



**washtenaw community
health organization**

**Financial Statements,
Supplementary Information and
Single Audit Act Compliance**

For the Year Ended September 30, 2010



WASHTENAW COMMUNITY HEALTH ORGANIZATION

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INDEPENDENT AUDITORS' REPORT

June 30, 2011

To the Board of Directors of
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, 2010, 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, 2010, 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 June 30, 2011 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 financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 & ANALYSIS

WASHTENAW COMMUNITY HEALTH ORGANIZATION
Management's Discussion and Analysis
Fiscal Year October 1, 2009 – September 30, 2010

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, 2010 completes WCHO's eighth 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 \$108,546,689 for the Mental Health population and from \$553,549 to \$753,661 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 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 Washtenaw County, was incurred in August 2004 in anticipation of acquiring the four homes. The balance of this loan at September 30, 2010 was \$49,730. 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, 2009 and ending September 30, 2010. Operations during this period resulted in a decrease in net assets of \$244,078. 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 \$27,884,074 at September 30, 2010. Total liabilities are \$15,769,906 at September 30, 2010. Total net assets (fund balance) are \$12,114,168 at September 30, 2010. Total net assets at September 30, 2009 were \$5,695,002.

	<u>09/30/10</u>	<u>09/30/09</u>
Assets		
Cash and cash equivalents	\$ 20,745,035	\$ 10,593,681
Receivables and prepayments	5,112,835	3,816,739
Capital assets, net	2,026,204	2,120,092
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Total Assets	27,884,074	16,530,512
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Liabilities		
Accounts payable and accrued liabilities	10,456,747	9,030,686
Unearned revenue	5,263,429	1,702,244
Long-term debt:		
Due within one year	49,730	52,850
Due in more than one year	-	49,730
	<hr/>	<hr/>
Total Liabilities	15,769,906	10,835,510
	<hr/>	<hr/>
Net Assets		
Invested in capital assets, net of related debt	1,976,474	2,017,512
Restricted - Internal Service Fund	6,663,244	-
Unrestricted	3,474,450	3,677,490
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Total Net Assets	\$ 12,114,168	\$ 5,695,002
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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 State Categorical Funding and grants, which focus on enrollment and access activities. During the 2009/2010 fiscal year, four integrated health clinics open since 2004 (HOPE Clinic, Packard Clinic, Neighborhood Family Services and Ypsilanti Health Clinic), continued in operation. The WCHO has implemented primary care at these clinics to improve the physical healthcare of consumers, and to work toward developing specialty medical homes. Other activities include the partnership with University of Michigan's Department of Health to develop improved practices and protocols for the health care of shared populations through its Medical Management program.

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, 2010 net assets of the Organization increased by a total of \$6,419,166 (an increase of \$6,663,224 in the internal service fund and a \$244,078 decrease in the mental health fund, resulting in total net assets of \$12,114,168. The decrease in the mental health fund net assets was due primarily to General Fund expenditures exceeding General Fund revenues and State approved 236 Transfers.

	<u>09/30/10</u>	<u>09/30/09</u>
Revenues		
Charges for services	\$ 2,197,911	\$ 1,981,875
Operating grants and contributions	5,826,271	6,312,131
Medicaid - MH & DD	108,546,689	98,542,479
Medicaid - substance abuse	1,220,970	826,694
Medicaid - fee for service	635,221	1,899,738
Adult benefit waiver	1,520,479	773,259
State General Funds	11,131,140	9,753,705
Local revenue	1,979,815	3,508,236
Other revenue	1,106,079	1,321,263
Unrestricted investment earnings	54,875	177,221
Total revenues	<u>134,219,450</u>	<u>125,096,601</u>
Expenses		
Administration	14,372,954	12,232,703
Mental Health Services	106,993,650	106,290,131
Substance Abuse Services	5,271,804	5,951,360
Physical Health Services	1,159,548	731,333
Interest expense	2,328	3,571
Total expenses	<u>127,800,284</u>	<u>125,209,098</u>
Change in net assets	6,419,166	(112,497)
Net assets, beginning of year	<u>5,695,002</u>	<u>5,807,499</u>
Net assets, end of year	<u><u>\$ 12,114,168</u></u>	<u><u>\$ 5,695,002</u></u>

The total amount of the net assets at September 30, 2010 is made up of \$6.7 million for the Medicaid Internal Services Fund (risk pool) that is restricted to cover the Medicaid risk shared with the State. It is designated for Medicaid deficits in the four-county region. The remaining \$5.4 million is Local Fund Balance for Washtenaw County operations only. Accounting best practice recommends a fund balance of two to three months of operating expenditures. The September 2010 Internal Services fund could support 22 days of Medicaid operating expenditures. The Local Fund Balance, adjusted to exclude Net Capital Assets, could support 62 days of non-Medicaid operating expenditures.

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, the state's criteria for Medicaid eligibility, and changes to rates made by the State. In fiscal year 2010, rates changed three times during the year of operation.

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 several years, the number of Medicaid eligibles has fluctuated significantly. The fiscal year-end number of Medicaid eligibles for these years is summarized below:

FY 2001/2002	48,426
FY 2002/2003	60,930
FY 2003/2004	57,563
FY 2004/2005	53,888
FY 2005/2006	56,534
FY 2006/2007	59,290
FY 2007/2008	60,376
FY 2008/2009	69,874
FY 2009/2010	73,478

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 to 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 benefit groups. Thus, Medicaid funding may not be utilized for services to non-Medicaid consumers. Also, there is the further restriction that Consumers can only be on one Medicaid waiver at a time.

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 a transfer of general funds between counties. Due to the continued lack of adequate general fund dollars, a two-tiered benefit package, one for Medicaid consumers and one for Indigent consumers, had to be implemented in fiscal year 2011.

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.

FINANCIAL STATEMENTS

WASHTENAW COMMUNITY HEALTH ORGANIZATION
Statement of Net Assets
September 30, 2010

	<u>Enterprise Funds</u>		<u>Internal</u>	<u>Eliminations</u>	<u>Total</u>
	<u>Mental</u>	<u>Substance</u>	<u>Service Fund</u>		
	<u>Health</u>	<u>Abuse</u>	<u>Mental</u>		<u>Business-type</u>
	<u>Agency</u>	<u>Coordinating</u>	<u>Health Risk</u>		<u>Activities</u>
	<u>Reserve</u>	<u>Agency</u>	<u>Reserve</u>		
Assets					
Current assets:					
Cash and cash equivalents	\$ 17,673,851	\$ 2,308,141	\$ 763,043	\$ -	\$ 20,745,035
Due from the Michigan Department of Community Health	1,796,200	34,084	-	-	1,830,284
Accounts receivable	877,428	696,796	-	-	1,574,224
Due from other agencies and governments	239,714	268,962	215	-	508,891
Due from other funds	176,520	213,974	5,899,986	(6,290,480)	-
Prepays	94,623	-	-	-	94,623
Total current assets	<u>20,858,336</u>	<u>3,521,957</u>	<u>6,663,244</u>	<u>(6,290,480)</u>	<u>24,753,057</u>
Noncurrent assets:					
Operating advances to other agencies	1,104,813	-	-	-	1,104,813
Capital assets not being depreciated	567,413	-	-	-	567,413
Capital assets being depreciated, net	1,458,791	-	-	-	1,458,791
Total noncurrent assets	<u>3,131,017</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,131,017</u>
Total assets	<u>23,989,353</u>	<u>3,521,957</u>	<u>6,663,244</u>	<u>(6,290,480)</u>	<u>27,884,074</u>
Liabilities					
Current liabilities:					
Accounts payable	6,341,559	581,018	-	-	6,922,577
Accrued payroll	323,426	15,558	-	-	338,984
Due to the Michigan Department of Community Health	1,432,297	153,220	-	-	1,585,517
Due to other agencies and governments	934,146	675,523	-	-	1,609,669
Due to other funds	6,113,960	176,520	-	(6,290,480)	-
Unearned revenue	3,343,311	1,920,118	-	-	5,263,429
Long-term debt payable in one year	49,730	-	-	-	49,730
Total liabilities	<u>18,538,429</u>	<u>3,521,957</u>	<u>-</u>	<u>(6,290,480)</u>	<u>15,769,906</u>
Net assets					
Invested in capital assets, net of related debt	1,976,474	-	-	-	1,976,474
Restricted	-	-	6,663,244	-	6,663,244
Unrestricted	3,474,450	-	-	-	3,474,450
Total net assets	<u>\$ 5,450,924</u>	<u>\$ -</u>	<u>\$ 6,663,244</u>	<u>\$ -</u>	<u>\$ 12,114,168</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, 2010

	<u>Enterprise Funds</u>		<u>Internal Service Fund</u>		
	<u>Mental Health</u>	<u>Substance Abuse Coordinating Agency</u>	<u>Mental Health Risk Reserve</u>	<u>Eliminations</u>	<u>Total Business-type Activities</u>
Operating revenue					
Medicaid - mental health	\$ 108,546,689	\$ -	\$ -	\$ -	\$ 108,546,689
Medicaid - substance abuse	1,220,970	753,661	-	(753,661)	1,220,970
Medicaid fee for service	635,221	-	-	-	635,221
State general fund indigent	11,131,140	-	-	-	11,131,140
Adult benefit waiver	1,384,936	135,543	-	-	1,520,479
Earned revenues, grants and federal programs	2,566,839	3,259,432	-	-	5,826,271
Charges for services	2,197,911	-	6,661,994	(6,661,994)	2,197,911
Local revenue:					
Community appropriations	1,460,619	-	-	-	1,460,619
Other local revenue	-	519,196	-	-	519,196
Other revenue	1,076,979	29,100	-	-	1,106,079
Total operating revenue	<u>130,221,304</u>	<u>4,696,932</u>	<u>6,661,994</u>	<u>(7,415,655)</u>	<u>134,164,575</u>
Operating expenses					
Mental health services:					
Board administration	14,372,954	-	-	-	14,372,954
Access and care management	5,754,172	-	-	-	5,754,172
Comprehensive support and services	77,071,442	-	-	-	77,071,442
Residential and supported living	17,727,661	-	-	-	17,727,661
Inpatient services	3,803,132	-	-	-	3,803,132
Grants and contracts	1,249,709	-	-	-	1,249,709
Special projects	1,387,534	-	-	-	1,387,534
Risk financing	6,661,994	-	-	(6,661,994)	-
Physical health services -					
Grants and contracts	1,159,548	-	-	-	1,159,548
Substance abuse services:					
Board administration	-	464,805	-	-	464,805
Access	-	159,025	-	-	159,025
Prevention	-	683,638	-	-	683,638
Treatment	1,324,083	2,079,249	-	(753,661)	2,649,671
Local projects	-	487,512	-	-	487,512
Grants and contracts	-	827,153	-	-	827,153
Total operating expenses	<u>130,512,229</u>	<u>4,701,382</u>	<u>-</u>	<u>(7,415,655)</u>	<u>127,797,956</u>
Operating income (loss)	<u>(290,925)</u>	<u>(4,450)</u>	<u>6,661,994</u>	<u>-</u>	<u>6,366,619</u>
Nonoperating revenue (expense)					
Interest revenue	49,175	4,450	1,250	-	54,875
Interest expense	(2,328)	-	-	-	(2,328)
Total nonoperating revenue	<u>46,847</u>	<u>4,450</u>	<u>1,250</u>	<u>-</u>	<u>52,547</u>
Change in net assets	<u>(244,078)</u>	<u>-</u>	<u>6,663,244</u>	<u>-</u>	<u>6,419,166</u>
Net assets, beginning of year	5,695,002	-	-	-	5,695,002
Net assets, end of year	<u>\$ 5,450,924</u>	<u>\$ -</u>	<u>\$ 6,663,244</u>	<u>\$ -</u>	<u>\$ 12,114,168</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, 2010

	<u>Enterprise Funds</u>			<u>Internal</u>
	<u>Mental</u>	<u>Substance</u>	<u>Total</u>	<u>Service Fund</u>
	<u>Health</u>	<u>Abuse</u>		<u>Mental</u>
		<u>Coordinating</u>		<u>Health Risk</u>
		<u>Agency</u>		<u>Reserve</u>
Cash flows from operating activities				
Cash received from customers and contracts	\$ 129,800,860	\$ 4,113,580	\$ 133,914,440	\$ -
Cash payments to suppliers for goods and services	(115,692,461)	(2,794,955)	(118,487,416)	-
Cash payments to employees for services	(5,355,239)	(420,787)	(5,776,026)	-
Cash received from interfund payments	-	-	-	544,156
Net cash provided by operating activities	<u>8,753,160</u>	<u>897,838</u>	<u>9,650,998</u>	<u>544,156</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(43,497)	-	(43,497)	-
Principal payments	(52,850)	-	(52,850)	-
Interest payments	(2,328)	-	(2,328)	-
Net cash used by capital and related financing activities	<u>(98,675)</u>	<u>-</u>	<u>(98,675)</u>	<u>-</u>
Cash flows from investing activities				
Interest received	49,175	4,450	53,625	1,250
Change in cash and cash equivalents	8,703,660	902,288	9,605,948	545,406
Cash and cash equivalents, beginning of year	<u>8,970,191</u>	<u>1,405,853</u>	<u>10,376,044</u>	<u>217,637</u>
Cash and cash equivalents, end of year	<u>\$ 17,673,851</u>	<u>\$ 2,308,141</u>	<u>\$ 19,981,992</u>	<u>\$ 763,043</u>
Reconciliation of operating gain (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (290,925)	\$ (4,450)	\$ (295,375)	\$ 6,661,994
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	137,385	-	137,385	-
Changes in assets and liabilities:				
Due from the Michigan Department of Community Health	(1,543,982)	5,432	(1,538,550)	-
Accounts receivable	(877,428)	(696,796)	(1,574,224)	-
Due from other agencies and governments	1,750,998	47,460	1,798,458	(215)
Due from other funds	249,968	60,552	310,520	(5,868,284)
Prepays	370	348	718	-
Operating advances to other agencies	11,867	-	11,867	-
Accounts payable	1,627,946	105,043	1,732,989	-
Accrued payroll	70,596	(10,749)	59,847	-
Due to the Michigan Department of Community Health	771,088	153,220	924,308	-
Due to other agencies and governments	(1,861,742)	572,806	(1,288,936)	-
Due to other funds	5,748,698	62,108	5,810,806	(249,339)
Unearned revenue	2,958,321	602,864	3,561,185	-
Net cash provided by operating activities	<u>\$ 8,753,160</u>	<u>\$ 897,838</u>	<u>\$ 9,650,998</u>	<u>\$ 544,156</u>

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, as amended.

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 and the Statement of Revenue, 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.

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.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

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).

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 nonoperating 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 and other financial institutions. 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. Prepaids

Payments made to vendors for services that will benefit periods beyond September 30, 2010, if any, are recorded as "prepaids" in the statement of net assets.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

Capital assets are capitalized and reported in the mental health fund, net of accumulated depreciation. The organization 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 three 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.

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.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The following is a summary of cash and cash equivalent balances as of September 30, 2010:

Bank deposits (checking accounts)	\$	951,904
Monies held by Washtenaw County		19,792,961
Cash on hand		170
	<u>\$</u>	<u>20,745,035</u>

For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Organization's deposits may not be returned to it. At year end, the carrying value of the deposits held in the name of WCHO was \$951,904 and the bank balance was \$1,553,158, of which \$250,000 was covered by federal depository insurance.

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, 2010, 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.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

Amounts due from the MDCH at September 30, 2010, are summarized as follows:

	<u>Mental Health</u>	<u>Substance Abuse Coordinating Agency</u>	<u>Total</u>
Medicaid managed care capitation	\$ 1,566,289	\$ 34,084	\$ 1,600,373
Other grants passed through MDCH	<u>229,911</u>	<u>-</u>	<u>229,911</u>
	<u>\$ 1,796,200</u>	<u>\$ 34,084</u>	<u>\$ 1,830,284</u>

Amounts due to the MDCH at September 30, 2010, are summarized as follows:

	<u>Mental Health</u>	<u>Substance Abuse Coordinating Agency</u>	<u>Total</u>
Cost settlement payable	\$ 1,432,297	\$ -	\$ 1,432,297
Other grants passed through MDCH	<u>-</u>	<u>153,220</u>	<u>153,220</u>
	<u>\$ 1,432,297</u>	<u>\$ 153,220</u>	<u>\$ 1,585,517</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, 2010:

	<u>Mental Health</u>	<u>Substance Abuse Coordinating Agency</u>	<u>Internal Service Fund Mental Health Risk Reserve</u>	<u>Total</u>
Due from:				
Other governments	\$ 9,131	\$ 253,044	\$ 215	\$ 262,390
Other agencies	<u>230,583</u>	<u>15,918</u>	<u>-</u>	<u>246,501</u>
	<u>\$ 239,714</u>	<u>\$ 268,962</u>	<u>\$ 215</u>	<u>\$ 508,891</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

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, 2010:

	<u>Mental Health</u>	<u>Substance Abuse Coordinating Agency</u>	<u>Total</u>
Due to:			
Other governments	\$ 310,951	\$ 675,523	\$ 986,474
Hospitals	458,281	-	458,281
Other agencies	164,914	-	164,914
	<u>\$ 934,146</u>	<u>\$ 675,523</u>	<u>\$ 1,609,669</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

F. Capital Assets

Capital assets activity for the year ended September 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 567,413	\$ -	\$ -	\$ 567,413
Construction in progress	215,653	-	215,653	-
Total capital assets not being depreciated	<u>783,066</u>	<u>-</u>	<u>215,653</u>	<u>567,413</u>
Capital assets being depreciated:				
Buildings and improvements	1,697,668	-	-	1,697,668
Computers and equipment	-	259,150	-	259,150
Total capital assets being depreciated	<u>1,697,668</u>	<u>259,150</u>	<u>-</u>	<u>1,956,818</u>
Less accumulated depreciation for:				
Buildings and improvements	360,642	74,627	-	435,269
Computers and equipment	-	62,758	-	62,758
Total accumulated depreciation	<u>360,642</u>	<u>137,385</u>	<u>-</u>	<u>498,027</u>
Total capital assets being depreciated, net	<u>1,337,026</u>	<u>121,765</u>	<u>-</u>	<u>1,458,791</u>
Total capital assets, net	<u>\$ 2,120,092</u>	<u>\$ 121,765</u>	<u>\$ 215,653</u>	<u>\$ 2,026,204</u>

During the year ended September 30, 2010, WCHO recorded depreciation expense of \$137,385, which was charged entirely to the residential and supported living program.

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. The loan matures August 31, 2011, with final payments totaling \$49,730, plus interest of \$683.

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>\$ 102,580</u>	<u>\$ -</u>	<u>\$ 52,850</u>	<u>\$ 49,730</u>	<u>\$ 49,730</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

H. Interfund Receivables and Payables

The Organization has the following interfund receivables and payables:

	<u>Receivable</u>	<u>Payable</u>
Mental health fund	\$ 176,520	\$ 6,113,960
Substance abuse fund	213,974	176,520
Internal service fund	5,899,986	-
	<u>\$ 6,290,480</u>	<u>\$ 6,290,480</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 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 MDCH participants, regardless of services actually performed by the Organization. In addition, MDCH makes fee-for-service payments to the Organization for certain covered services.

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

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

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.

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 \$5,970,092 for the year.

In addition, WCHO paid the County \$904,054 for central services during the year.

* * * * *

SUPPLEMENTARY INFORMATION

WASHTENAW COMMUNITY HEALTH ORGANIZATION
Schedule of Program Expenses
Mental Health Enterprise Fund
For the Year Ended September 30, 2010

	Mental Health Services				
	Board Administration	Access and Care Management	Comprehensive Support and Services	Residential and Supported Living	Inpatient Services
Expenses					
Personnel	\$ 3,771,137	\$ 1,455,278	\$ 11,284	\$ -	\$ -
State inpatient	-	-	-	-	1,033,150
Local inpatient	-	-	-	-	217,890
Community inpatient	-	-	-	-	2,552,092
Client expenses	-	-	1,405,944	12,644	-
Contracts	1,397,594	4,291,417	75,523,426	17,421,472	-
Cost allocation	904,054	-	-	-	-
Operations	8,300,169	7,477	130,788	293,545	-
Total expenses	\$ 14,372,954	\$ 5,754,172	\$ 77,071,442	\$ 17,727,661	\$3,803,132

<u>Mental Health Services</u>			<u>Physical Health Services</u>	<u>Substance Abuse Services</u>	
<u>Grants and Contracts</u>	<u>Special Projects</u>	<u>Risk Financing</u>	<u>Grants and Contracts</u>	<u>Treatment</u>	<u>Total</u>
\$ 79,811	\$ -	\$ -	\$ 273,945	\$ -	\$ 5,591,455
-	-	-	-	-	1,033,150
-	-	-	-	-	217,890
-	-	-	-	-	2,552,092
-	-	-	-	-	1,418,588
1,103,426	1,387,534	-	824,064	1,324,083	103,273,016
-	-	-	-	-	904,054
66,472	-	6,661,994	61,539	-	15,521,984
<u>\$1,249,709</u>	<u>\$1,387,534</u>	<u>\$6,661,994</u>	<u>\$1,159,548</u>	<u>\$ 1,324,083</u>	<u>\$ 130,512,229</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION
Schedule of Program Expenses
Substance Abuse Coordinating Agency Enterprise Fund
For the Year Ended September 30, 2010

	Substance Abuse Services						Total
	Board Administration	Access	Prevention	Treatment	Local Projects	Grants and Contracts	
Expenses							
Personnel	\$ 294,260	\$106,117	\$ -	\$ 2,937	\$ -	\$ 6,724	\$ 410,038
Contracts	155,062	52,000	-	-	-	258,497	465,559
Operations	15,483	908	683,638	2,076,312	487,512	561,932	3,825,785
Total expenses	\$ 464,805	\$159,025	\$ 683,638	\$2,079,249	\$ 487,512	\$ 827,153	\$4,701,382

Washtenaw Community Health Organization
SUBSTANCE USE DISORDER SERVICES
Schedule of Budgeted, Reported, and Audited Amounts
For the Year Ended September 30, 2010

Fund Source	Budgeted (FINAL)	Reported Expenditures (FINAL RER)	Audited Expenditures	Variance (Audited- Reported)	Local Match Funds
A State Agreement					
1 Community Grant	\$ 1,818,281	\$ 1,726,288	\$ 1,726,288	\$ -	
2 Prevention	554,371	605,296	605,296	-	
3 Communicable Disease	78,342	78,342	78,342	-	
4 SDA	53,996	53,996	53,996	-	
5 SIG	124,321	123,758	123,758	-	
6 Other (more lines can be added as needed)					
Integrated TX Block Grants	100,000	100,000	100,000	-	
Nasper Grant	163,732	35,583	35,583	-	
A Subtotal	<u>2,893,043</u>	<u>2,723,263</u>	<u>2,723,263</u>	<u>-</u>	
B Medicaid					
1 Current Year PEPM (Federal & State)	848,980	753,369	753,369	-	
2 Federal share only for Women's Specialty	-	-	-	-	
3 State share only for Women's Specialty	-	-	-	-	
4 Reinvestment Savings	-	-	-	-	
B Subtotal	<u>848,980</u>	<u>753,369</u>	<u>753,369</u>	<u>-</u>	
C Adult Benefit Waiver (ABW) Oct - Apr					
1 Current Year PEPM (federal share only)	125,561	69,254	69,254	-	
C Subtotal	<u>125,561</u>	<u>69,254</u>	<u>69,254</u>	<u>-</u>	
C1 Adult Benefit Waiver (ABW) May - Sept					
1 Current Year PEPM (federal and state share)	66,289	66,289	66,289	-	
C1 Subtotal	<u>66,289</u>	<u>66,289</u>	<u>66,289</u>	<u>-</u>	
D MI CHILD					
1 Current Year PEPM (federal share only)	4,515	291	291	-	
D Subtotal	<u>4,515</u>	<u>291</u>	<u>291</u>	<u>-</u>	
E Local					
1 Current Year PA2	-	-	-	-	\$ -
2 PA2 Fund Balance	519,156	519,156	519,156	-	519,156
3 Other Local (R325.4152 excluding subsection (1)(b))	33,590	33,590	33,590	-	33,590
E Subtotal	<u>552,746</u>	<u>552,746</u>	<u>552,746</u>	<u>-</u>	<u>552,746</u>
F Fees & Collections- Subtotal (R325.4151 (1)(d))					
	-	-	-	-	-
G Other Contracts & Sources (Subtotal)					
	536,169	536,169	536,169	-	536,169
Grand Total of Subtotals A-G	<u>\$ 5,027,303</u>	<u>\$ 4,701,381</u>	<u>\$ 4,701,381</u>	<u>\$ -</u>	<u>\$ 1,088,915</u>

Amount Billable to MDCH (Section A audited subtotal)

\$ 2,723,263

Total MDCH Payments

2,901,987 (1)

(Overpayment)/Underpayment

\$ (178,724) (2)

Local Match Funds Total

\$ 1,641,661

Local Match Requirement [(Grand Total of Audited Exp. minus subtotal B, C, D & G) * 10%]

327,601

Local Match (Shortfall)/Excess

\$ 1,314,060

Variance Footnotes

(1) Community grant amount of \$8,944 received after final amendment - total state agreement amount received \$2,901,987

(2) Allowed carryforward of state agreement dollars- \$1,466 Michild and \$24,038 ABW will reduce overpayment to \$153,220.

**Washtenaw Community Health Organization
SUBSTANCE USE DISORDER SERVICES
Schedule of Expenditures and Funding Sources by Program
Year Ended September 30, 2010**

Program	Budgeted (FINAL)	Reported Expenditures (FINAL RER)	Audited Expenditures				Audited Funding Sources		
			Gross Amount	Less Medicaid	Less ABW from PIHPs	Less Fees	Net Amount	State Agreement	SDA
Administration	\$ 464,803	\$ 464,803	\$ 464,803	\$ 143,126	\$ 33,858	\$ -	\$ 287,819	\$ 287,779	\$ -
Prevention	864,585	915,510	915,510	-	-	-	915,510	605,296	-
Treatment	2,177,507	2,044,807	2,044,807	549,814	-	-	1,494,993	1,230,148	53,996
Women's Specialty	132,480	102,936	102,936	-	-	-	102,936	102,936	-
Communicable Disease	78,342	78,342	78,342	-	-	-	78,342	78,342	-
SPF/SIG	124,321	123,758	123,758	-	-	-	123,758	123,758	-
ABW (State and Federal Funds)	188,680	108,413	108,413	-	18,118	-	90,295	21,041	-
MICChild (State and Federal Funds)	6,015	392	392	-	-	-	392	101	-
Other	990,569	862,419	862,419	60,430	14,310	-	787,679	219,867	-
Totals	\$ 5,027,302	\$ 4,701,380	\$ 4,701,380	\$ 753,370	\$ 66,286	\$ -	\$ 3,881,724	\$ 2,669,268	\$ 53,996
								<u>\$2,723,264</u>	

Reconciliation of PA2 Funds:

Beginning Balance	\$ 1,273,964
Current Year PA2	1,047,342
Expenditures	<u>(519,156)</u>
Ending balance	<u>\$ 1,802,150</u>

Reconciliation of Medicaid Managed Care (PEPM) Funds:

PEPM Payments Received	\$ 848,980
Medicaid Savings Carried Over	-
Expenditures	(753,369)
Medicaid Savings Carryforward	-
Returned to PIHP	<u>\$ 95,611</u>

Audited Funding Sources

PA2	Other Local	Other Sources	ABW (federal)	MIChild (federal)	Total Funding	Variance (Audited- Reported)	Questioned Costs (Expenditures - Funding)
\$ -	\$ 40	\$ -	\$ -	\$ -	\$ 287,819	\$ -	\$ -
310,214	-	-	-	-	915,510	-	-
177,299	33,550	-	-	-	1,494,993	-	-
-	-	-	-	-	102,936	-	-
-	-	-	-	-	78,342	-	-
-	-	-	-	-	123,758	-	-
-	-	-	69,254	-	90,295	-	-
-	-	-	-	291	392	-	-
31,643	-	536,169	-	-	787,679	-	-
\$ 519,156	\$ 33,590	\$ 536,169	\$ 69,254	\$ 291	\$ 3,881,724	\$ -	\$ -

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***

June 30, 2011

To the Board of Directors of
Washtenaw Community Health Organization
Ypsilanti, Michigan

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of *Washtenaw Community Health Organization* (the "Organization"), as of and for the year ended September 30, 2010, which collectively comprise the Organization's financial statements, and have issued our report thereon dated June 30, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as item 2010-1, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items 2010-2 and 2010-3, to be significant deficiencies.

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*.

In addition, we noted a certain matter that we reported to management of the Organization in a separate letter dated June 30, 2011.

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 management, the Board of Directors, others within the entity, 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 THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON A MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

June 30, 2011

To the Board of Directors of
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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2010. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants that could have a direct and material effect on its major federal program 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 of the Organization's compliance with those requirements.

In our opinion, Washtenaw Community Health Organization complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-4.

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance, which we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-4. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.



Washtenaw Community Health Organization
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

Federal Agency/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services		
Direct program -		
Recovery-Oriented Case Management and Peer Support Partners	93.243	\$ 344,873
Passed through Michigan Department of Community Health -		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	129,630
Substance Abuse Prevention and Treatment Block Grant -		
Strategic Prevention Framework/State Incentive Grants	93.243	123,758
Medical Assistance Program -		
Omnibus Budget Reconciliation Act - Pre-Admission Screening and Annual Resident Review	93.778	510,469
Community Mental Health Services Block Grant:		
Parent Management Training (PMTO)	93.958	50,000
Intensive Crisis Stabilization	93.958	43,288
Supported Employment	93.958	69,182
Integrated Treatment - Mental Health	93.958	50,000
		212,470
Substance Abuse Prevention and Treatment Block Grant:		
Integrated Treatment - Substance Abuse	93.959	50,000
Prevention	93.959	484,237
Community Grant	93.959	1,381,030
		1,915,267
National All Schedules Prescription Reporting Grant	93.975	34,739
Passed through the University of Michigan -		
Medical Assistance Program - Medicaid Match	93.778	168,141
Total expenditures of federal awards		\$ 3,439,347

See accompanying notes to schedule of expenditures of federal awards.

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	\$ 129,630
Recovery-Oriented Case Management and Peer Support Partners	93.243	332,461
Substance Abuse Prevention and Treatment Block Grant	93.243	123,758
Medical Assistance Program	93.778	620,268
Community Mental Health Services Block Grant	93.958	212,470
Substance Abuse Prevention and Treatment Block Grant	93.959	1,735,794
NASPER	93.975	34,739

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WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2010

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 deficiency(ies) identified? 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 deficiency(ies) identified? 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

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.959	Substance Abuse Prevention & 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?	<u> </u> yes <u> X </u> no

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

2010-1 **Audit Preparation and Report Timeliness**

Finding Type: Material weakness in internal control over financial reporting.

Criteria: Michigan governments are required to submit audited financial statements to the Michigan Department of Treasury within six months of year-end (there is a nine-month requirement for the completion and submission of the federal A-133 audit report package). This requires identification and posting of all adjustments necessary for the timely preparation of the financial statements as well as providing supporting documentation to the auditors in order for us to complete our procedures and opine on those financial statements.

Condition: As was the case with the prior year, the Organization was unable to meet the State's six-month reporting requirement and is again at the end of the nine month period before the financial statements and single audit act compliance reports can be finished and issued.

Cause: Several factors contribute to this condition including finance staff turnover and finishing the first year under a new accounting system. However, the Organization's controls over financial reporting are ineffective as significant adjustments were still being identified in May and June, well after the State's reporting deadline, and supporting documentation for these adjustments (along with questions and requests for additional support dating back to the audit fieldwork in January) were piecemealed to the auditors over a five to six months period.

Effect: The Organization's financial reporting is not timely, the audit is highly inefficient and the Michigan Department of Treasury's reporting deadline is not being met.

Recommendation: The Organization should evaluate its process for preparation of the support to the financial statements to ensure that all significant adjustments are identified and made before fieldwork is scheduled in January, ensure that key financial positions have adequate cross training to provide for seamless transition in the event of turnover, and that all supporting workpapers are ready and submitted to the auditors when they arrive for fieldwork.

View of Responsible

Officials: WCHO Management is in agreement with this finding. During the FY 2010 audit the Department experienced unexpected Staff turnover, including back-up staff that resulted in less experienced Staff having to complete the Audit.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Open positions resulting from the Staff turnover have been filled and Staff will adhere to the FY 2011 audit schedule both in terms of timing and the accuracy of schedules being prepared.

While the WCHO accepts responsibility for the delay in completing the audit, we must note that some of the delay resulted from the numerous corrections to Auditor's working drafts and delays due to the unavailability of Auditors to meet with WCHO Staff. The WCHO expects that the Auditor will provide Staff with the proper level of experience, as well as, error-free reports so that the WCHO is not required to spend time answering unnecessary questions and correcting documents.

2010-2 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.

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.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS (Concluded)

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.

2010-3 Significant Audit Adjustment

Finding Type: Significant deficiency in internal control over financial reporting.

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles ("GAAP").

Condition: During our audit, we identified and proposed an adjustment (which was approved and posted by management) that was significant, either individually or in the aggregate, relative to the Organization's accrued salaries and fringes. This resulted in two journal entries to accrue for the last four days of September 2010, one to the mental health fund of \$108,931 and one to the substance abuse fund of \$4,742.

Cause: Internal controls did not detect certain adjustments necessary to properly record year-end balances.

Effect: As a result of this condition, the Organization's internal books and records were misstated by an amount significant to the financial statements.

Recommendation: Management has already reviewed and approved the necessary adjustment, and its effect is included in the Organization's financial statements. Accordingly, no further corrective action is required.

View of Responsible

Officials: Management is in agreement with this finding, and as stated above, has made the appropriate journal entries to correct the condition.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended September 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-4 **Insufficient Documentation of Payroll Expenses (Repeat)**

Finding Type: Noncompliance; significant deficiency in internal controls over compliance.

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, 2010, payroll charges to the Substance Abuse Prevention and Treatment Block Grant were not supported by documentation indicating actual hours worked on specific grants.

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 Substance Abuse Prevention and Treatment Block Grant 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 insofar as the problem is a documentation issue only and the costs appear to be properly allocated and allowable to the program charged.

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 could 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, 2010

View of Responsible

Officials:

Management is in agreement with this finding, however, it should be noted that during fiscal year 2010, the WCHO developed a project specific time entry system. For each two week payroll period, all employees record their time to specific grants, projects or fund/business units. This time entry is electronically submitted by the employee and approved by their supervisor in the Encompass II system. The information is then duplicated from the system into the Great Plains general ledger system where the hours are converted to dollars and booked to the appropriate account based on how the hours were submitted. This system has been in place since August 2010.

SECTION IV – PRIOR YEAR FINDINGS

2009-1 Preparation of Financial Statements in Accordance with GAAP

Issue was not resolved, repeated as finding 2010-1.

2009-2 Insufficient Documentation of Payroll Expenses

Issue was not resolved, repeated as finding 2010-3.

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