

**DETROIT COMMUNITY HEALTH  
CONNECTION, INC.**

**INDEPENDENT AUDITORS' REPORT  
AUDIT OF BASIC  
FINANCIAL STATEMENTS**

**YEAR ENDED JANUARY 31, 2012**

**WITH COMPARATIVE TOTALS FOR 2011**

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
INDEPENDENT AUDITORS' REPORT  
AUDIT OF BASIC FINANCIAL STATEMENTS

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**INDEPENDENT AUDITORS' REPORT**

August 1, 2012

Board of Directors  
Detroit Community Health Connection, Inc.  
Detroit, Michigan

We have audited the accompanying balance sheet of Detroit Community Health Connection, Inc. as of January 31, 2012 and 2011, as well as the related statement of revenues, expenses, and changes in net assets and statement of 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 audit.

We conducted our audits 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Detroit Community Health Connection, Inc. as of January 31, 2012 and 2011 and the results of its operations, the changes in net assets, and its cash flows 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 August 1, 2012, on our consideration of the 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 accompanying supplementary information, including the 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 not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Martin, Arrington, Desai and Meyers, P.C.*

Martin, Arrington, Desai and Meyers, P.C.  
Certified Public Accountants

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
BALANCE SHEET  
JANUARY 31, 2012 AND 2011

	2012	2011
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 5,340,173	\$ 5,706,774
Patient accounts receivable, net of allowance \$3,905,530 and \$3,539,699, respectively	309,352	221,662
Cost reimbursement receivable	-	-
Other accounts receivable	30,911	12,971
Grant receivables	81,236	196,865
Inventories	29,867	23,125
Security Deposit	-	7,153
Prepaid Expenses	9,152	5,654
Total current assets	5,800,691	6,174,204
 Property and equipment, net	 3,674,783	 2,685,789
Total assets	\$ 9,475,474	\$ 8,859,993
 <b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Current portion of obligations under capital leases	\$ -	\$ 121,114
Accounts payable	222,305	322,822
Accrued expenses	654,160	604,860
Deferred revenue	236,440	172,371
Loan payable	3,387	13,549
Total current liabilities	1,116,292	1,234,716
 Capital lease obligations, net of current maturities	 -	 4,143
Total liabilities	1,116,292	1,238,859
 <b>Net assets</b>		
<b>Unrestricted</b>		
Board designated	3,368,376	3,343,696
Property and equipment	3,674,783	2,323,253
Undesignated	1,316,023	1,954,185
Total unrestricted net assets	8,359,182	7,621,134
Total liabilities and net assets	\$ 9,475,474	\$ 8,859,993

See accompanying notes to the financial statements.

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS  
YEARS ENDED JANUARY 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>Revenue and other support</b>		
Federal contracts and grants	\$ 4,764,719	\$ 4,985,682
Other contracts and grants	305,886	204,824
Net patient service revenue	2,301,717	2,525,165
Capitated health care premium revenue	1,647,631	2,347,198
Pharmacy revenue	295,418	268,987
Other	<u>146,689</u>	<u>203,433</u>
Total revenue and other support	<u>9,462,060</u>	<u>10,535,289</u>
<b>Expenses</b>		
Salaries, wages and related taxes	5,703,200	5,520,699
Fringe benefits	1,035,160	833,800
Medical and dental supplies	243,931	254,191
Pharmacy	162,743	262,995
Depreciation	249,067	266,211
Contractual services	1,130,258	1,135,031
Legal and professional fees	124,878	123,199
Conferences and seminars	73,005	125,483
Marketing and public relations	79,824	71,418
Rent	387,820	303,379
Interest	-	6,392
Other	<u>669,367</u>	<u>909,995</u>
Total expenses	9,859,253	9,812,793
Excess of revenue over expenses and change in unrestricted net assets before extraordinary item	(397,193)	722,496
Capital Donations	1,070,000	
Gain on sale of CCM	<u>-</u>	<u>47,327</u>
Excess of revenue over expenses and change in unrestricted net assets	672,807	769,823
Unrestricted net assets, beginning of year	7,621,134	6,947,343
Transfer to Related Party	-	(96,032)
Prior period adjustment	<u>65,241</u>	<u>-</u>
Unrestricted net assets, beginning of year, restated	<u>7,686,375</u>	<u>6,851,311</u>
Unrestricted net assets, end of year	<u>\$ 8,359,182</u>	<u>\$ 7,621,134</u>

See accompanying notes to the financial statements.

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
STATEMENT OF CASH FLOWS  
YEARS ENDED JANUARY 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	738,048	769,823
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	249,067	266,211
(Increase) decrease in:		
Security Deposit	7,153	(7,153)
Receivables	9,999	953,626
Inventories	(6,742)	2,746
Prepaid expenses	(3,498)	17,032
Increase (decrease) in:		
Accounts payable	(100,517)	83,783
Cost reimbursement payable	64,069	-
Accrued expenses	49,300	(275,020)
	<u>1,006,879</u>	<u>1,811,048</u>
 Cash flows from investing activities		
Purchase of property and equipment	<u>(1,238,061)</u>	<u>(834,260)</u>
 Cash flows from financing activities		
Principal payments on capital lease obligations	(125,257)	(30,211)
Proceeds from loan payable	-	-
Principal payments on loan payable	<u>(10,162)</u>	<u>(10,162)</u>
	<u>(135,419)</u>	<u>(40,373)</u>
 Net increase (decrease) in cash and cash equivalents	(366,601)	936,415
 Cash and cash equivalents, beginning of year	<u>5,706,774</u>	<u>4,770,359</u>
 Cash and cash equivalents, end of year	<u>\$ 5,340,173</u>	<u>\$ 5,706,774</u>
 <b>Supplemental cash flow information</b>		
Interest paid	<u>\$ -</u>	<u>\$ 6,392</u>

See accompanying notes to the financial statements.

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2012

**Note 1 – Nature of Operations**

Detroit Community Health Connection, Inc. (Organization) was incorporated as a not-for-profit organization in 1988, under the laws of the State of Michigan and commenced operations in 1988. The Organization operates five facilities that provide health care assistance for physically and/or mentally impaired low-income individuals and families residing in Detroit, Michigan. Detroit Community Health Connection, Inc. is a community-based comprehensive primary care organization committed to providing accessible, affordable and quality service to all members of the communities it serves.

**Note 2 – Summary of Significant Accounting Policies**

*Federal Income Taxes*

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

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

*Cash and Cash Equivalents*

For purposes of reporting cash flows, the Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At January 31, 2012 and 2011, cash equivalents consisted primarily of money market accounts with banks.

*Patient Accounts Receivable*

Patient accounts receivable are stated at net realizable amounts from patients, third-party payers and others for services rendered. The Organization provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Patient accounts receivable are ordinarily due 30 days after the issuance of the invoice. Balances over

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2012

**Note 2 – Summary of Significant Accounting Policies, Continued**

120 days past due are considered delinquent. Delinquent accounts receivable are written off based on individual credit evaluation and specific circumstances of the patient or third-party payer.

*Inventory*

Inventory is stated at cost and consists of pharmaceutical supplies and prescription drugs.

*Property and Equipment*

Land, buildings and equipment are recorded at cost. All major maintenance that extends the useful life of the asset is recorded at cost. Donations of land, buildings and equipment are recorded as support at their estimated fair value. Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term of their respective estimated useful lives. Estimated useful lives used by the Organization are as follows:

	<u>Years</u>
Office Equipment	5 – 20
Medical Equipment	3 – 10
Furniture and Fixtures	5 – 10
Leasehold Improvements	10
Land Improvements	8 – 20
Building Improvements	10
Buildings	40

*Board Designated Net Assets*

The Organization's Board of Directors has designated and set aside unrestricted net assets to meet potential future funding shortfalls. Such amounts are included in cash and cash equivalents and amounted to \$3,368,376 at January 31, 2012 and \$3,343,696 at January 31, 2011.

*Contributions*

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily restricted or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2012

**Note 2 – and Summary of Significant Accounting Policies, Continued**

accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenue, expenses, and changes in net assets as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

*Net Patient Service Revenue*

The Organization has agreements with third-party payers that provide for payments to the Organization in amounts different from its established rates. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

*Charity Care*

The Organization provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Charity care is not reported as revenue.

*Premium Revenue*

The Organization has agreements with various health maintenance organizations (HMO) to provide medical services to subscribing participants. Under these agreements, the Organization receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Organization. In addition, HMOs make fee-for-service payments to the Organization for certain covered services based upon discounted fee schedules.

*Donated Services*

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets and (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount.

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2012

**Note 2 – Summary of Significant Accounting Policies, Continued**

*Donated Services – Continued*

The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs and various committee assignments.

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

**Note 3 – Property and Equipment**

The Organization's property and equipment are as follows:

	<u>2012</u>	<u>2011</u>
Buildings	\$3,537,017	\$2,788,017
Office equipment	1,166,132	1,718,404
Medical equipment	652,726	649,454
Furniture and fixtures	144,538	138,803
Land improvements	16,745	5,745
Leasehold improvements	82,397	71,934
Building improvements	1,081,175	943,260
Vehicles	30,485	30,485
Software	51,376	-
School based grant assets	14,512	-
Total depreciable property and equipment	<u>6,777,103</u>	<u>6,346,102</u>
Less accumulated depreciation and amortization	(3,834,870)	(4,071,863)
Net depreciable property and equipment	<u>2,942,233</u>	<u>2,274,239</u>
Land	732,550	411,550
Net property and equipment	<u><u>\$3,674,783</u></u>	<u><u>\$2,685,789</u></u>

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2012

**Note 4 – Leases**

The Organization was obligated under various capital leases for office equipment that expired at various dates over the next five years. In February 2011, the Organization returned the leased equipment in exchange for new equipment, which they obtained under the terms of an operating lease. The capital lease obligation was ended by the terms of the new agreement. At January 31, 2012 and 2011, the gross amounts of property and equipment and related accumulated amortization recorded under capital leases were as follows:

	<u>2012</u>	<u>2011</u>
Office equipment	-	\$566,460
Less accumulated amortization	-	(486,060)
Lease liabilities, net of accumulated amortization	<u>-</u>	<u>\$ 80,400</u>

The Organization also has several noncancelable operating leases, primarily for buildings and office equipment that expire over the next five years. Rental expense totaled \$387,820 and \$303,379 for the years ended January 31, 2012 and 2011, respectively.

Future minimum lease payments under operating leases at January 31, 2012 were:

2013	\$ 345,827
2014	343,683
2015	<u>208,361</u>
	<u>\$ 897,871</u>

**Note 5 – Charity Care**

Charges excluded from revenue under the Organization's charity care policy were \$1,755,749 for 2012 and \$2,204,236 for 2011.

**Note 6 – Functional Expenses**

The Organization provides general health care services to residents within its geographic location. Expenses related to providing those services for the years ended January 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$7,824,406	\$ 7,800,625
Management and general	<u>2,034,847</u>	<u>2,012,168</u>
Total	<u>\$9,859,253</u>	<u>9,812,793</u>

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED JANUARY 31, 2012

**Note 7 – Net Patient Service Revenue**

The Organization provides health care services through its outpatient care facilities located in Detroit, Michigan. The Organization grants credit to patients, substantially all of whom are local residents. The Organization generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plan or policies (e.g., Medicare, Medicaid, health maintenance organizations and commercial insurance policies).

The mix of receivables from patients and third-party payers at January 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 158,106	\$110,652
Medicaid	54,437	57,743
Other third party payers	105,137	53,267
Patients	-	-
	<u>\$317,680</u>	<u>\$221,662</u>

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

*Medicare*

Covered federally qualified health center (FQHC) services rendered to Medicare program beneficiaries are paid at prospectively determined rates per encounter. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary. At January 31, 2010, all Medicare settlements for 2008 and after are subject to audit and retroactive adjustment. Services not covered under the FQHC benefit are paid based on established fee schedules.

*Medicaid*

Covered FQHC services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per encounter. The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual reports by the Organization and audits thereof by the Medical Service Administration, State of Michigan.

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2012

**Note 7 – Net Patient Service Revenue - Continued**

*Others*

The Organization also has entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the organization under these arrangements includes prospectively determined rates per encounter and discounts from established charges.

**Note 8 – Employee Benefit Plan**

The Organization sponsors a tax sheltered annuity that covers employees who meet certain length of service requirements. Employer contributions at 5% of gross wages were \$250,343 and \$192,923 for the years ended January 31, 2012 and 2011, respectively.

**Note 9 – Federally Qualified Health Center Status**

The Organization qualifies as a federally qualified health center (FQHC) under the provisions of the Omnibus Budget Reconciliation Act of 1989. In compliance with this Federal government mandate, the Medicaid program began to reimburse the Organization full, reasonable costs of services provided to qualified Medicaid recipients on or after April 1, 1990. Final settlements are determined after submission of the annual cost report by the Organization and review by the Medicaid fiscal intermediary.

**Note 10 – Contingencies and Subsequent Events**

The Organization is subject to other claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and change in cash flows of the organization. Events could occur that would change this estimate materially in the near term.

**Note 11 – Medical Malpractice Claims**

The U.S. Department of Health and Human Services, Bureau of Primary Health Care has deemed the Organization and its practicing providers covered under the Federal Tort Claims Act (FTCA) for damage and personal injury, including death resulting from

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JANUARY 31, 2012

**Note 11 – Medical Malpractice Claims - Continued**

the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of these incidents. Based upon the Organization's claim experience, no such accrual and related accrual of insurance proceeds has been made. It is reasonably possible that this estimate could change materially in the near term.

**Note 12 – Prior Period Adjustment**

During the year, the Organization became aware of two checks from prior fiscal years which were voided but recorded improperly. Additionally, the Organization was notified in April 2012 by the City of Detroit Department of Health and Wellness Promotion that a liability that had been incurred for utility expenses in August 2010 was billed to the Organization in error. The cumulative effect on beginning net assets is as follows:

Net assets, beginning of year,	\$7,621,134
Voided checks and restated liability balance	<u>65,241</u>
Net assets, beginning of year, restated	<u>\$7,686,375</u>

**Note 13 – Evaluation of Subsequent Events**

Management has evaluated subsequent events through August 1, 2012, the date which the financial statements were available to be issued.

**Note 14 – Related Party Transfer**

During the fiscal year ended January 31, 2011, DCHC transferred the "Friends of DCHC" bank account to a separate entity under the control of DCHC. The reason for the transfer was because the amount exceeded the amount by which it was permitted to operate without a separate tax identification. "Friends of DCHC" is an organization of leaders and community citizens committed to promoting voluntarism, developing the potential resources, and to improving DCHC through the effective action and fundraising.



DETROIT COMMUNITY HEALTH CONNECTION, INC.  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BY FUNDING SOURCE  
YEAR ENDED JANUARY 31, 2012  
(WITH COMPARATIVE TOTALS FOR 2011)

	330 Program	ARRA Funds	Board Designated Reserve Fund	Immunization Program	Teen Program	Ryan White Title I	Ryan White Title III	HIV Prevention Services	Property and Equipment
<b>Revenue and other support</b>									
Federal contracts and grants	\$ 3,931,830	\$ 78,711	\$ -	-	\$ -	\$ 87,628	\$ 666,550	\$ -	\$ -
Other contracts and grants	85,560	-	-	8,658	171,668	-	-	-	-
Net patient service revenue	2,263,669	-	-	-	29,824	-	8,224	-	-
Capitated health care premium revenue	1,564,801	-	-	-	64,816	-	18,014	-	-
Pharmacy revenue	295,418	-	-	-	-	-	-	-	-
Other	38,642	-	24,680	-	93,270	-	30,099	-	-
	<u>8,179,920</u>	<u>78,711</u>	<u>24,680</u>	<u>8,658</u>	<u>359,578</u>	<u>87,628</u>	<u>722,887</u>	<u>-</u>	<u>-</u>
<b>Expenses</b>									
Salaries, wages and related taxes	4,865,203	38,515	-	5,848	241,365	48,966	503,303	-	-
Fringe benefits	916,277	6,991	-	969	36,705	5,391	68,827	-	-
	<u>5,781,480</u>	<u>45,506</u>	<u>-</u>	<u>6,817</u>	<u>278,070</u>	<u>54,357</u>	<u>572,130</u>	<u>-</u>	<u>-</u>
Medical and dental supplies	219,593	-	-	1,249	9,873	1,246	11,971	-	-
Pharmacy	162,743	-	-	-	-	-	-	-	-
Provision for depreciation	-	-	-	-	-	-	-	-	249,067
Contractual services	842,107	-	-	-	12,575	30,445	44,741	-	-
Legal and professional fees	140,538	-	-	-	-	-	7,895	-	-
Conferences and seminars	72,828	-	-	-	114	-	63	-	-
Marketing and public relations	63,047	-	-	-	14,536	-	2,241	-	-
Rent	259,010	-	-	165	43,835	-	37,440	-	-
Interest	-	-	-	-	-	-	-	-	-
Other	844,584	-	-	427	575	1,580	46,406	-	-
	<u>8,385,930</u>	<u>45,506</u>	<u>-</u>	<u>8,658</u>	<u>359,578</u>	<u>87,628</u>	<u>722,887</u>	<u>-</u>	<u>249,067</u>
<b>Total expenses</b>									
Excess of revenue over expenses and change in unrestricted net assets before extraordinary item	(206,010)	33,205	24,680	-	-	-	-	-	(249,067)
Capital donations	-	-	-	-	-	-	-	-	1,070,000
Gain on sale of CCM	-	-	-	-	-	-	-	-	-
<b>Excess of revenue over expenses and change in unrestricted net assets</b>									
Unrestricted net assets, beginning of year	1,952,293	-	3,343,696	-	481	-	1,411	-	2,323,253
Prior period adjustment	65,241	-	-	-	-	-	-	-	-
Unrestricted net assets, beginning of year, restated	2,017,534	-	3,343,696	-	481	-	1,411	-	2,323,253
<b>Other changes in net assets</b>									
<b>Transfer of related party receivable</b>	1,892	-	-	-	(481)	-	(1,411)	-	-
Property and equipment acquisitions and transfers	-	-	-	-	-	-	-	-	-
Unrestricted net assets, end of year	<u>\$ 1,813,416</u>	<u>\$ 33,205</u>	<u>\$ 3,368,376</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,144,186</u>

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BY FUNDING SOURCE  
 YEAR ENDED JANUARY 31, 2012  
 (WITH COMPARITIVE TOTALS FOR 2011)

	2012 Total	2011 Total
<b>Revenue and other support</b>		
Federal contracts and grants	\$ 4,764,719	\$ 4,985,682
Other contracts and grants	265,886	204,824
Net patient service revenue	2,301,717	2,525,165
Capitated health care premium revenue	1,647,631	2,347,198
Pharmacy revenue	295,418	268,987
Other	186,691	203,433
Total revenue and other support	<u>9,462,062</u>	<u>10,535,289</u>
<b>Expenses</b>		
Salaries, wages and related taxes	5,703,200	5,520,699
Fringe benefits	1,035,160	833,800
	<u>6,738,360</u>	<u>6,354,499</u>
Medical and dental supplies	243,932	254,191
Pharmacy	162,743	262,995
Provision for depreciation	249,067	286,211
Contractual services	929,868	1,135,031
Legal and professional fees	148,433	123,199
Conferences and seminars	73,005	125,483
Marketing and public relations	79,824	71,418
Rent	340,450	303,379
Interest	-	6,392
Other	893,572	909,995
Total expenses	<u>9,859,254</u>	<u>9,812,793</u>
Excess of revenue over expenses and changes in net assets before extraordinary items	(397,192)	722,496
Capital donations	-	-
Gain on sale of CCM	-	47,327
Excess of revenue over expenses and changes in net assets	<u>672,808</u>	<u>769,823</u>
Unrestricted net assets, beginning of year	7,621,134	6,947,343
Prior period adjustment	65,241	-
Unrestricted net assets, beginning of year, reclassified	7,686,375	6,947,343
<b>Other changes in net assets</b>	-	-
<b>Transfer of related party receivable</b>	-	(96,032)
Property and equipment acquisitions and disposals	-	-
Unrestricted net assets, end of year	<u>\$ 8,359,183</u>	<u>\$ 7,621,134</u>

**INDEPENDENT AUDITOR'S 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**

August 1, 2012

To the Board of Directors  
Detroit Community Health Connection, Inc.  
Detroit, Michigan

We have audited the financial statements of Detroit Community Health Connection as of and for the year ended January 31, 2012 and have issued our report thereon dated August 1, 2012. 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 Detroit Community Health Connection's internal control over financial reporting as a basis for designating our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Detroit Community Health Connection's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Detroit Community Health Connection's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Detroit Community Health Connection's financial statements that is more than inconsequential will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing body, management 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.

*Martin, Arrington, Desai & Meyers, P.C.*

Martin, Arrington, Desai and Meyers, P.C.  
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

August 1, 2012

Board of Directors  
Detroit Community Health Connection, Inc.  
Detroit, Michigan

**Compliance**

We have audited the compliance of Detroit Community Health Connection, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Detroit Community Health Connection, Inc.'s major federal programs for the year ended January 31, 2012. The Organization's major federal award programs are identified in the summary of auditor's 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 awards programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the compliance of Detroit Community Health Connection, Inc. 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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit prides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

provide a legal determination on the Organization's compliance with those requirements.

In our opinion, Detroit Community Health Connection, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended January 31, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-1.

### **Internal Control over Compliance**

The management of Detroit Community Health Connection, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal award programs. In planning and performing our audit, we considered the 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 an opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2012-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less

severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Detroit Community Health Connection, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Detroit Community Health Connection, Inc.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the governing body, management 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.

*Martin, Arrington, Desai + Meyers, P.C.*

Martin, Arrington, Desai and Meyers, P.C.  
Certified Public Accountants

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JANUARY 31, 2012

<u>Cluster/Program</u>	<u>Federal Agency/ Pass-through Entity</u>	<u>CFDA Number</u>	<u>Amount</u>
Consolidated Health Centers	Department of Health and Human Services	93.224	\$ 3,931,830
HIV Emergency Relief Project Grants	Department of Health and Human Services/ Southeastern Michigan Health Association	93.914	87,628
Capital Improvement Program - ARRA	Department of Health and Human Services	93.703	33,205
Increase Services to Health Centers - ARRA	Department of Health and Human Services	93.703	45,506
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	Department of Health and Human Services	93.918	<u>666,550</u>
			<u>\$ 4,764,719</u>

DETROIT COMMUNITY HEALTH CONNECTION, INC.  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JANUARY 31, 2012

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Detroit Community Health Connection, Inc. under programs of the federal government for the year ended January 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Detroit Community Health Connection, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of the Detroit Community Health Connection, Inc.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Pass-through entity identifying numbers are presented where available.

Detroit Community Health Connection, Inc.  
Schedule of Findings and Questioned Costs  
January 31, 2012

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?       Yes     No
- Significant deficiency(ies) identified?     Yes     None reported

Noncompliance material to financial statements noted?       Yes     No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?       Yes     No
- Significant deficiency(ies) identified?     Yes     None reported

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 501(a) of Circular A-133?       Yes     No

Detroit Community Health Connection, Inc.  
Schedule of Findings and Questioned Costs  
January 31, 2012

*Federal Awards – Continued*

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.224	Consolidated Health Centers

Dollar threshold used to distinguish  
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee       Yes     No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

There were no findings related to the financial statements which are required to be reported in accordance with government auditing standards generally accepted in the United States of America for the year ended January 31, 2012.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2012 – 1                      Consolidated Health Centers Sliding Fee Calculation**

Criteria:                      Providers may impose charges for the provision of services only to individuals whose income level does not exceed 100% of the official poverty line based on a publicly available poverty schedule. A waiver has not been granted by HRSA under 42 USC 300ff-52(b)(2) (42 USC 300ff-64(e)(5)).

Condition:                      The organization is required to obtain gross income information from each individual in order to implement the poverty fee schedule limitation. As a standard practice the Organization does obtain income information from individuals in accordance with regulations. However, determination of the discount to be applied is not always made correctly.

Detroit Community Health Connection, Inc.  
Schedule of Findings and Questioned Costs  
January 31, 2012

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2012 – 1                      Consolidated Health Centers Sliding Fee Calculation  
- Continued**

Of the sample of 46 occurrences tested, the Organization determined the discount amount incorrectly for 7 patients.

Effect:                                      The Organization's misapplication of its established sliding fee policy has resulted in patients being charged for services incorrectly.

Cause:                                        The personnel of the Organization did not obtain proper training relating to the sliding fee policy.

Recommendation:                      We recommend that management review the requirements of the sliding fee discount policy and properly train employees on the application of the discount determination.

Management's Response: The Organization has retrained employees for income determination according to the existing policy. Management will conduct periodic audits to see the policy implemented correctly.

**Schedule of Prior Year Findings and Questioned Costs  
January 31, 2012**

There were no findings reported in the prior year.