

Community Health Outreach, Intervention & Clinical Engagement Services

**(a wholly owned subsidiary of the
Juvenile Assessment Center)**

**Financial Report
December 31, 2011**

Community Health Outreach, Intervention & Clinical Engagement Services

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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 balance sheet of Community Health Outreach, Intervention & Clinical Engagement Services (the "Organization") as of December 31, 2011 and 2010 and the related statements of activities and changes in net assets (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 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 audits provide a reasonable basis for our 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 at December 31, 2011 and 2010 and the changes in its net assets (deficit) and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 1, 2012

Community Health Outreach, Intervention & Clinical Engagement Services

Balance Sheet

	December 31, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 77,675	\$ 45,041
Accounts receivable - Related party (Note 3)	132,201	244,591
Total current assets	<u>\$ 209,876</u>	<u>\$ 289,632</u>
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Accounts payable - Related party (Note 3)	\$ 118,981	\$ 256,788
Note payable - Related party (Notes 2 and 3)	85,000	85,000
Total current liabilities	203,981	341,788
Net Assets (Deficit) - Unrestricted	<u>5,895</u>	<u>(52,156)</u>
Total liabilities and net assets (deficit)	<u>\$ 209,876</u>	<u>\$ 289,632</u>

Community Health Outreach, Intervention & Clinical Engagement Services

Statement of Activities and Changes in Net Assets (Deficit)

	Year Ended	
	December 31, 2011	December 31, 2010
Changes in Unrestricted Net Assets		
Revenue and support - Contracted services (Note 3)	\$ 580,506	\$ 445,261
Expenses:		
Management fees (Note 3)	29,025	22,263
Leased employees (Note 3)	493,430	400,735
Miscellaneous	-	320
Total expenses	<u>522,455</u>	<u>423,318</u>
Increase in Net Assets	58,051	21,943
Net Deficit - Beginning of year	<u>(52,156)</u>	<u>(74,099)</u>
Net Assets (Deficit) - End of year	<u>\$ 5,895</u>	<u>\$ (52,156)</u>

Community Health Outreach, Intervention & Clinical Engagement Services

Statement of Cash Flows

	Year Ended	
	December 31, 2011	December 31, 2010
Cash Flows from Operating Activities - Increase in net assets	\$ 58,051	\$ 21,943
Cash Flows from Investing Activities - Changes in accounts receivable - Related party	112,390	(194,478)
Cash Flows from Financing Activities - Change in accounts payable - Related party	(137,807)	197,293
Net Increase in Cash and Cash Equivalents	32,634	24,758
Cash and Cash Equivalents - Beginning of year	45,041	20,283
Cash and Cash Equivalents - End of year	<u>\$ 77,675</u>	<u>\$ 45,041</u>

Community Health Outreach, Intervention & Clinical Engagement Services

Notes to Financial Statements December 31, 2011 and 2010

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. Incorporated in 2008, the program initiated service provision with juvenile justice and at-risk youth 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.

Community Health Outreach, Intervention & Clinical Engagement Services

Notes to Financial Statements December 31, 2011 and 2010

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, 2011 or 2010.

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 \$419,416 and \$340,849 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, 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 2008.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including June 1, 2012, which is the date the financial statements were available to be issued.

Community Health Outreach, Intervention & Clinical Engagement Services

Notes to Financial Statements December 31, 2011 and 2010

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 (0.20 percent at December 31, 2011). The balance outstanding at December 31, 2011 and 2010 is \$85,000. No interest expense was charged for the years ended December 31, 2011 and 2010.

Note 3 - Related Party Transactions

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

Accounts Receivable - At December 31, 2011 and 2010, the Organization had accounts receivable from the JAC totaling \$132,201 and \$244,591, respectively.

Accounts Payable - At December 31, 2011 and 2010, the Organization had accounts payable to the JAC totaling \$118,981 and \$256,788, 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, 2011 and 2010, the Organization received \$580,506 and \$445,261, respectively, from the JAC for contracted services in the ordinary course of business.

Leased Employees - For the years ended December 31, 2011 and 2010, the Organization leased employees from the JAC for \$493,430 and \$400,735, respectively.

Management Fees - For the years ended December 31, 2011 and 2010, the Organization incurred management fee expenses of \$29,025 and \$22,263, respectively, payable to the JAC.