Wayne County Division of Community Living Services, Inc.

Financial Statements

September 30, 2015
(With Summarized Comparative
Information for 2014)

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YEO & YEO
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Independent Auditors' Report

To the Board of Directors of
Community Living Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Wayne County Division of Community Living Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities, functional expenses by program, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wayne County Division of Community Living Services, Inc. as of September 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Wayne County Division of Community Living Services, Inc.'s September 30, 2014, financial statements, and our report dated December 30, 2014 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Yeo & Yeo, P.C.

Ann Arbor, MI
December 30, 2015

Wayne County Division of Community Living Services, Inc.
Statement of Financial Position
September 30, 2015
(With Summarized Comparative Information for 2014)

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 112,324	$ 5,039,234
Investments	10,415	11,543
Accounts receivable - DWMHA	6,253,798	373,693
Accounts receivable - related parties	5,769,804	6,618,343
Accounts receivable - other	1,485,746	2,973,642
Allowance for doubtful accounts	(28,899)	(155,552)
Prepaid expenses	362,279	455,492
Deposits	100	63,255
Total current assets	13,965,567	15,379,650
Fixed assets		
Furniture, equipment and leasehold improvements	2,183,859	2,185,489
Less: accumulated depreciation	(1,770,429)	(1,641,079)
Total fixed assets	413,430	544,410
Total assets	$ 14,378,997	$ 15,924,060
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 10,676,690	$ 11,950,774
Accounts payable - IBNR	56,525	362,355
Accounts payable - related parties	2,520	7,031
Employee related liabilities	658,769	521,604
Accrued retirement	-	10,572
Compensated absences	515,328	531,581
Total current liabilities	11,909,832	13,383,917
Net assets		
Unrestricted net assets - pre-MCPN	2,469,165	2,469,165
Unrestricted net assets - reserved - DWMHA	-	70,978
Total net assets	2,469,165	2,540,143
Total liabilities and net assets	$ 14,378,997	$ 15,924,060

See Accompanying Notes to the Financial Statements

Wayne County Division of Community Living Services, Inc.
Statement of Activities
For the Year Ended September 30, 2015
(With Summarized Comparative Information for 2014)

	2015 Unrestricted	2014 Unrestricted
Revenues		
Contract - DWMHA	**$ 118,173,111**	$ 109,823,459
Contract - DWMHA cost settlement	**5,493,649**	-
Carve out - DWMHA	**-**	5,828,004
Carve out - others	**1,045,118**	1,204,602
Unrealized gain (loss) from investments	**(1,129)**	-
Realized gain (loss) from sale of fixed assets	**(16,037)**	(2,024)
Interest income	**7,965**	7,386
Other income	**91,705**	292,292
Total revenues	**124,794,382**	117,153,719
Program expenses		
Residential	**103,048,340**	94,697,152
Outpatient	**7,939,961**	14,011,534
Day program	**9,444,976**	9,128,922
Administration	**4,432,083**	4,965,628
Total program expenses	**124,865,360**	122,803,236
Change in net assets	**(70,978)**	(5,649,517)
Net assets, beginning of year	**2,540,143**	8,189,660
Net assets, end of year	**$ 2,469,165**	$ 2,540,143

See Accompanying Notes to the Financial Statements

Wayne County Division of Community Living Services, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2015
(With Summarized Comparative Information for 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	**$ (70,978)**	$ (5,649,517)
Items not requiring cash		
Depreciation	**208,101**	480,085
Realized (gain) loss on disposal of fixed assets	**16,037**	2,024
Unrealized (gain) loss on investments	**1,129**	-
Changes in operating assets and liabilities		
Accounts receivable - DWMHA	**(5,880,105)**	(67,695)
Accounts receivable - related entities	**848,539**	(158,223)
Accounts receivable - other	**1,487,896**	(125,726)
Allowance for doubtful accounts	**(126,653)**	99,161
Prepaid expenses	**93,213**	(106,519)
Deposits	**63,155**	(53,255)
Accounts payable	**(1,274,084)**	5,770,134
Accounts payable - IBNR	**(305,830)**	-
Accounts payable - related entities	**(4,511)**	7,031
Employee related liabilities	**137,165**	41,100
Accrued retirement	**(10,572)**	(92,403)
Compensated absences	**(16,253)**	(18,672)
Net cash flows provided (used) by operating activities	**(4,833,751)**	127,525
Cash flows from investing activities		
Purchase of investments	**-**	(11,543)
Proceeds from sale of furniture, equipment and leasehold improvements	**50**	-
Purchase of furniture, equipment and leasehold improvements	**(93,209)**	(81,580)
Net cash flows used by investing activities	**(93,159)**	(93,123)
		7031
Net change in cash and cash equivalents	**(4,926,910)**	34,402
Cash and cash equivalents at the beginning of the year	**5,039,234**	5,004,832
Cash and cash equivalents at the end of the year	**$ 112,324**	$ 5,039,234
Supplemental disclosures		
Cash paid for interest	**$ -**	$ 25,144

See Accompanying Notes to the Financial Statements

Wayne County Division of Community Living Services, Inc.
Statement of Functional Expenses by Program
For the Year Ended September 30, 2015
(With Summarized Comparative Information for 2014)

	2015					2014
	Residential	Outpatient	Day Program	Administration	Total	Total
Salaries	$ 2,840,124	$ 3,550,156	$ 488,146	$ 1,996,963	**$ 8,875,389**	$ 8,705,974
Employee benefits	1,026,655	1,283,319	176,456	721,868	**3,208,298**	3,009,075
Payroll taxes	244,100	305,126	41,955	171,633	**762,814**	759,202
Total salaries and related benefits	4,110,879	5,138,601	706,557	2,890,464	**12,846,501**	12,474,251
Professional fees	278,907	263,412	15,495	216,926	**774,740**	1,174,239
Contractual services	1,313,485	349,154	-	-	**1,662,639**	1,739,599
Business expenses	28,085	187,231	9,362	87,374	**312,052**	246,381
Supplies	11,962	107,654	-	51,264	**170,880**	171,097
Telephone	36,115	131,217	6,019	67,414	**240,765**	260,183
Postage and shipping	4,989	63,862	-	30,933	**99,784**	114,943
Occupancy	225,312	751,039	50,069	225,314	**1,251,734**	1,350,846
Property and causality insurance	50,847	177,966	18,160	116,223	**363,196**	359,053
Equipment leases/maintenance	311,735	421,759	-	183,373	**916,867**	769,146
Events/promotions/training	-	160,336	3,491	104,743	**268,570**	281,190
Outside printing	-	4,729	-	4,996	**9,725**	13,283
Subscriptions/publications/etc.	-	12,928	-	31,652	**44,580**	40,131
Guardianship	-	-	-	323,760	**323,760**	327,626
O/T, speech equipment	-	118,136	-	-	**118,136**	89,022
Provider payments	90,028,381	-	-	-	**90,028,381**	87,774,108
Inpatient hospital state/private	228,803	-	-	-	**228,803**	628,272
One : one staffing	11,247	-	-	-	**11,247**	8,580
Home leases	2,192,845	-	-	-	**2,192,845**	2,187,992
Maintenance and repairs - homes	1,105,793	-	-	-	**1,105,793**	1,229,172
Skill building/day programs	-	-	8,635,823	-	**8,635,823**	8,644,483
Consumer other expenses	3,025,715	-	-	-	**3,025,715**	2,343,321
Interest	-	-	-	-	**-**	25,144
Depreciation	83,240	51,937	-	72,924	**208,101**	480,085
Other expenses	-	-	-	24,723	**24,723**	71,089
Total expenses	103,048,340	7,939,961	9,444,976	4,432,083	**124,865,360**	122,803,236
Administration	3,772,902	304,432	354,749	(4,432,083)	**-**	-
Total expenses	$ 106,821,242	$ 8,244,393	$ 9,799,725	$ -	**$ 124,865,360**	$ 122,803,236

See Accompanying Notes to the Financial Statements

Note 1 – Nature of Business and Significant Accounting Policies

Nature of Activities

Wayne County Division of Community Living Services, Inc. (Wayne County Division) is a division of Community Living Services, Inc. (CLS). CLS is comprised of three divisions: Wayne County Division, Oakland County Division and Long Term Care Division. These financial statements only report the financial information for Wayne County Division.

CLS is a nonprofit organization supporting people with intellectual and developmental disabilities and their families. CLS provides support to assist people with intellectual and developmental disabilities to have a home, a circle of family and friends and meaningful lives, including employment and full citizenship. The program and supporting services rendered by CLS, together with a brief description of each, are set forth below:

> Program Services - Program services include occupational, physical and speech therapy, dietary, nursing, psychological and psychiatric services, case management and support coordination. Program services staff identifies, coordinates and ensures delivery of quality services to CLS consumers.
>
> Housing Services - CLS locates, develops and maintains housing for people with developmental disabilities. Homes may be leased by CLS, or leased/owned by individuals or families of individuals receiving services.
>
> Support Services - Support services encompass all of the activities necessary for overall planning, direction and management of CLS. Also included are activities not clearly associated with any other category.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

Net assets of Wayne County Division and changes therein, are classified and reported as follows:

> Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Net assets established prior to the MCPN structure being created on October 1, 2002 are considered unrestricted net assets of Wayne County Division and are classified under unrestricted net assets – Pre-MCPN. Net assets established after October 1, 2002 are reserved for the DWMHA and are classified under unrestricted net assets – reserved – DWMHA.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Comparative Financial Information

The amounts shown for the year ended September 30, 2014 in the accompanying financial statements are included to provide a basis for comparison with 2015 and present summarized totals only. Accordingly, the 2014 totals are not intended to present all information necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with Wayne County Division's financial statements for the year ended September 30, 2014, from which the summarized information was derived.

Cash Equivalents
Wayne County Division considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents except for temporary investment funds considered to be part of the investment portfolio.

Investments
Investments are stated at fair value based on quoted prices in active markets. Realized gains and losses on sales of investments represent the difference between the net sales price and the cost of securities sold. Unrealized gains and losses on investments represent the net change for the reported year in unrealized appreciation between the balance at the beginning and the end of the year. Donated investments are reflected as contributions at their fair values at date of receipt.

Support and Receivables
CLS is one of three Managers of Comprehensive Provider Networks (MCPN) serving the intellectually and developmentally disabled in Wayne County. The MCPN structure was instituted by Detroit-Wayne Mental Health Authority (DWMHA) on October 1, 2002 based upon the mandate from the State of Michigan to provide a distinct choice of mental health services in the County of Wayne. In conjunction with the MCPN initiative, a managed care business model was implemented. Revenue became capitated on a per member per month basis using unique rates predicated upon the intensity and severity of the consumers' conditions. Actual claims experience (encounter data and demographics) was used to determine the specific rate paid per consumer. In exchange for the capitated payments from DWMHA, CLS assumes the financial risk to provide covered services to all eligible persons. There is no assurance that capitated payments received from DWMHA will be sufficient to provide covered services during the term of the contract. The MCPN initiative is unique, not only to greater Detroit, but to Michigan and the United States.

Effective January 1, 2015 the Wayne County Division changed its cost settlement methodology with DWMHA. Wayne County Division is cost settled by DWMHA by funding source (Medicaid, General Fund, Health Michigan, etc.). Administrative expense is separately settled.

Wayne County Division uses the allowance method for accounting for doubtful accounts. Management regularly reviews the collection history of its receivables balances with particular attention given to those amounts greater than 90 days old. Based on management's review, an allowance of $28,899 was deemed necessary as of September 30, 2015.

Wayne County Division's policy is to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Fiscal Intermediaries
Fiscal intermediaries have been pre-paid monthly on a 1/12 basis based upon the total of all the budgets they control. The fiscals were cost settled every year predicated upon their actual expenditures versus their total prepayment. On December 1, 2013 the fiscal intermediaries' payment process changed from pre-payment based upon budget to post-payment predicated upon actual claims submitted. The fiscals are still cost settled annually.

Property and Equipment
Wayne County Division follows the practice of capitalizing all expenditures in excess of $1,000 for property and equipment at cost and in excess of $5,000 for leasehold improvements; the fair value of donated fixed assets is similarly capitalized.

Furniture and equipment are stated at cost or fair market value at the date received. Major improvements are capitalized while ordinary maintenance and repairs are expensed.

Wayne County Division evaluates long-lived assets for impairment using a discounted cash flow method whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with accounting principles generally accepted in the United States of America.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

Michigan Department of Community Mental Health funding sources (including DWMHA) maintain equitable interest in fixed assets purchased prior to October 1, 2002 with contract dollars as well as the right to determine the use of any proceeds from the sale of these assets. The State has reversionary interest in those assets purchased with its funds which have a cost of $500 or more.

Accordingly, Wayne County Division does not consider assets purchased with State contract moneys prior to October 1, 2002 to be owned by Wayne County Division, and these assets are not included on the Wayne County Division statement of financial position. Control over these assets is maintained through use of a separate assets inventory listing, maintained as required by the State and DWMHA. Assets purchased prior to October 1, 2002 were recorded as expenditures in the year of acquisition. If the contract between DWMHA and Wayne County Division is terminated, the fixed assets purchased prior to October 1, 2002 would revert back to DWMHA.

Compensated Absences
Employees may bank a maximum of thirty (30) accrued paid leave days, which will be paid upon termination. The balance of accrued leave compensated absences at September 30, 2015 was $515,328.

Functional Allocation of Expenses
The cost of providing services has been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status
CLS is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as an organization other than a private foundation, as described in Section 509(a). CLS files information returns in the U.S. Federal and Michigan jurisdiction.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events
Management has evaluated subsequent events through December 30, 2015, which is the date the financial statements were available to be issued.

Note 2 – Summary of Contract Funding

A summary of significant contract revenue by source for the year ended September 30, 2015 is as follows:

Detroit-Wayne Mental Health Authority	$ 123,666,760

Wayne County Division is subject to an annual compliance audit by DWMHA. If program expenditures are disallowed due to noncompliance with contract requirements, Wayne County Division may be required to reimburse the grantor agency.

Note 3 – Fair Value Measurements

Fair value of investments is determined by Level 1 inputs, which generally use quoted prices in active markets for identical assets that Wayne County Division has ability to access. The fair value at September 30, 2015 is summarized as follows:

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common Stock	$ 10,415	$ 10,415	$ -	$ -

It was not necessary to use any Level 2 and Level 3 inputs.

Note 4 – Fixed Assets

Furniture and equipment consist of the following at September 30, 2015:

		Estimated Useful Life
Furniture, equipment and leasehold improvements	$ 2,183,859	5-15 Years
Less: Accumulated depreciation	(1,770,429)	
Net carrying amount	$ 413,430	

Depreciation expense for the year ended September 30, 2015 totaled $208,101.

Note 5 – Accounts Payable – IBNR

Wayne County Division is contractually the authorizing and payment source for all psychological inpatient hospital admissions for its consumers. The computation of expected psychological inpatient hospital cost is on a per diem basis. The Wayne County Division hospital admission log is used to specify and authorize the number of inpatient hospital days by each individual admission to a specific hospital. An average rate of $595 per inpatient day was utilized to compute amounts “incurred but not reported” (IBNR) for that specific admission. All admissions are tallied to equal a total IBNR. The average rate of $595 is determined by reviewing current contractual rates from hospitals that Wayne County Division has agreements with. The IBNR is relieved when the actual hospital bill is presented, verified and paid. The verification process is complicated because approximately half of the consumers are “dual eligible”, meaning they have both Medicare and Medicaid insurance coverage. The coordination of benefits between Medicare and Medicaid is complex and inconsistent as it relates to deductibles, co-payments and exceeding maximum allowed hospital days in any given year. In all instances Medicaid is the payer of last resort. Wayne County Division is pursuing contracts with all hospitals where admissions have occurred, but not all have contracts to date. The rate of reimbursement to hospitals without contracts is valued at the average rate of $595.

Note 6 – Mortgages Payable

CLS was a Co-Borrower with the related parties of Liberty Hill and Holding Company on a mortgage note. On December 30, 2014 the mortgage note was paid off with the execution of two new mortgages with a new lender. Liberty Hill and Holding Company each have a mortgage with the new lender dated December 30, 2014 with identical loan amounts of $2,100,000 each and with identical terms. CLS is a guarantor on both mortgages and agrees to make the lender whole upon default. No amount of the outstanding debt on these mortgage notes are recorded by CLS, but it is included on the related parties’ financial statements.

Note 7 – Employee Benefit Plans

Wayne County Division has adopted a Safe Harbor 401(k) Plan covering all eligible employees. The 401(k) Plan allows for employee and employer contributions. The employer contributions consist of a 3% safe harbor contribution and a discretionary profit-sharing contribution. Contributions totaling $226,381 for the year ended September 30, 2015 were made by Wayne County Division, in addition to the elective deferrals made by employees.

Note 8 – Concentration of Credit Risk

Wayne County Division maintains bank accounts at several banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of September 30, 2015, Wayne County Division did not have any cash in excess of the FDIC limit.

Note 9 – Related Parties

CLS is comprised of three divisions: Wayne County Division, Oakland County Division and Long Term Care Division. Oakland County Division and Long Term Care Division are considered related entities for these financial statements.

CLS is a wholly-owned subsidiary of Community Living Corporation (CLC), a Michigan non-profit corporation. CLC also controls Friends of Community Living Services, Inc. (Friends), Liberty Hill Housing Corporation (Liberty Hill), CLS Supports, Inc. (Supports) and CLS Holding Company, Inc. (Holding Company). These entities are considered related entities to CLS.

Wayne County Division’s material activity with these entities for the fiscal year ended September 30, 2015 is listed below.

Wayne County Division paid $22,800 to Liberty Hill for the rental of a consumer home, which exceeded actual cost, $27,337 to Friends for Medicaid eligible client activity and $1,079,940 to Holding Company for building rent.

Wayne County Division has received interest income of $5,000 from the Holding Company.

Accounts receivable from related parties at September 30, 2015 are detailed as follows:

CLS Holding Company, Inc.	$ 3,262,760
Liberty Hill Housing Corporation	1,563,346
Friends of CLS, Inc.	12,083
Community Living Corporation	625,129
Oakland County Division of CLS, Inc.	122,196
Long Term Care Division of CLS, Inc.	184,290
	$ 5,769,804

Accounts payable to related parties at September 30, 2015 are detailed as follows:

Friends of CLS, Inc.	$ 2,520

Note 10 – Line of Credit

Wayne County Division has an unsecured line of credit arrangement totaling $1,500,000. This arrangement provides for borrowing amounts for short-term use at prime plus 0.50%. While the line of credit was available for use, there were no borrowings during the year.

Note 11 – Operating Leases0

Wayne County Division is leasing several copiers and a postage machine under four to five year operating leases with the latest expiring in 2019.

The following is a schedule of future minimum rental payments required under the above operating leases as of September 30, 2015:

Year Ending September 30,	Amount
2016	$ 39,137
2017	34,386
2018	34,386
2019	34,386
2020	28,644

Rental expense amounted to $39,540 at September 30, 2015.