Community Health Outreach, Intervention & Clinical Engagement Services

(a wholly owned subsidiary of the Juvenile Assessment Center)

Financial Report

December 31, 2012

Community Health Outreach, Intervention & Clinical Engagement Services

Contents

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Independent Auditor's Report

To the Board of Directors
Community Health Outreach, Intervention &
Clinical Engagement Services

We have audited the accompanying financial statements of Community Health Outreach, Intervention & Clinical Engagement Services (the "Organization"), which comprise the balance sheet as of December 31, 2012 and 2011 and the related statements of activities and changes in net assets (deficit) and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Community Health Outreach, Intervention & Clinical Engagement Services as of December 31, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 3, 2013

Community Health Outreach, Intervention & Clinical Engagement Services

Balance Sheet

		December 31, 2012		December 31, 2011
Assets				
Current Assets				
Cash and cash equivalents	$	108,200	$	77,675
Accounts receivable - Related party (Note 3)		114,848		132,201
Total current assets	**$**	**223,048**	**$**	**209,876**
Liabilities and Net Assets				
Current Liabilities				
Accounts payable - Related party (Note 3)	$	135,298	$	118,981
Note payable - Related party (Notes 2 and 3)		50,000		85,000
Total current liabilities		185,298		203,981
Net Assets - Unrestricted		37,750		5,895
Total liabilities and net assets	**$**	**223,048**	**$**	**209,876**

Community Health Outreach, Intervention & Clinical Engagement Services

Statement of Activities and Changes in Net Assets (Deficit)

	Year Ended December 31, 2012	Year Ended December 31, 2011
Changes in Unrestricted Net Assets		
Revenue and support - Contracted services (Note 3)	$ 637,902	$ 580,506
Expenses:		
Management fees (Note 3)	31,895	29,025
Leased employees (Note 3)	574,152	493,430
Total expenses	606,047	522,455
Increase in Net Assets	31,855	58,051
Net Assets (Deficit) - Beginning of year	5,895	(52,156)
Net Assets - End of year	**$ 37,750**	**$ 5,895**

See Notes to Financial Statements.

Community Health Outreach, Intervention & Clinical Engagement Services

Statement of Cash Flows

	Year Ended	
	December 31, 2012	December 31, 2011
Cash Flows from Operating Activities		
Increase in net assets	$ 31,855	$ 58,051
Changes in operating assets and liabilities which provided (used) cash:		
Related party payable	16,317	(137,807)
Related party receivable	17,353	112,390
Net cash provided by operating activities	65,525	32,634
Cash Flows from Financing Activities - Payments on note payable - Related party	(35,000)	-
Net Increase in Cash and Cash Equivalents	30,525	32,634
Cash and Cash Equivalents - Beginning of year	77,675	45,041
Cash and Cash Equivalents - End of year	**$ 108,200**	**$ 77,675**

See Notes to Financial Statements.

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization - Community Health Outreach, Intervention & Clinical Engagement Services (the “Organization” or "CHOICES") is a not-for-profit stock corporation wholly owned by the Juvenile Assessment Center (the "JAC"). The parent has issued common stock at $1 par value, with 10,000 shares authorized and 1,000 shares outstanding. CHOICES was organized to encourage, strengthen, and enrich children and families via specialized services, treatment, and programs that assist and support children and families to stay together successfully and reduce out-of-home care necessity. Essential to its mission is the provision of mental health, substance abuse treatment, and adjunct programs that serve the best interests of Michigan's children and families.

Significant accounting policies are as follows:

Basis of Presentation - In 2008, CHOICES was formed as a wholly owned subsidiary of the JAC. The accompanying financial statements, which exclude the parent entity, were issued for the benefit of third parties who have a need for financial information of the Organization, independent of the Organization’s parent. Information regarding transactions with the Organization's parent company, the Juvenile Assessment Center, is disclosed in Note 3.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting.

Cash Equivalents - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable are stated at the agreed-upon reimbursement amount per the contract service agreements. The Organization's policy is to record accounts receivable for services provided in agreement with established contracts. An allowance for doubtful accounts is established based on a specific assessment of amounts that remain unpaid. No provision for doubtful accounts has been provided since management believes all receivables are collectible in full. Amounts deemed to be uncollectible are charged against bad debt expense in the period that the determination is made.

Classification of Net Assets - Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law. There were no temporarily or permanently restricted net assets as of December 31, 2012 or 2011.

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 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, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses - Program expenses totaled $488,029 and $419,416 for the years ended December 31, 2012 and 2011, respectively. All other expenses of the Organization are considered management and general expenses.

Income Tax Status - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

Accounting for Uncertainty in Income Taxes - Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2009.

Reclassification - Certain reclassifications were made to amounts in the 2011 financial statements to conform to the classifications used in 2012.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including June 3, 2013, which is the date the financial statements were available to be issued.

Note 2 - Note Payable to Affiliates

The Organization has a note payable to the JAC that is due on demand and bears interest on unpaid principal at a rate per annum equal to the lowest applicable federal rate determined under the Internal Revenue Code (0.24 percent at December 31, 2012). The balance outstanding at December 31, 2012 and 2011 is $50,000 and $85,000, respectively. No interest expense was charged for the years ended December 31, 2012 and 2011.

Note 3 - Related Party Transactions

The following is a description of transactions between the Organization and the JAC:

Accounts Receivable - At December 31, 2012 and 2011, the Organization had accounts receivable from the JAC totaling $114,848 and $132,201, respectively.

Accounts Payable - At December 31, 2012 and 2011, the Organization had accounts payable to the JAC totaling $135,298 and $118,981, respectively.

Note Payable - The terms and balance of the note payable to the JAC are described in Note 2.

Contracted Services - For the years ended December 31, 2012 and 2011, the Organization received $637,902 and $580,506, respectively, from the JAC for contracted services in the ordinary course of business.

Leased Employees - For the years ended December 31, 2012 and 2011, the Organization leased employees from the JAC for $574,152 and $493,430, respectively.

Management Fees - For the years ended December 31, 2012 and 2011, the Organization incurred management fee expenses of $31,895 and $29,025, respectively, payable to the JAC.