



**washtenaw community
health organization**

**Financial Statements
And
Supplementary Information**

For The Year Ended September 30, 2006



WASHTENAW COMMUNITY HEALTH ORGANIZATION

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WASHTENAW COMMUNITY HEALTH ORGANIZATION

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

January 5, 2007

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, 2006, 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, 2006, 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 January 5, 2007, 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 combining and individual fund financial statements and 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 that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

WASHTENAW COMMUNITY HEALTH ORGANIZATION
Management's Discussion and Analysis
Fiscal Year October 1, 2005 – September 30, 2006

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, 2006 completes WCHO's fourth 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 \$83,867,462 for the Mental Health population and from \$553,549 to \$715,985 for the Substance Abuse population.

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

FINANCIAL OVERVIEW

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

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

Government-wide Financial Statements

The *Statement of Net Assets* presents the financial status of the organization's assets and liabilities. It presents the current financial status of the organization. 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, 2006 was \$252,735. 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, 2005 and ending September 30, 2006. Operations during this period resulted in a decrease in net assets of \$652,084. This was the result of an excess of Medicaid expenses incurred over Medicaid revenues earned in operations. 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 expenditure 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 \$18,082,116 at September 30, 2006. Total liabilities are \$12,622,464 at September 30, 2006. Total net assets (fund balance) are \$5,459,652 at September 30, 2006. Total net assets at September 30, 2005 were \$6,111,736.

Assets	<u>09/30/06</u>	<u>09/30/05</u>
Cash and cash equivalents	\$ 13,097,290	\$ 18,217,750
Receivables & prepayments	3,799,027	3,810,866
Other assets	214,386	-
Capital assets	<u>971,413</u>	<u>967,310</u>
Total Assets	<u>18,082,116</u>	<u>22,995,926</u>
Liabilities		
Accounts payable and accrued liabilities	10,441,340	12,784,192
Deferred revenue	1,928,389	3,799,885
Long-term debt		
Due within one year	48,691	47,378
Due in more than one year	<u>204,044</u>	<u>252,735</u>
Total Liabilities	<u>12,622,464</u>	<u>16,884,190</u>
Net Assets		
Invested in capital assets, net of related debt	718,678	667,197
Restricted for contract losses	-	1,366,280
Unrestricted	<u>4,740,974</u>	<u>4,078,259</u>
Total Net Assets	<u>\$ 5,459,652</u>	<u>\$ 6,111,736</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 2005/2006 fiscal year, four integrated health clinics, opened in the 2004/2005 fiscal year, 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 providers comprehensive information for improving quality of care and controlling costs.

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

During the fiscal year ended 09/30/06 net assets of the organization decreased by a combined total of \$652,084 resulting in total net assets of \$5,459,652. This reduction in net assets was due to the under-funding of Medicaid entitlement which necessitated the depletion of the Internal Services Fund (risk reserves). The use of this Fund combined with excess non-Medicaid funds resulted in a reduction in net assets.

Revenue	<u>09/30/06</u>	<u>09/30/05</u>
Program Revenue:		
Charges for services	\$ 2,829,357	\$ 2,049,110
Operating grants and contributions	9,308,552	9,314,174
General Revenue:		
Medicaid - MH & DD	83,867,462	78,018,515
Medicaid - Substance abuse	715,985	1,043,085
State General Funds	9,373,050	9,162,602
Risk reserve funds received from Affiliates		
Unrestricted investment earnings	905,352	654,060
	<u> </u>	<u> </u>
Total revenue	<u>106,999,758</u>	<u>100,241,546</u>
Expenses		
Administration	9,871,521	5,506,377
Mental Health Services	91,470,203	86,790,597
Substance Abuse Services	5,515,613	5,908,387
Physical Health Services	794,505	600,318
	<u> </u>	<u> </u>
Total expenses	<u>107,651,842</u>	<u>98,805,679</u>
Change in net assets	(652,084)	1,435,867
Net assets, beginning of year	<u>6,111,736</u>	<u>4,675,869</u>
Net assets, end of year	<u>\$ 5,459,652</u>	<u>\$ 6,111,736</u>

The total amount of the fund balance at September 30, 2006 is 5.1% of fiscal year 2006 expenditures for Mental Health and Substance Abuse services. Accounting Best Practice recommends a fund balance of two to three months of operating expenditures. While not yet at that level, it does provide some financial protection against future funding shortages.

Factors Impacting the Future

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

Funding levels from the State are often not determined until after the start of the fiscal year. Furthermore, funding is often subject to change during the course of the fiscal year. Such uncertainty increases the complexity of managing budgeted expenditures. In addition, Medicaid, the organization's largest funding source, fluctuates with the changing number of Medicaid eligibles, as well as, the State's criteria for Medicaid eligibility. This year, under-funding of Medicaid necessitated the use of our Internal Service Fund. Consequently, we are facing 2007 with critical funding and budgeting issues.

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.

Since the inception of the WCHO in August 2000, this is the first year in which expenses have exceeded revenues. Restrictions attached to the various funding streams continually challenge management's efforts to maintain vital services and provide an integrated care system. It was a conscience decision to maintain medically necessary services by utilizing the Internal Services Fund.

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. Given Michigan's current economic situation, reductions in funding for FY07 are expected.

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 and 56,534 during fiscal year 2005/2006. During fiscal year 2005/2006, the average monthly number of eligibles ranged from 55,373 to 57,375. 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 Linda L. Brown, Finance Director, Washtenaw Community Health Organization, 555 Towner, P.O. Box 915, Ypsilanti, Michigan 48197-0915.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**

Statement of Net Assets

September 30, 2006

	<u>Business-type Activities</u>
Assets	
Cash and cash equivalents	\$ 13,097,290
Receivables	3,799,027
Other assets	214,386
Capital assets not being depreciated	256,219
Capital assets being depreciated, net	<u>715,194</u>
Total assets	<u>18,082,116</u>
Liabilities	
Accounts payable and accrued liabilities	10,441,340
Unearned revenue	1,928,389
Long-term debt:	
Due within one year	48,691
Due in more than one year	<u>204,044</u>
Total liabilities	<u>12,622,464</u>
Net assets	
Invested in capital assets, net of related debt	718,678
Unrestricted	<u>4,740,974</u>
Total net assets	<u><u>\$ 5,459,652</u></u>

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

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Activities
For the Year Ended September 30, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue / Change in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Business-type activities:				
Mental health services:				
Board administration	\$ 9,871,521	\$ 1,931,698	\$ 1,254,019	\$ (6,685,804)
Access and care management	1,782,970	85,474	1,500	(1,695,996)
Comprehensive support and services	65,903,930	698,802	1,052,487	(64,152,641)
Residential and supported living	13,756,149	-	-	(13,756,149)
Inpatient services	7,516,829	-	-	(7,516,829)
Grants and contracts	999,636	-	915,761	(83,875)
Special projects	1,510,689	5,956	1,348,431	(156,302)
Physical health services:				
Health plan enrollment	472,012	-	397,023	(74,989)
Grants and contracts	322,493	35,000	-	(287,493)
Substance abuse services:				
Board administration	407,062	3,960	244,857	(158,245)
Access	359,282	-	312,091	(47,191)
Prevention	1,177,740	39,727	1,138,013	-
Treatment	2,462,306	28,740	1,535,147	(898,419)
Local projects	1,109,223	-	1,109,223	-
Total business-type activities	\$ 107,651,842	\$ 2,829,357	\$ 9,308,552	(95,513,933)
General revenues:				
MDCH Contract:				
Medicaid				83,124,317
General fund				10,116,195
Substance abuse				715,985
Unrestricted investment earnings				905,352
Total general revenues				<u>94,861,849</u>
Change in net assets				(652,084)
Net assets, beginning of year				<u>6,111,736</u>
Net assets, end of year				<u>\$ 5,459,652</u>

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

FUND FINANCIAL STATEMENTS

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**

**Statement of Net Assets
Proprietary Funds
September 30, 2006**

	Enterprise Funds			Internal Service Funds
	Mental Health	Substance Abuse	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 9,754,625	\$ 1,888,759	\$ 11,643,384	\$ 1,453,906
Receivables:				
Due from the Michigan Department of Community Health	671,745	-	671,745	-
Due from other agencies and governments	2,046,927	29,015	2,075,942	-
Due from other funds	1,540,784	26,000	1,566,784	-
Prepays	213,936	450	214,386	-
Total current assets	<u>14,228,017</u>	<u>1,944,224</u>	<u>16,172,241</u>	<u>1,453,906</u>
Non-current assets:				
Operating advances to other agencies	1,051,340	-	1,051,340	-
Capital assets not being depreciated	256,219	-	256,219	-
Capital assets being depreciated, net	715,194	-	715,194	-
Total non-current assets	<u>2,022,753</u>	<u>-</u>	<u>2,022,753</u>	<u>-</u>
Total assets	<u>16,250,770</u>	<u>1,944,224</u>	<u>18,194,994</u>	<u>1,453,906</u>
Liabilities				
Current liabilities:				
Accounts payable	3,347,094	473,793	3,820,887	-
Accrued payroll	205,332	23,431	228,763	-
Due to the Michigan Department of Community Health	2,638,244	48,618	2,686,862	-
Due to other agencies and governments	3,616,220	88,608	3,704,828	-
Due to other funds	26,000	86,878	112,878	1,453,906
Unearned revenue	705,493	1,222,896	1,928,389	-
Current portion of long-term debt	48,691	-	48,691	-
Total current liabilities	<u>10,587,074</u>	<u>1,944,224</u>	<u>12,531,298</u>	<u>1,453,906</u>
Non-current liabilities:				
Long-term debt, net of current portion	204,044	-	204,044	-
Total liabilities	<u>10,791,118</u>	<u>1,944,224</u>	<u>12,735,342</u>	<u>1,453,906</u>
Net assets				
Invested in capital assets, net of related debt	718,678	-	718,678	-
Unrestricted	4,740,974	-	4,740,974	-
Total net assets	<u>\$ 5,459,652</u>	<u>\$ -</u>	<u>\$ 5,459,652</u>	<u>\$ -</u>

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

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
**Reconciliation of Net Assets on the Statement of Net Assets
for Enterprise Funds to Net Assets of
Business-type Activities on the Statement of Net Assets
September 30, 2006**

Net assets - total enterprise funds	\$ 5,459,652
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Amounts reported for business-type activities in the statement of net assets are different because:

Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods. The assets and liabilities of the internal service fund are included in business-type activities in the statement of net assets.

Add: net assets of business-type activities accounted for in internal service funds	<u>-</u>
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Net assets of business-type activities	<u><u>\$ 5,459,652</u></u>
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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
Proprietary Funds
For the Year Ended September 30, 2006

	<u>Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>	
Operating revenue				
Medicaid	\$ 83,867,462	\$ 715,985	\$ 84,583,447	\$ -
State general fund indigent	10,116,195	-	10,116,195	-
Earned revenues, grants and federal programs	1,310,723	4,017,385	5,328,108	-
Charges for services	2,562,209	43,687	2,605,896	-
Local revenue:				
Community appropriations	1,336,825	-	1,336,825	-
Physical health revenue	885,939	-	885,939	-
Other local revenue	887,310	350,686	1,237,996	-
	<u>100,966,663</u>	<u>5,127,743</u>	<u>106,094,406</u>	<u>-</u>
Operating expenses				
Mental health services:				
Board administration	9,871,521	-	9,871,521	-
Access and care management	1,782,970	-	1,782,970	-
Comprehensive support and services	65,903,930	-	65,903,930	-
Residential and supported living	13,748,531	-	13,748,531	-
Inpatient services	7,516,829	-	7,516,829	-
Grants and contracts	999,636	-	999,636	-
Special projects	1,510,689	-	1,510,689	-
Physical health services:				
Health plan enrollment	472,012	-	472,012	-
Grants and contracts	322,493	-	322,493	-
Substance abuse services:				
Board administration	-	407,062	407,062	-
Access	-	359,282	359,282	-
Prevention	-	1,177,740	1,177,740	-
Treatment	308,192	2,154,114	2,462,306	-
Local projects	-	1,109,223	1,109,223	-
	<u>102,436,803</u>	<u>5,207,421</u>	<u>107,644,224</u>	<u>-</u>
Total operating expenses				
	<u>102,436,803</u>	<u>5,207,421</u>	<u>107,644,224</u>	<u>-</u>
Operating income (loss)	<u>(1,470,140)</u>	<u>(79,678)</u>	<u>(1,549,818)</u>	<u>-</u>

continued...

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Revenue, Expenses, and Changes in Fund Net Assets (Concluded)
Proprietary Funds
For the Year Ended September 30, 2006

	<u>Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>	
Non-operating revenue (expense)				
Interest revenue	\$ 738,048	\$ 79,678	\$ 817,726	\$ 87,626
Interest expense	(7,618)	-	(7,618)	-
Total non-operating revenue	<u>730,430</u>	<u>79,678</u>	<u>810,108</u>	<u>87,626</u>
Net income before transfers	<u>(739,710)</u>	<u>-</u>	<u>(739,710)</u>	<u>87,626</u>
Transfers				
Transfers in	1,453,906	-	1,453,906	-
Transfers out	-	-	-	(1,453,906)
Net transfers in (out)	<u>1,453,906</u>	<u>-</u>	<u>1,453,906</u>	<u>(1,453,906)</u>
Change in net assets	714,196	-	714,196	(1,366,280)
Net assets, beginning of year	<u>4,745,456</u>	<u>-</u>	<u>4,745,456</u>	<u>1,366,280</u>
Net assets, end of year	<u>\$ 5,459,652</u>	<u>\$ -</u>	<u>\$ 5,459,652</u>	<u>\$ -</u>

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

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
**Reconciliation of the Statement of Revenues, Expenses
and Changes in Fund Net Assets of Enterprise Funds
to the Statement of Activities**
For the Year Ended September 30, 2006

Change in net assets - total enterprise funds	\$ 714,196
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Amounts reported for business-type activities in the statement of activities are different because:

Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods. The net revenue (expense) of those funds are reported with business-type activities.

Add: interest revenue from internal service funds	87,626
Add: transfers to (from) internal service funds	<u>(1,453,906)</u>

Change in net assets of business-type activities	<u><u>\$ (652,084)</u></u>
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The accompanying notes are an integral part of these financial statements.

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2006

	<u>Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>	
Cash flows from operating activities				
Cash received from customers and contracts	\$ 99,627,107	\$ 5,201,502	\$ 104,828,609	\$ -
Cash payments to suppliers for goods and services	(102,510,938)	(4,320,476)	(106,831,414)	-
Cash payments to employees for services	(3,490,876)	(439,033)	(3,929,909)	-
Cash received from interfund payments	-	-	-	1,305,767
Interfund payments	(1,230,365)	(75,402)	(1,305,767)	-
Net cash provided (used) by operating activities	<u>(7,605,072)</u>	<u>366,591</u>	<u>(7,238,481)</u>	<u>1,305,767</u>
Cash flows from non-capital financing activities				
Transfers in	1,453,906	-	1,453,906	-
Transfers out	-	-	-	(1,453,906)
Net cash provided (used) by non-capital financing activities	<u>1,453,906</u>	<u>-</u>	<u>1,453,906</u>	<u>(1,453,906)</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(38,102)	-	(38,102)	-
Principal payments	(47,378)	-	(47,378)	-
Interest payments	(7,618)	-	(7,618)	-
Net cash (used) by capital and related financing activities	<u>(93,098)</u>	<u>-</u>	<u>(93,098)</u>	<u>-</u>
Cash flows from investing activities				
Interest received	738,048	79,678	817,726	87,626
Increase (decrease) in cash and cash equivalents	(5,506,216)	446,269	(5,059,947)	(60,513)
Cash and cash equivalents, beginning of year	<u>15,260,841</u>	<u>1,442,490</u>	<u>16,703,331</u>	<u>1,514,419</u>
Cash and cash equivalents, end of year	<u>\$ 9,754,625</u>	<u>\$ 1,888,759</u>	<u>\$ 11,643,384</u>	<u>\$ 1,453,906</u>

continued...

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended September 30, 2006**

	Enterprise Funds			Internal Service Funds
	Mental Health	Substance Abuse	Total	
Reconciliation of operating income to net cash provided by (used in) operating activities				
Operating loss	\$ (1,470,140)	\$ (79,678)	\$ (1,549,818)	\$ -
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation expense	33,999	-	33,999	-
Changes in assets and liabilities:				
Due from the Michigan Department of Community Health	533,162	-	533,162	-
Due from other agencies and governments	(492,991)	(18,476)	(511,467)	-
Due from other funds	(1,379,727)	92,235	(1,287,492)	-
Prepaid insurance	(187,373)	(450)	(187,823)	-
Operating advances to other agencies	(52,190)	15,771	(36,419)	-
Accounts payable	55,517	173,033	228,550	-
Accrued payroll	40,138	2,752	42,890	-
Due to the Michigan Department of Community Health	966,053	48,618	1,014,671	-
Due to other agencies and governments	(3,604,759)	(24,204)	(3,628,963)	-
Due to other funds	(92,235)	73,960	(18,275)	1,305,767
Unearned revenue	(1,954,526)	83,030	(1,871,496)	-
Net cash provided (used) by operating activities	\$ (7,605,072)	\$ 366,591	\$ (7,238,481)	\$ 1,305,767

Non-Cash Transactions:

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

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

NOTES to the FINANCIAL STATEMENTS

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Organization. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. WCHO does not have any governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements are provided for the Organization’s proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus and Basis of Accounting

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

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

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 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 type:

The *internal service funds* are 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.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

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 and first and third party billings. Operating revenues of the internal service funds are primarily comprised of charges to other funds and governmental entities for risk financing. Operating expenses include the cost of providing mental health and substance abuse services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Equity

1. Deposits and Investments

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

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

2. Interfund Receivables/Payables

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

3. Prepayments

Payments made to vendors for services that will benefit periods beyond September 30, 2006, if any, are recorded as "prepaid items" or "other assets" 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.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

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

5. *Compensated Absences*

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

6. *Unearned Revenue*

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

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

B. Due from/to Michigan Department of Community Health

For the year ended September 30, 2006, the operations of the Organization were conducted under the terms and conditions of a managed specialty supports and services contract (the "Contract") with the Michigan Department of Community Health (MDCH). Among other provisions of this contract, the Organization has the authority to determine the nature and extent of institutional care, if any, to be provided to its clients. Thereunder, funds are advanced by the State in order for the Organization to pay for the costs of such institutional care, which is primarily procured, from certain State institutions, as well as community hospitals.

Amounts due from the MDCH at September 30, 2006, are summarized as follows:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Medicaid Managed Care Capitation	\$ 592,643	\$ -	\$ 592,643
Other grants passed through MDCH	<u>79,102</u>	<u>-</u>	<u>79,102</u>
	<u>\$ 671,745</u>	<u>\$ -</u>	<u>\$ 671,745</u>

Amounts due to the MDCH at September 30, 2006, are summarized as follows:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Institutional care services	\$ 1,282,215	\$ -	\$1,282,215
Cost settlement payable	150,000	48,618	198,618
Quality Assurance Assessment Plan payable	<u>1,206,029</u>	<u>-</u>	<u>1,206,029</u>
	<u>\$ 2,638,244</u>	<u>\$ 48,618</u>	<u>\$2,686,862</u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

C. Due from Other Agencies and Governments

Receivables for service charges to first and third-party payors consisted of the following at September 30, 2006:

	<u>Mental Health</u>	<u>Substance Abuse</u>	<u>Total</u>
Due from:			
Other governments	\$ 77,496	\$ -	\$ 77,496
Hospitals	10,475	-	10,475
Other agencies	<u>1,958,956</u>	<u>29,015</u>	<u>1,987,971</u>
	<u>\$2,046,927</u>	<u>\$ 29,015</u>	<u>\$2,075,942</u>

D. Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	<u>\$ 256,219</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 256,219</u>
Capital assets being depreciated:				
Buildings and improvements	747,468	38,102	-	785,570
Less accumulated depreciation for:				
Buildings and improvements	<u>36,377</u>	<u>33,999</u>	<u>-</u>	<u>70,376</u>
Total capital assets being depreciated, net	<u>711,091</u>	<u>4,103</u>	<u>-</u>	<u>715,194</u>
Total capital assets, net	<u>\$ 967,310</u>	<u>\$ 4,103</u>	<u>\$ -</u>	<u>\$ 971,413</u>

During the year ended September 30, 2006, WCHO recorded depreciation expense of \$33,999, which was charged entirely to the residential and supported living program.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

E. 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>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 48,691	\$ 6,305	\$ 54,996
2008	50,039	4,957	54,996
2009	51,425	3,571	54,996
2010	52,850	2,146	54,996
2011	<u>49,730</u>	<u>683</u>	<u>50,413</u>
Total	<u>\$ 252,735</u>	<u>\$ 17,662</u>	<u>\$ 270,397</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loan payable	<u>\$ 300,113</u>	<u>\$ -</u>	<u>\$ 47,378</u>	<u>\$ 252,735</u>	<u>\$ 48,691</u>

F. Interfund Receivables and Payables

The Organization has the following interfund receivables and payables:

	<u>Mental Health</u>	<u>Due from Substance Abuse</u>	<u>Total</u>
Due to:			
Enterprise funds:			
Mental health	\$ -	\$ 26,000	\$ 26,000
Substance abuse	86,878	-	86,878
Internal service funds	<u>1,453,906</u>	<u>-</u>	<u>1,453,906</u>
Total	<u>\$ 1,540,784</u>	<u>\$ 26,000</u>	<u>\$ 1,566,784</u>

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

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

G. Risk Reserve Fund Net Assets

Net assets in the Mental Health and Substance Abuse Risk Reserve Internal Service Funds are held as reserves against future shortfalls between revenue and expenses. Management has developed, as approved by the Board, a budget goal to reach an amount sufficient to cover the estimated potential risk exposure of 5% to 10% of budgeted expenses in the Mental Health Risk Reserve.

Following is a schedule of changes in net assets of the Risk Reserve Internal Service Funds:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Mental health	\$1,294,553	\$ 83,951	\$ 1,378,504	\$ -
Substance abuse	<u>71,727</u>	<u>3,675</u>	<u>75,402</u>	<u>-</u>
Total	<u>\$1,366,280</u>	<u>\$ 87,626</u>	<u>\$ 1,453,906</u>	<u>\$ -</u>

Additions to the Risk Reserve Internal Service Funds were comprised of interest earnings. Reductions in the Mental Health Risk Reserve, when needed, represent transfers to the Mental Health Enterprise Fund to cover expenses in excess of Medicaid authorization from MDCH. Reductions in the Substance Abuse Risk Reserve, when needed, represent transfers to the Substance Abuse Fund of amounts held in excess of allowable reserves. During fiscal year 2006, the Organization needed to transfer all reserves in the Risk Reserve Internal Service Funds to cover revenue shortfalls.

Contributions to the Risk Reserve Internal Service Funds are considered eligible expenses under the MDCH contract, and accordingly are included on the Statement of Revenue, Expenses, and Changes in Fund Net Assets in the various expense categories.

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. In addition to these coverages, the Organization has established two internal service funds to cover any potential operating shortfalls under the terms of its contract with MDCH.

WASHTENAW COMMUNITY HEALTH ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

B. MDCH Revenue

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.

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 \$5,698,381 for the year.

In addition, WCHO paid the County \$266,761 for central services during the year.

* * * * *

**COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS and SCHEDULES**

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Schedule of Program Expenses
Mental Health Enterprise Fund
For the Year Ended September 30, 2006

	Mental Health Services				
	Board Administration	Access and Care Management	Comprehensive Services and Support	Residential and Supported Living	Inpatient Services
Expenses					
Personnel	\$ 2,888,426	\$ 1,713,815	\$ -	\$ -	\$ -
State inpatient	-	-	-	-	3,474,043
Local inpatient	-	-	-	-	487,244
Community inpatient	-	-	-	-	3,555,542
Client expenses	-	2,980	470,025	-	-
Contracts	1,576,073	25,750	65,190,196	13,213,118	-
Cost allocation	266,761	-	-	-	-
Operations	5,140,261	40,425	243,709	535,413	-
Total expenses	\$ 9,871,521	\$ 1,782,970	\$ 65,903,930	\$ 13,748,531	\$ 7,516,829

		Physician Health Services		Substance Abuse Services	
Grants and Contracts	Special Projects	Health Plan Enrollment	Grants and Contracts	Treatment	Total
\$ 37,457	\$ -	\$ 326,496	\$ 97,346	\$ -	\$ 5,063,540
-	-	-	-	-	3,474,043
-	-	-	-	-	487,244
-	-	-	-	-	3,555,542
-	-	-	3,374	-	476,379
962,179	1,510,689	86,936	217,356	285,183	83,067,480
-	-	-	-	-	266,761
-	-	58,580	4,417	23,009	6,045,814
\$ 999,636	\$ 1,510,689	\$ 472,012	\$ 322,493	\$ 308,192	\$ 102,436,803

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION
Schedule of Program Expenses
Substance Abuse Enterprise Fund
For the Year Ended September 30, 2006**

	Substance Abuse Services			
	Board Administration	Access	Prevention	Treatment
Expenses				
Personnel	\$ 291,491	\$ 343,350	\$ -	\$ -
Contracts	65,514	-	-	-
Operations	50,057	15,932	1,177,740	2,154,114
Total expenses	\$ 407,062	\$ 359,282	\$ 1,177,740	\$ 2,154,114

Local		
Projects		Total
\$	-	\$ 634,841
	-	65,514
	1,109,223	4,507,066
\$	1,109,223	\$ 5,207,421

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION
Combining Statement of Net Assets
Internal Service Funds
September 30, 2006**

	Mental Health Risk Reserve	Substance Abuse Risk Reserve	Total
Assets			
Cash and cash equivalents	\$ 1,378,504	\$ 75,402	\$ 1,453,906
 Liabilities			
Due to other funds	1,378,504	75,402	1,453,906
 Net assets			
Unrestricted	\$ -	\$ -	\$ -

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**

**Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended September 30, 2006**

	Mental Health Risk Reserve	Substance Abuse Risk Reserve	Total
Non-operating revenue			
Interest revenue	\$ 83,951	\$ 3,675	\$ 87,626
Transfers out	(1,378,504)	(75,402)	(1,453,906)
Change in net assets	(1,294,553)	(71,727)	(1,366,280)
Net assets, beginning of year	1,294,553	71,727	1,366,280
Net assets, end of year	\$ -	\$ -	\$ -

**WASHTENAW COMMUNITY
HEALTH ORGANIZATION**
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended September 30, 2006

	Mental Health Risk Reserve	Substance Abuse Risk Reserve	Total
Cash flows from operating activities			
Cash received from customers	\$ -	\$ -	\$ -
Cash received from interfund payments	1,230,365	75,402	1,305,767
Net cash provided by operating activities	1,230,365	75,402	1,305,767
Cash flows from non-capital financing activities			
Transfers out	(1,378,504)	(75,402)	(1,453,906)
Cash flows from investing activities			
Interest received	83,951	3,675	87,626
Increase (decrease) in cash and cash equivalents	(64,188)	3,675	(60,513)
Cash and cash equivalents, beginning of year	1,442,692	71,727	1,514,419
Cash and cash equivalents, end of year	\$ 1,378,504	\$ 75,402	\$ 1,453,906
Reconciliation of operating income to net cash used in operating activities			
Operating income	\$ -	\$ -	\$ -
Adjustments to reconcile operating income to net cash used in operating activities:			
Changes in assets and liabilities:			
Due to other funds	1,230,365	75,402	1,305,767
Net cash used in operating activities	\$ 1,230,365	\$ 75,402	\$ 1,305,767

Non-Cash Transactions:

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

SINGLE AUDIT SECTION



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

 an independent member of
BAKER TILLY
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

January 5, 2007

The Board of Directors
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 the Washtenaw Community Health Organization as of and for the year ended September 30, 2006, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated January 5, 2007. 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 Washtenaw Community Health Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washtenaw Community Health 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*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of the Washtenaw Community Health Organization in a separate letter dated January 5, 2007.

This report is intended solely for the information and use of the Washtenaw Community Health Organization Board, management, others in 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.

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



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

January 5, 2007

The Board of Directors
Washtenaw Community Health Organization
Ypsilanti, Michigan

Compliance

We have audited the compliance of *Washtenaw Community Health Organization* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. Washtenaw Community Health 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 Washtenaw Community Health Organization's management. Our responsibility is to express an opinion on Washtenaw Community Health 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 Washtenaw Community Health 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 Washtenaw Community Health 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 its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of Washtenaw Community Health Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Washtenaw Community Health Organization's internal control over compliance with 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Washtenaw Community Health Organization Board, management, others in 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.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive style with a large, prominent initial 'L'.

Washtenaw Community Health Organization
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

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	<u>\$ 129,000</u>
Substance Abuse Prevention and Treatment Block Grant: SIG Grant	93.243	<u>155,000</u>
Medical Assistance Program - OBRA - PASSAR	93.778	<u>358,696</u>
Community Mental Health Services Block Grant:		
Family Psychoeducation	93.958	67,169
Parent Management Training	93.958	25,000
Jail Diversion	93.958	75,000
Wrap Services Initiative	93.958	50,000
Child Respite	93.958	3,855
Cognitive Impairment Training	93.958	<u>53,427</u>
		<u>274,451</u>
Substance Abuse Prevention and Treatment Block Grant:		
Prevention	93.959	464,345
Community Grant	93.959	<u>1,627,895</u>
		<u>2,092,240</u>
Passed through the University of Michigan:		
Medical Assistance Program - Medicaid Match	93.778	<u>181,612</u>
Total expenditures of federal award		<u><u>\$ 3,190,999</u></u>

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

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

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

2. SUBRECIPIENTS

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Projects for Assistance in Transition From Homelessness (PATH)	93.150	\$ 129,000
Medical Assistance Program	93.778	358,696
Community Mental Health Services Block Grant	93.958	182,282
Substance Abuse Prevention and Treatment Block Grant	93.959	1,761,994
Substance Abuse Prevention and Treatment Block Grant SIG grant	93.243	155,000

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WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2006

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

Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X 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

Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X 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)? _____ yes X no

WASHTENAW COMMUNITY HEALTH ORGANIZATION

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse
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

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

2005-1 Allocation of Payroll Expenditures

For the year ended September 30, 2006, management implemented semi-annual certifications for employees working solely on the Substance Abuse program and completed quarterly time studies for employees who do not work solely on the Substance Abuse program.

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