u>	<u>116,297,676</u>
Operating expenses						
Mental health services:						
Board administration	11,638,822	-	-	-	(216,783)	11,422,039
Access and care management	1,703,975	-	-	-	-	1,703,975
Comprehensive support and services	71,659,957	-	-	-	-	71,659,957
Residential and supported living	16,659,204	-	-	-	-	16,659,204
Inpatient services	6,354,640	-	-	-	-	6,354,640
Grants and contracts	992,362	-	-	-	-	992,362
Special projects	1,934,171	-	113,548	-	-	2,047,719
Physical health services:						
Health plan enrollment	36,631	-	-	-	-	36,631
Grants and contracts	328,694	-	-	-	-	328,694
Substance abuse services:						
Board administration	-	337,177	-	-	-	337,177
Access	-	333,790	-	-	-	333,790
Prevention	-	989,610	-	-	-	989,610
Treatment	1,210,795	2,468,245	-	-	(767,482)	2,911,558
Local projects	-	1,358,089	-	-	-	1,358,089
Total operating expenses	<u>112,519,251</u>	<u>5,486,911</u>	<u>113,548</u>	<u>-</u>	<u>(984,265)</u>	<u>117,135,445</u>
Operating income (loss)	<u>(978,114)</u>	<u>(76,438)</u>	<u>-</u>	<u>216,783</u>	<u>-</u>	<u>(837,769)</u>
Non-operating revenue (expense)						
Interest revenue	462,494	76,438	-	-	-	538,932
Interest expense	(4,957)	-	-	-	-	(4,957)
Total non-operating revenue	<u>457,537</u>	<u>76,438</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>533,975</u>
Income (loss) before contributions	<u>(520,577)</u>	<u>-</u>	<u>-</u>	<u>216,783</u>	<u>-</u>	<u>(303,794)</u>
Capital contributions	<u>572,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>572,967</u>
Change in net assets	<u>52,390</u>	<u>-</u>	<u>-</u>	<u>216,783</u>	<u>-</u>	<u>269,173</u>
Net assets, beginning of year	<u>5,538,326</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,538,326</u>
Net assets, end of year	<u>\$ 5,590,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216,783</u>	<u>\$ -</u>	<u>\$ 5,807,499</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, 2008

	Enterprise Funds			Total	Internal Service Fund Mental Health Risk Reserve
	Mental Health	Substance Abuse Coordinating Agency	Nonmajor WCHO Consulting		
Cash flows from operating activities					
Cash received from customers and contracts	\$ 110,352,810	\$ 5,230,127	\$ 77,212	\$ 115,660,149	\$ -
Cash payments to suppliers for goods and services	(107,660,229)	(4,707,807)	(31,632)	(112,399,668)	-
Cash payments to employees for services	(5,241,407)	(593,447)	(45,580)	(5,880,434)	-
Net cash used in operating activities	<u>(2,548,826)</u>	<u>(71,127)</u>	<u>-</u>	<u>(2,619,953)</u>	<u>-</u>
Cash flows from capital and related financing activities					
Purchase of capital assets	(476,498)	-	-	(476,498)	-
Principal payments	(54,148)	-	-	(54,148)	-
Interest payments	(4,957)	-	-	(4,957)	-
Net cash used by capital and related financing activities	<u>(535,603)</u>	<u>-</u>	<u>-</u>	<u>(535,603)</u>	<u>-</u>
Cash flows from investing activities					
Interest received	462,494	76,438	-	538,932	-
Increase (decrease) in cash and cash equivalents	(2,621,935)	5,311	-	(2,616,624)	-
Cash and cash equivalents, beginning of year	9,753,332	1,931,182	-	11,684,514	-
Cash and cash equivalents, end of year	<u>\$ 7,131,397</u>	<u>\$ 1,936,493</u>	<u>\$ -</u>	<u>\$ 9,067,890</u>	<u>\$ -</u>
Reconciliation of operating gain (loss) to net cash used in operating activities					
Operating income (loss)	\$ (978,114)	\$ (76,438)	\$ -	\$ (1,054,552)	\$ 216,783
Adjustments to reconcile operating income (loss) to net cash used in operating activities:					
Depreciation expense	56,403	-	-	56,403	-
Changes in assets and liabilities:					
Due from the Michigan Department of Community Health	310,476	-	-	310,476	-
Due from other agencies and governments	(1,429,480)	(479,586)	(18,442)	(1,927,508)	-
Due from other funds	(69,323)	299,240	(17,894)	212,023	(216,783)
Prepays	(65,130)	-	-	(65,130)	-
Operating advances to other agencies	(6,681)	-	-	(6,681)	-
Accounts payable	(216,997)	62,101	1,933	(152,963)	-
Accrued payroll	17,541	1,383	-	18,924	-
Due to the Michigan Department of Community Health	50,336	(33,496)	-	16,840	-
Due to other agencies and governments	205,773	(125,630)	839	80,982	-
Due to other funds	(64,563)	35,759	33,564	4,760	-
Unearned revenue	(359,067)	245,540	-	(113,527)	-
Net cash used in operating activities	<u>\$ (2,548,826)</u>	<u>\$ (71,127)</u>	<u>\$ -</u>	<u>\$ (2,619,953)</u>	<u>\$ -</u>

Non-Cash Transactions:

During the year, the Authority received non-cash contributions of capital assets of \$572,967.

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. Adjustments are included in a separate column to eliminate interfund revenue and expenses.

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.

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.

Additionally, the Organization reports the following fund types:

The *enterprise funds* account for those operations that are financed and operated in a manner similar to private business or where the Organization has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The *internal service fund* is used to account for and finance potential uninsured risks of loss related to various funds received through the Michigan Department of Community Health (MDCH).

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.

When both restricted and unrestricted resources are available for use, it is WCHO's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

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”.

3. *Prepays*

Payments made to vendors for services that will benefit periods beyond September 30, 2008, if any, are recorded as “prepays” 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 (or the net book value of the donor in the case of assets received from Washtenaw County, WCHO’s predecessor organization) 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.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

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 savings, 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.

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, 2008, the operations of the Organization were conducted under the terms and conditions of a managed specialty supports and services contract (the "Contract") with 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, 2008, are summarized as follows:

	<u>Mental Health</u>
Medicaid Managed Care Capitation	\$ 359,583
Other grants passed through MDCH	<u>102,052</u>
	<u>\$ 461,635</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

Amounts due to the MDCH at September 30, 2008, are summarized as follows:

	<u>Mental Health</u>
Institutional care services	\$ 291,373
Cost settlement payable	<u>396,079</u>
	<u>\$ 687,452</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, 2008:

	<u>Mental Health</u>	<u>Substance Abuse Coordinating Agency</u>	<u>WCHO Consulting</u>	<u>Total</u>
Due from:				
Other governments	\$1,143,343	\$ -	\$ -	\$1,143,343
Other agencies	<u>1,983,851</u>	<u>503,344</u>	<u>18,422</u>	<u>2,505,637</u>
	<u>\$3,127,194</u>	<u>\$ 503,344</u>	<u>\$ 18,422</u>	<u>\$3,648,980</u>

D. Operating Advances to Other Agencies

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

E. Due to Other Agencies and Governments

Payables to other agencies and governments consisted of the following at September 30, 2008:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>WCHO Consulting</u>	<u>Total</u>
Due to:				
Other governments	\$ 869,487	\$ 125,441	\$ -	\$ 994,928
Hospitals	1,577,361	-	-	1,577,361
Other agencies	<u>406,733</u>	<u>346,733</u>	<u>839</u>	<u>754,305</u>
	<u>\$2,853,581</u>	<u>\$ 472,174</u>	<u>\$ 839</u>	<u>\$3,326,594</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

F. Capital Assets

Capital asset activity for the year ended September 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Acquired from County</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Land	\$ 256,219	\$ 30,000	\$ 281,194	\$ -	\$ 567,413
Capital assets being depreciated:					
Buildings and improvements	785,570	341,984	518,655	-	1,646,209
Less accumulated depreciation for:					
Buildings and improvements	109,612	122,368	56,403	-	288,383
Total capital assets being depreciated, net	675,958	219,616	462,252	-	1,357,826
Total capital assets, net	<u>\$ 932,177</u>	<u>\$ 249,616</u>	<u>\$ 743,446</u>	<u>\$ -</u>	<u>\$ 1,925,239</u>

During the year ended September 30, 2008, WCHO recorded depreciation expense of \$56,403, which was charged entirely to the residential and supported living program.

During the year ended September 30, 2008, WCHO received capital contributions from Washtenaw County, a related-party. WCHO has recorded these assets at the net book value of the assets recorded by the County at the time of transfer.

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>
2009	\$ 51,425	\$ 3,571	\$ 54,996
2010	52,850	2,146	54,996
2011	49,730	683	50,413
Total	<u>\$ 154,005</u>	<u>\$ 6,400</u>	<u>\$ 160,405</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

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>208,153</u>	\$ <u>-</u>	\$ <u>54,148</u>	\$ <u>154,005</u>	\$ <u>51,425</u>

H. Interfund Receivables and Payables

The Organization has the following interfund receivables and payables:

	<u>Receivable</u>	<u>Payable</u>
Mental Health	\$ 361,672	\$ 488,566
Substance Abuse	253,889	328,108
Nonmajor enterprise fund	17,894	33,564
Internal service fund	216,783	-
	<u>\$ 850,238</u>	<u>\$ 850,238</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.

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.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

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.

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 \$5,880,434 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, 2008

	Mental Health Services				
	Board Administration	Access and Care Management	Comprehensive Services and Support	Residential and Supported Living	Inpatient Services
Expenses					
Personnel	\$ 3,665,906	\$ 1,572,340	\$ -	\$ -	\$ -
State inpatient	-	-	-	-	2,070,399
Local inpatient	-	-	-	-	376,056
Community inpatient	-	-	-	-	3,908,185
Client expenses	-	3,905	437,633	-	-
Contracts	2,207,604	96,427	70,188,299	15,900,030	-
Cost allocation	282,379	-	-	-	-
Operations	5,482,933	31,303	1,034,025	759,174	-
Total expenses	\$ 11,638,822	\$ 1,703,975	\$ 71,659,957	\$ 16,659,204	\$ 6,354,640

		Physician Health Services		Substance Abuse Services	
Grants and Contracts	Special Projects	Health Plan Enrollment	Grants and Contracts	Treatment	Total
\$ -	\$ -	\$ 17,836	\$ 2,866	\$ -	\$ 5,258,948
-	-	-	-	-	2,070,399
-	-	-	-	-	376,056
-	-	-	-	-	3,908,185
-	-	-	-	-	441,538
992,362	1,364,360	12,874	325,235	1,210,795	92,297,986
-	-	-	-	-	282,379
-	569,811	5,921	593	-	7,883,760
\$ 992,362	\$ 1,934,171	\$ 36,631	\$ 328,694	\$ 1,210,795	\$ 112,519,251

WASHTENAW COMMUNITY HEALTH ORGANIZATION
Schedule of Program Expenses
Substance Abuse Coordinating Agency Enterprise Fund
For the Year Ended September 30, 2008

	Substance Abuse Services			
	Board Administration	Access	Prevention	Treatment
Expenses				
Personnel	\$ 315,869	\$ 277,890	\$ -	\$ -
Contracts	4,359	49,768	-	-
Operations	16,949	6,132	989,610	2,468,245
Total expenses	\$ 337,177	\$ 333,790	\$ 989,610	\$ 2,468,245

Local Projects	Total
\$ 12,056	\$ 605,815
111,935	166,062
1,234,098	4,715,034
\$ 1,358,089	\$ 5,486,911

SINGLE AUDIT SECTION

**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**

April 21, 2009

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*, (the "Organization") as of and for the year ended September 30, 2008, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated April 21, 2009. 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 item 2008-1 to be a significant deficiency 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, we do not believe that the significant deficiency described above is 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*.

We noted certain matters that we reported to management of the Organization, in a separate letter dated April 21, 2009.

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**

April 21, 2009

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

Compliance

We have audited the compliance of *Washtenaw Community Health Organization*, (the "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, 2008. 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.

In our opinion, 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-2 and 2008-3.

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 2008-3 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. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs 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 Johnson". The signature is written in a cursive, flowing style.

Washtenaw Community Health Organization
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2008

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	\$ 141,026
Substance Abuse and Mental Health Services Grant - SIG Grant	93.243	95,000
Medical Assistance Program - OBRA - PASSAR	93.778	453,693
Community Mental Health Services Block Grant:		
Full Circle Equipment	93.958	13,396
Youth Aging Out of Foster Care	93.958	50,000
Cognitive Impairment Training - Difficult Behaviors	93.958	12,222
Parent Management Training	93.958	50,000
		125,618
Substance Abuse Prevention and Treatment Block Grant:		
Prevention	93.959	442,955
Community Grant	93.959	1,694,719
		2,137,674
Passed through the University of Michigan - Medical Assistance Program - Medicaid Match	93.778	397,908
Total expenditures of federal awards		\$ 3,350,919

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>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Projects for Assistance in Transition From Homelessness (PATH)	93.150	\$ 141,026
Substance Abuse Prevention and Treatment Block Grant - SIG grant	93.243	95,000
Medical Assistance Program	93.778	453,693
Community Mental Health Services Block Grant	93.958	125,618
Substance Abuse Prevention and Treatment Block Grant	93.959	1,719,993

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WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X 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? yes X no

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

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

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, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.778	Medical Assistance Program
93.959	Substance Abuse Prevention and Treatment Block Grant
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	_____ yes <u> X </u> no

SECTION II – FINANCIAL STATEMENT FINDINGS

2008-1 **Preparation of Financial Statements in Accordance with GAAP (Repeat)**

Finding Type: Significant deficiency in internal control over financial reporting

Criteria: Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Organization'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 Organization 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 Organization'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, 2008

2008-1 **Preparation of Financial Statements in Accordance with GAAP (Concluded)**

Effect: As a result of this condition, the Organization 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 FY 2007 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.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2008-2 **Subrecipient Monitoring – Audit Follow-up**

Finding Type: Immaterial noncompliance

Federal Program: CFDA #93.959 Substance Abuse Prevention and Treatment Block Grant

Compliance Requirement: Subrecipient monitoring

Criteria: Grantors are required to perform procedures to ensure that subrecipients are properly administering federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements. This includes obtaining audit reports for subrecipients and performing follow-up to ensure that corrective action is taken on audit findings.

Condition: The Organization maintained audit reports for subrecipients that submitted such reports but did not follow-up on reports not received or reports that contained significant audit findings.

Cause: The Organization did not perform follow-up procedures for monitoring of subrecipient audit reports.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2008

2008-2 Subrecipient Monitoring (Concluded)

Effect: The Organization did not obtain or retain audit reports for two of 17 subrecipients. In addition, one of the reports had significant audit findings; however there was no evidence that the Organization performed procedures to ensure that the subrecipient took appropriate corrective action.

Recommendation: We recommend that the Organization update its procedures to ensure that reports are properly obtained and retained for subrecipients and that appropriate corrective action is taken on all findings.

View of Responsible Officials:

WCHO Management is in agreement with this finding and has/will take the following steps to prevent this from occurring in the future:

1. The WCHO policy for Financial Audits Of Contractors has been reviewed with the WCHO employee who is responsible for ensuring that audits are received (or waivers granted).
2. An email was sent to all Providers with contact information for the WCHO person who is responsible for reviewing audits and applications for audit waivers. In addition, the WCHO policy was sent to Providers so that they understand the audit submission requirement and penalties for not meeting this requirement.
3. The WCHO will request submission of the two audit reports that were not present during the audit review.
4. The WCHO will review and take action consistent with WCHO policy regarding the audit review that contained significant audit findings.

A checklist will also be developed so that the WCHO ensures that all audit reports are collected for future fiscal years.

2008-3 Insufficient Documentation of Payroll Expenses (Repeat)

Finding Type: Immaterial noncompliance; significant deficiency in internal control over compliance

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

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2008

2008-3

Insufficient Documentation of Payroll Expenses (Continued)

Compliance Requirement:

Allowable Costs/Cost Principles

Criteria:

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, 2008, payroll charges to the Medical Assistance Program were initially supported by personnel activity reports that 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. However, subsequent to the start of the audit, personnel activity reports were obtained and adjustments were made to reported amounts.

Cause:

Internal controls of the Organization did not initially require personnel charges to be supported in accordance with the requirements of OMB Circular A-87.

Effect:

Personnel charges originally charged to the Medical Assistance Program were not properly supported in accordance with OMB Circular A-87.

Questioned Costs:

No costs were required to be questioned as a result of this finding, inasmuch as the Organization made the necessary adjustments to its reported expenditures.

Recommendation:

We recommend that the Organization establish procedures to ensure that all payroll costs are properly documented in accordance with OMB Circular 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 count instead be prepared and signed on a semiannual basis.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2008

2008-3 **Insufficient Documentation of Payroll Expenses (Concluded)**

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. Immediately, tracking will be accomplished with a manual spreadsheet tracking system. The WCHO, however, is exploring a general ledger package that would track time on a daily basis, and which would directly charge appropriate Funds and projects automatically each month.

SECTION IV – PRIOR YEAR FINDINGS

2007-1 Significant Audit Adjustments

Issue was not resolved, repeated as finding 2008-1

2007-2 Material Audit Adjustment to Accrued Liabilities

Issue was adequately resolved.

2007-3 Insufficient Documentation of Payroll Expenses

Issue was not resolved, repeated as finding 2008-3

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