Community Health Outreach, Intervention & Clinical Engagement Services

(a wholly owned subsidiary of Assured Family Services)

Financial Report

December 31, 2016

Community Health Outreach, Intervention & Clinical Engagement Service

Contents

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Community Health Outreach, Intervention & Clinical Engagement Services (the "Organization"), which comprise the balance sheet as of December 31, 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.

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, 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

Community Health Outreach, Intervention & Clinical Engagement Service

Balance Sheet

	December 31, 2016	December 31, 2015
Assets		
Current Assets		
Cash	$ 171,774	$ 195,991
Accounts receivable - Related party (Note 3)	133,200	273,735
Total current assets	304,974	469,726
Property and Equipment (Note 2)	11,937	-
Total assets	**$ 316,911**	**$ 469,726**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 1,134	$ -
Accounts payable - Related party	197,987	386,055
Loan payable - Related party (Note 3)	50,000	-
Total current liabilities	249,121	386,055
Net Assets - Unrestricted	67,790	83,671
Total liabilities and net assets	**$ 316,911**	**$ 469,726**

See Notes to Financial Statements.

Community Health Outreach, Intervention & Clinical Engagement Service

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 (Note 3)	$ 690,184	$ 1,170,113
Miscellaneous income	16,558	-
Total revenue and support	706,742	1,170,113
Expenses		
Salaries and wages	31,731	-
Payroll taxes	3,180	-
Contracted services	11,893	-
Management fees (Note 3)	46,172	107,758
Leased employees (Note 3)	621,165	1,053,102
Miscellaneous	8,482	-
Total expenses	722,623	1,160,860
(Decrease) Increase in Net Assets	(15,881)	9,253
Net Assets - Beginning of year	83,671	74,418
Net Assets - End of year	**$ 67,790**	**$ 83,671**

Community Health Outreach, Intervention & Clinical Engagement Service

Statement of Cash Flows

	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (15,881)	$ 9,253
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities - Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable - Related party	140,535	16,762
Accounts payable	1,134	-
Accounts payable - Related party	(188,068)	(82,569)
Net cash used in operating activities	(62,280)	(56,554)
Cash Flows Used in Investing Activities - Purchase of property and equipment	(11,937)	-
Cash Flows Provided by Financing Activities - Proceeds from loan payable - Related party	50,000	-
Net Decrease in Cash and Cash Equivalents	(24,217)	(56,554)
Cash and Cash Equivalents - Beginning of year	195,991	252,545
Cash and Cash Equivalents - End of year	**$ 171,774**	**$ 195,991**

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 (AFS). CHOICES 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 3. For CHOICES, revenue is recognized when services are performed for AFS.

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.

Contracted Services Revenue - The Organization recognizes revenue as services are provided to its parent entity.

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 $518,454 and $895,136 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 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. 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. After analysis of the Organization's current leases, management does not expect this standard to have a significant effect on the financial statements.

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

Property and equipment are summarized as follows:

	2016	2015	Depreciable Life - Years
Furniture and fixtures	$ 11,937	$ -	-

Note 3 - Related Party Transactions

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

Accounts Receivable - At December 31, 2016 and 2015, the Organization had accounts receivable from AFS totaling $133,200 and $273,735, respectively.

Accounts Payable - At December 31, 2016 and 2015, the Organization had accounts payable to AFS totaling $197,987 and $386,055, respectively.

Loan Payable - During 2016, the Organization received a noninterest-bearing loan payable to AFS, payable on demand. The balance outstanding at December 31, 2016 was $50,000.

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

Leased Employees - For the years ended December 31, 2016 and 2015, the Organization leased employees from AFS for $621,165 and $1,053,102, respectively.

Management Fees - For the years ended December 31, 2016 and 2015, the Organization incurred management fee expenses of $46,172 and $107,758, respectively, payable to AFS.