

**Wayne County Division
of Community Living Services, Inc.**

Financial Statements

**September 30, 2016
(With Summarized Comparative
Information for 2015)**

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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, 2016, and the related statements of activities, functional expenses, 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, 2016, 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, 2015, financial statements, and our report dated December 30, 2015 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, 2015 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 21, 2016

Wayne County Division of Community Living Services, Inc.
Statement of Financial Position
September 30, 2016
(With Summarized Comparative Information for 2015)

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 4,908,331	\$ 112,324
Investments	11,332	10,415
Accounts receivable - DWMHA	1,926,443	6,253,798
Accounts receivable - related parties	5,789,636	5,769,804
Accounts receivable - other	1,226,701	1,485,746
Allowance for doubtful accounts	-	(28,899)
Prepaid expenses	407,417	362,279
Deposits	500	100
Total current assets	14,270,360	13,965,567
Fixed assets		
Furniture, equipment and leasehold improvements	2,217,376	2,183,859
Less: accumulated depreciation	(1,824,628)	(1,770,429)
Total fixed assets	392,748	413,430
Noncurrent assets		
Restricted cash	61,671	-
Total assets	\$ 14,724,779	\$ 14,378,997
 Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 10,740,190	\$ 10,676,690
Accounts payable - IBNR	87,579	56,525
Accounts payable - related parties	38,159	2,520
Employee related liabilities	841,684	658,769
Compensated absences	548,002	515,328
Total current liabilities	12,255,614	11,909,832
Net assets		
Unrestricted net assets - pre-MCPN	2,469,165	2,469,165
Unrestricted net assets - reserved - DWMHA	-	-
Total net assets	2,469,165	2,469,165
Total liabilities and net assets	\$ 14,724,779	\$ 14,378,997

See Accompanying Notes to the Financial Statements

Wayne County Division of Community Living Services, Inc.
Statement of Activities
For the Year Ended September 30, 2016
(With Summarized Comparative Information for 2015)

	<u>2016</u> <u>Unrestricted</u>	<u>2015</u> <u>Unrestricted</u>
Revenues		
Contract - DWMHA	\$ 132,843,038	\$ 118,173,111
Contract - DWMHA cost settlement	842,409	5,493,649
Carve out - others	1,072,287	1,045,118
Contribution revenue	3,120	52
Unrealized gain (loss) from investments	917	(1,129)
Realized gain (loss) from sale of fixed assets	(250)	(16,037)
Interest income	5,367	7,965
Other income	74,643	91,653
	<u>134,841,531</u>	<u>124,794,382</u>
Program expenses		
Residential	112,445,562	103,048,340
Outpatient	8,130,725	7,939,961
Day program	10,233,753	9,444,976
Administration	4,031,491	4,432,083
	<u>134,841,531</u>	<u>124,865,360</u>
Change in net assets	-	(70,978)
Net assets, beginning of year	<u>2,469,165</u>	<u>2,540,143</u>
Net assets, end of year	<u><u>\$ 2,469,165</u></u>	<u><u>\$ 2,469,165</u></u>

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, 2016
(With Summarized Comparative Information for 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ -	\$ (70,978)
Items not requiring cash		
Depreciation	123,278	208,101
Realized (gain) loss from sale of fixed assets	250	16,037
Unrealized (gain) loss from investments	(917)	1,129
Allowance for doubtful accounts	(28,899)	(126,653)
Changes in operating assets and liabilities		
Accounts receivable - DWMHA	4,327,355	(5,880,105)
Accounts receivable - related entities	(19,832)	848,539
Accounts receivable - other	259,045	1,487,896
Prepaid expenses	(45,138)	93,213
Deposits	(400)	63,155
Accounts payable	63,500	(1,274,084)
Accounts payable - IBNR	31,054	(305,830)
Accounts payable - related entities	35,639	(4,511)
Employee related liabilities	182,915	137,165
Accrued retirement	-	(10,572)
Compensated absences	32,674	(16,253)
Net cash flows provided (used) by operating activities	4,960,524	(4,833,751)
Cash flows from investing activities		
Deposits into restricted cash	(61,671)	-
Proceeds from sale of furniture, equipment and leasehold improvements	-	50
Purchase of furniture, equipment and leasehold improvements	(102,846)	(93,209)
Net cash flows used by investing activities	(164,517)	(93,159)
Net change in cash and cash equivalents	4,796,007	(4,926,910)
Cash and cash equivalents at the beginning of the year	112,324	5,039,234
Cash and cash equivalents at the end of the year	\$ 4,908,331	\$ 112,324
Supplemental disclosures		
Cash paid for interest	\$ -	\$ -

See Accompanying Notes to the Financial Statements

Wayne County Division of Community Living Services, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2016
(With Summarized Comparative Information for 2015)

	2016					2015
	Program			Support	Total	Total
	Residential	Outpatient	Day Program	Administration		
Salaries	\$ 3,046,443	\$ 3,532,108	\$ 485,665	\$ 1,766,054	\$ 8,830,270	\$ 8,875,389
Employee benefits	1,456,164	1,688,318	232,153	833,718	4,210,353	3,208,298
Payroll taxes	257,888	299,000	41,113	149,500	747,501	762,814
Total salaries and related benefits	4,760,495	5,519,426	758,931	2,749,272	13,788,124	12,846,501
Professional fees	318,478	296,259	14,813	111,097	740,647	774,740
Contractual services	1,139,879	312,366	-	-	1,452,245	1,662,639
Business expenses	27,689	184,590	12,306	83,066	307,651	312,052
Supplies	8,506	76,555	-	36,455	121,516	170,880
Telephone	28,300	102,822	4,717	52,826	188,665	240,765
Postage and shipping	6,627	84,831	-	41,090	132,548	99,784
Occupancy	196,472	654,908	43,661	196,472	1,091,513	1,251,734
Property and casualty insurance	48,171	168,597	17,204	110,104	344,076	363,196
Equipment leases/maintenance	266,122	361,065	-	157,737	784,924	916,867
Events/promotions/training	-	171,013	15,384	69,995	256,392	268,570
Outside printing	-	-	-	-	-	9,725
Subscriptions/publications/etc.	-	16,695	-	40,874	57,569	44,580
Guardianship	-	-	-	325,784	325,784	323,760
O/T, speech equipment	-	150,866	-	-	150,866	118,136
Provider payments	98,614,534	-	-	-	98,614,534	90,028,381
Inpatient hospital state/private	631,972	-	-	-	631,972	228,803
One : one staffing	-	-	-	-	-	11,247
Home leases	2,089,317	-	-	-	2,089,317	2,192,845
Maintenance and repairs - homes	1,132,945	-	-	-	1,132,945	1,105,793
Skill building/day programs	-	-	9,366,737	-	9,366,737	8,635,823
Consumer other expenses	3,126,744	-	-	-	3,126,744	3,025,715
Depreciation	49,311	30,732	-	43,235	123,278	208,101
Other expenses	-	-	-	13,484	13,484	24,723
Total expenses	\$ 112,445,562	\$ 8,130,725	\$ 10,233,753	\$ 4,031,491	\$ 134,841,531	\$ 124,865,360

See Accompanying Notes to the Financial Statements

Wayne County Division of Community Living Services, Inc.
Notes to the Financial Statements
September 30, 2016
(With Summarized Comparative Information for 2015)

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, 2015 in the accompanying financial statements are included to provide a basis for comparison with 2016 and present summarized totals only. Accordingly, the 2015

Wayne County Division of Community Living Services, Inc.
Notes to the Financial Statements
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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, 2015, from which the summarized information was derived.

Cash and Cash Equivalents

Wayne County Division considers all highly liquid investments purchased with maturity of three months or less to be cash and 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 \$0 and \$28,899 was deemed necessary as of September 30, 2016 and 2015, respectively.

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.

Wayne County Division of Community Living Services, Inc.
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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.

Restricted Assets

Restricted assets consist of cash that was received on behalf of Wayne County Division consumers and is required to be held in separate bank accounts until paid to their respective beneficiaries.

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, 2016 and 2015 was \$548,002 and \$515,328, respectively.

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.

Wayne County Division of Community Living Services, Inc.
Notes to the Financial Statements
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Subsequent Events

Management has evaluated subsequent events through December 21, 2016, 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 years ended September 30 is as follows:

	2016	2015
Detroit-Wayne Mental Health Authority	\$ 133,685,447	\$ 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, 2016 and 2015, respectively, is summarized below.

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)
September 30, 2016				
Common Stock	\$ 11,332	\$ 11,332	\$ -	\$ -
September 30, 2015				
Common Stock	\$ 10,415	\$ 10,415	\$ -	\$ -

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

Wayne County Division of Community Living Services, Inc.
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Note 4 – Fixed Assets

Furniture, equipment and leasehold improvements are summarized as follows:

	<u>September 30,</u> <u>2016</u>	<u>September 30,</u> <u>2015</u>	<u>Estimated</u> <u>Useful Life</u>
Furniture, equipment and leasehold improvements	\$2,217,376	\$ 2,183,859	5-15 Years
Less: Accumulated depreciation	<u>(1,824,628)</u>	<u>(1,770,429)</u>	
Net carrying amount	<u>\$ 392,748</u>	<u>\$ 413,430</u>	

Depreciation expense for the year ended September 30, 2016 and 2015 is \$123,278 and \$208,101, respectively.

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

Liberty Hill Housing Corporation and CLS Holding Company, Inc. each have a mortgage with a 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 \$243,591 and \$226,381 for the year ended September 30, 2016 and 2015, respectively, were made by Wayne County Division, in addition to the elective deferrals made by employees.

Wayne County Division of Community Living Services, Inc.
Notes to the Financial Statements
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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, 2016, Wayne County Division's bank balance of \$5,027,240 exceed the FDIC limit by \$4,774,682.

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 activity with these entities for the fiscal year ended September 30, 2016 is:

Wayne County Division paid \$22,800 to Liberty Hill for the rental of a consumer home, which exceeded actual cost, \$38,815 to Friends for Medicaid eligible client activity and \$1,085,880 to Holding Company for building rent.

Wayne County Division has received interest income of \$5,014 from the Holding Company.

Accounts receivable from related parties at September 30, 2016 and 2015 are detailed as follows:

	2016		2015
CLS Holding Company, Inc.	\$ 3,149,409	\$	3,262,760
Liberty Hill Housing Corporation	1,563,346		1,563,346
Friends of CLS, Inc.	108,455		12,083
Community Living Corporation	668,516		625,129
Oakland County Division of CLS, Inc.	70,493		122,196
Long Term Care Division of CLS, Inc.	229,417		184,290
	<u>\$ 5,789,636</u>	\$	<u>5,769,804</u>

Accounts payable to related parties at September 30, 2016 and 2015 are detailed as follows:

	2016		2015
Friends of CLS, Inc.	<u>\$ 38,159</u>	\$	<u>2,520</u>

Note 10 – Line of Credit

Wayne County Division has an unsecured line of credit arrangement totaling \$1,500,000. This arrangement

Wayne County Division of Community Living Services, Inc.
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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 Leases

Wayne County Division is leasing several copiers and a postage machine under four to five year operating leases with the latest expiring in 2019. Wayne County Division is also leasing 80 homes for licensed consumers under one to five year lease agreements expiring at various times through 2021.

The following is a schedule of future minimum rental payments required under the above operating leases as of September 30, 2016:

<u>Year Ending September 30,</u>	<u>Amount</u>
2017	\$ 1,668,746
2018	1,046,072
2019	325,770
2020	72,363
2021	28,088

Rental expense amounted to \$1,742,293 at September 30, 2016.