

Community Health Outreach, Intervention & Clinical Engagement Services

**(a wholly owned subsidiary of
Assured Family Services)**

**Financial Report
December 31, 2015**

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 financial statements of Community Health Outreach, Intervention & Clinical Engagement Services, which comprise the balance sheet as of December 31, 2015 and 2014 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.

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, 2015 and 2014 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 25, 2016

Community Health Outreach, Intervention & Clinical Engagement Services

Balance Sheet

	December 31, 2015	December 31, 2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 195,991	\$ 252,545
Accounts receivable - Related party (Note 2)	273,735	290,497
Total current assets	<u>\$ 469,726</u>	<u>\$ 543,042</u>
Liabilities and Net Assets		
Current Liabilities - Accounts payable - Related party (Note 2)	\$ 386,055	\$ 468,624
Net Assets - Unrestricted	83,671	74,418
Total liabilities and net assets	<u>\$ 469,726</u>	<u>\$ 543,042</u>

Community Health Outreach, Intervention & Clinical Engagement Services

Statement of Activities and Changes in Net Assets

	Year Ended	
	December 31, 2015	December 31, 2014
Changes in Unrestricted Net Assets		
Revenue and support - Contracted services (Note 2)	\$ 1,170,113	\$ 1,171,269
Expenses:		
Management fees (Note 2)	107,758	87,845
Leased employees (Note 2)	1,053,102	1,054,143
Total expenses	1,160,860	1,141,988
Increase in Net Assets	9,253	29,281
Net Assets - Beginning of year	74,418	45,137
Net Assets - End of year	\$ 83,671	\$ 74,418

Community Health Outreach, Intervention & Clinical Engagement Services

Statement of Cash Flows

	Year Ended	
	December 31, 2015	December 31, 2014
Cash Flows from Operating Activities		
Increase in net assets	\$ 9,253	\$ 29,281
Changes in operating assets and liabilities which (used) provided cash:		
Related party payable	(82,569)	132,176
Related party receivable	16,762	(49,256)
Net cash (used in) provided by operating activities	<u>(56,554)</u>	<u>112,201</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(56,554)	112,201
Cash and Cash Equivalents - Beginning of year	<u>252,545</u>	<u>140,344</u>
Cash and Cash Equivalents - End of year	<u>\$ 195,991</u>	<u>\$ 252,545</u>

Community Health Outreach, Intervention & Clinical Engagement Services

Notes to Financial Statements December 31, 2015 and 2014

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 Assured Family Services (formerly known as Juvenile Assessment Center) (AFS). 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 AFS. 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, Assured Family Services, is disclosed in Note 2. For CHOICES, revenue is recognized when services are performed for AFS.

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, 2015 and 2014

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, 2015 or 2014.

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 on a functional basis in the statement of activities and changes in net assets. 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 \$895,136 and \$896,022 for the years ended December 31, 2015 and 2014, 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).

Community Health Outreach, Intervention & Clinical Engagement Services

Notes to Financial Statements December 31, 2015 and 2014

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

Recent Accounting Pronouncements - In May 2014, the Financial Accounting Services 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 or the potential effects of the new standard on the financial statements, if any.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including May 25, 2016, which is the date the financial statements were available to be issued.

Subsequent to year end, AFS loaned CHOICES \$20,000 to fund the startup of a new program.

Note 2 - Related Party Transactions

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

Accounts Receivable - At December 31, 2015 and 2014, the Organization had accounts receivable from AFS totaling \$273,735 and \$290,497, respectively.

Accounts Payable - At December 31, 2015 and 2014, the Organization had accounts payable to AFS totaling \$386,055 and \$468,624, respectively.

Contracted Services - For the years ended December 31, 2015 and 2014, the Organization received \$1,170,113 and \$1,171,269, respectively, from AFS for contracted services in the ordinary course of business.

Leased Employees - For the years ended December 31, 2015 and 2014, the Organization leased employees from AFS for \$1,053,102 and \$1,054,143, respectively.

Management Fees - For the years ended December 31, 2015 and 2014, the Organization incurred management fee expenses of \$107,758 and \$87,845, respectively, payable to AFS.