Assured Family Services
(parent company only)

Financial Report
December 31, 2016

Assured Family Services

Contents

plante moran

Plante & Moran, PLLC
1098 Woodward Avenue
Detroit, MI 48226-1906
Tel: 313.496.7200
Fax: 313.496.7201
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Assured Family Services

We have audited the accompanying financial statements of Assured Family Services (parent company only) (the "Organization"), which comprise the balance sheet as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets 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.

To the Board of Directors
Assured Family Services

Basis for Modified Opinion

Consolidated financial statements are required for conformity with accounting principles generally accepted in the United States of America. As discussed in Note 1, the 2016 and 2015 parent company-only financial statements, which include a subsidiary on the cost basis, are being issued in addition to consolidated financial statements for 2016 and 2015. Information regarding the subsidiary is disclosed in Note 6.

Modified Opinion

In our opinion, except for the effects of not consolidating the subsidiary as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Assured Family Services as of December 31, 2016 and 2015, and the changes in its net assets 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

May 31, 2017

Assured Family Services

Balance Sheet

	December 31, 2016	December 31, 2015
Assets		
Current Assets		
Cash	$ 2,980,225	$ 2,432,931
Receivables	1,529,371	2,406,196
Accounts receivable - Related party (Note 7)	197,987	386,055
Prepaid expenses and other current assets	6,826	6,826
Total current assets	4,714,409	5,232,008
Deposits	14,234	14,234
Investments (Note 8)	250,000	250,000
Property and Equipment - Net (Note 2)	22,537	74,808
Investment in Subsidiary (Notes 6 and 7)	1,000	1,000
Loan Receivable - Related party (Note 7)	50,000	-
Total assets	**$ 5,052,180**	**$ 5,572,050**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 835,818	$ 915,545
Accounts payable - Related party (Note 7)	133,200	273,735
Accrued liabilities and other	325,022	299,215
Total current liabilities	1,294,040	1,488,495
Net Assets		
Unrestricted	3,758,140	3,983,555
Temporarily restricted	-	100,000
Total net assets	3,758,140	4,083,555
Total liabilities and net assets	**$ 5,052,180**	**$ 5,572,050**

Assured Family Services

Statement of Activities and Changes in Net Assets

	Year Ended December 31, 2016	Year Ended December 31, 2015
Changes in Unrestricted Net Assets		
Revenue and support:		
Contracted services	$ 10,697,705	$ 11,318,123
Grant revenue	477,000	468,000
Management fee revenue (Note 7)	46,172	107,758
Interest income	2,028	2,740
Miscellaneous income	515	1,006
Total revenue and support	11,223,420	11,897,627
Net assets released from restrictions	100,000	100,000
Total unrestricted revenue, support, and net assets released from restrictions	11,323,420	11,997,627
Expenses:		
Salaries and wages	4,222,916	3,905,924
Employee benefits	1,390,335	1,410,679
Payroll taxes	462,022	443,232
Contracted services	4,016,179	4,558,152
Professional fees	135,895	102,911
Office supplies	124,405	152,240
Travel and lodging	120,692	157,417
Testing supplies	144,501	156,659
Telephone	183,017	208,033
Insurance	61,199	50,759
Postage and shipping	6,198	15,528
Occupancy	481,250	481,250
Depreciation	52,271	75,117
Conferences and meetings	7,873	21,799
Dues and subscriptions	2,326	7,053
Miscellaneous	33,046	37,605
Equipment	-	750
Equipment rental	103,004	73,043
Advertising	1,706	21,571
Total expenses	11,548,835	11,879,722
(Decrease) Increase in Unrestricted Net Assets	(225,415)	117,905
Net Assets Released from Restrictions	(100,000)	(100,000)
(Decrease) Increase in Net Assets	(325,415)	17,905
Net Assets - Beginning of year	4,083,555	4,065,650
Net Assets - End of year	**$ 3,758,140**	**$ 4,083,555**

Statement of Cash Flows

	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (325,415)	$ 17,905
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	52,271	75,117
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	876,825	(965,381)
Related party receivable	188,068	82,569
Accounts payable	(79,727)	(163,703)
Related party accounts payable	(140,535)	(16,762)
Accrued liabilities and other	25,807	80,283
Net cash provided by (used in) operating activities	597,294	(889,972)
Cash Flows from Investing Activities		
Purchase of property and equipment	-	(25,901)
Purchases of investments	(238,111)	(398,250)
Proceeds from sales of investments	238,111	148,250
Issuance of loan to related party	(50,000)	-
Net cash used in investing activities	(50,000)	(275,901)
Net Increase (Decrease) in Cash and Cash Equivalents	547,294	(1,165,873)
Cash and Cash Equivalents - Beginning of year	2,432,931	3,598,804
Cash and Cash Equivalents - End of year	**$ 2,980,225**	**$ 2,432,931**

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization - Assured Family Services (the "Organization" or AFS) is a not-for-profit member corporation organized to encourage, strengthen, and sustain healthy, safe, and supportive environments in which children and families will flourish. Essential to its mission is the joint investment of resources and programs, the establishment of community partnerships, and the promotion of responsible policies that serve the best interests of Michigan's children and families. The Organization provides mental health care and social services to children and families throughout the state of Michigan.

Revenue from the Wayne County Department of Children and Family Services is substantially on a cost reimbursement basis. During 2016, the contract was extended for an additional year. The amended contract now covers from January 1, 2012 through December 31, 2017, providing for reimbursement not to exceed $73,751,828. AFS billed approximately $60,224,000 of these funds through December 31, 2016. The contract contains various provisions. Noncompliance with financial and other nonfinancial provisions of the contract could cause adjustments to the contract amounts. Substantially all revenue and receivables are received from Wayne County.

Significant accounting policies are as follows:

Basis of Presentation - The Organization has issued consolidated financial statements for the years ended December 31, 2016 and 2015, which include the activity of Community Health Outreach, Intervention & Clinical Engagement Services (CHOICES), a wholly owned subsidiary of AFS. In addition to consolidated financial statements, the accompanying financial statements are being issued for the benefit of third parties who have a need for financial information of the Organization independent of the Organization's subsidiary. In the accompanying financial statements, the investment in the subsidiary is on the cost basis. Net assets on a consolidated basis are $66,790 and $82,671 greater than that shown on the parent-only financial statements as of December 31, 2016 and 2015, respectively. Information regarding the subsidiary is disclosed in Note 6.

Cash Equivalents - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents except for certain highly liquid investments that are considered part of the investment portfolio.

Concentration of Credit Risk Arising from Deposit Accounts - The Organization maintains cash balances with a bank. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. The Organization evaluates the financial institutions with which it deposits funds.

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

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.

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Investments - Investments are recorded at fair value based on market data for identical or comparable instruments.

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.

Donor-imposed restrictions that expire with the passage of time or 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 permanently restricted net assets as of December 31, 2016 and 2015.

There was $0 in temporarily restricted net assets as of December 31, 2016 and $100,000 in temporarily restricted net assets as of December 31, 2015. The temporarily restricted net assets for December 31, 2015 were time restricted until the related purpose was fulfilled in 2016.

Contracted Revenue - The Organization recognizes revenue for contracted services as services are provided.

Grant Revenue - Grant revenue received for grants determined to be contribution transactions is recognized when the written promise is received. Grant revenue is recorded as temporarily restricted based on requirements over use of the funds over a specific period of time. Grant revenue received and spent in the same year is treated as unrestricted.

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

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 - The costs of providing the program and support services have been reported below. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Program expenses totaled $10,261,366 and $10,574,952 for the years ended December 31, 2016 and 2015, respectively. All other expenses of the Organization are considered management and general expenses.

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

Recent Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has not yet determined which application method it will use. The effects on the results of operations are not expected to be significant as recognition and measurement of revenue and cash flows will be substantially the same under the new standard.

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

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined, but is expected to significantly increase long-term assets and lease liabilities upon adoption. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization’s year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 31, 2017, which is the date the financial statements were available to be issued.

Note 2 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2016	2015	Depreciable Life - Years
Leasehold improvements	$ 247,494	$ 247,494	3-5
Automobiles	38,368	38,368	5
Office equipment	108,310	108,310	5
Computer equipment and software	484,127	484,127	3-5
Total cost	878,299	878,299	
Accumulated depreciation	855,762	803,491	
Net property and equipment	$ 22,537	$ 74,808	

Depreciation expense for the years ended December 31, 2016 and 2015 was $52,271 and $75,117, respectively.

Note 3 - Line of Credit

The Organization had a financing agreement under which $500,000 could be borrowed on a revolving line of credit. No amounts were drawn during 2015 or 2016. The line of credit expired in December 2016.

Subsequent to year end, the Organization signed an agreement to renew the line of credit that expired in December 2016. This agreement allows the Organization to borrow $500,000 on a revolving line of credit. Borrowings bear interest at 5.065 percent and are collateralized by substantially all assets of the Organization. The line of credit expires on June 17, 2018.

Note 4 - Operating Leases

The Organization has commitments under various operating leases for facilities and equipment expiring at various dates through 2022. Rent expense under these leases totaled $584,254 and $559,793 for the years ended December 31, 2016 and 2015, respectively.

Note 4 - Operating Leases (Continued)

Future minimum rental commitments are as follows:

Years Ending December 31		Amount
2017		$ 598,139
2018		598,139
2019		598,139
2020		606,887
2021		531,824
Thereafter		525,000
	Total	$ 3,458,128

Note 5 - Retirement Plan

The Organization participates in a defined contribution retirement plan. Under the plan, employees can elect to defer a portion of their compensation. In addition, the Organization may make contributions to the plan on behalf of eligible employees. Total Organization contributions made to the plan in 2016 were approximately $82,000 and $89,000, respectively.

Note 6 - Information Regarding Subsidiary

During 2008, the Organization started a wholly owned subsidiary, Community Health Outreach, Intervention & Clinical Engagement Services (CHOICES), with an initial investment of $1,000. CHOICES is a not-for-profit stock corporation. CHOICES was organized to encourage, strengthen, and enrich children and families via specialized services, treatments, 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. The Organization is the sole stockholder of CHOICES. An investment in CHOICES has been recorded at cost.

Note 6 - Information Regarding Subsidiary (Continued)

The results of the operations of CHOICES as of and for the years ended December 31, 2016 and 2015 are summarized below:

	2016	2015
Total assets	$ 316,911	$ 469,726
Total liabilities	249,121	386,055
Net assets	$ 67,790	$ 83,671
Total revenue	$ 706,742	$ 1,170,113
Total expenses	722,623	1,160,860
(Decrease) increase in net assets	$ (15,881)	$ 9,253

Note 7 - Related Party Transactions

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

Accounts Receivable - At December 31, 2016 and 2015, the Organization had accounts receivable from CHOICES totaling $197,987 and $386,055, respectively.

Accounts Payable - At December 31, 2016 and 2015, the Organization had accounts payable to CHOICES totaling $133,200 and $273,735, respectively.

Investment in Subsidiary - As disclosed in Note 6, at December 31, 2016 and 2015, the Organization owned $1,000 in the common stock of CHOICES.

Loan Receivable - During 2016, the Organization loaned $50,000 to CHOICES. The loan receivable is noninterest bearing and due on demand. At December 31, 2016, the loan receivable balance was $50,000.

Contracted Services - For the years ended December 31, 2016 and 2015, the Organization purchased contracted services from CHOICES, in the ordinary course of business, totaling $690,184 and $1,170,113, respectively.

Management Fees - For the years ended December 31, 2016 and 2015, the Organization received management fee revenue from CHOICES of $46,172 and $107,758, respectively.

Leased Employee Revenue (Contra Expense) - For the years ended December 31, 2016 and 2015, the Organization leased AFS employees to CHOICES for $621,165 and $1,053,102, respectively, included in salaries and wages on the statement of activities and changes in net assets.

Note 8 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Organization's assets measured at fair value on a recurring basis at December 31, 2016 and 2015 and the valuation techniques used by the Organization to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Assets				
Investments:				
Exchange-traded funds and closed-end funds	$ 197,594	$ -	$ -	$ 197,594
Mutual funds	10,256	-	-	10,256
Equities	12,669	-	-	12,669
Total	$ 220,519	$ -	$ -	$ 220,519

Note 8 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Assets				
Investments:				
Exchange-traded funds and closed-end funds	$ 108,600	$ -	$ -	$ 108,600
Mutual funds	39,650	-	-	39,650
Total	$ 148,250	$ -	$ -	$ 148,250

The tables above do not include cash and cash equivalents held in the custodial account of $29,481 and $101,750 at December 31, 2016 and 2015, respectively. These amounts are included in investments on the balance sheet.