

**Southwest Solutions and Subsidiaries**  
**(not-for-profit corporations)**

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**Consolidated Financial Report**  
**with Additional Information**  
**September 30, 2016**

# Southwest Solutions and Subsidiaries

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## Independent Auditor's Report

To the Board of Directors  
Southwest Solutions and Subsidiaries

We have audited the accompanying consolidated financial statements of Southwest Solutions and Subsidiaries (the "Organization"), which comprise the consolidated balance sheet as of September 30, 2016 and the related consolidated statements of unrestricted revenue, expenses, and other changes in unrestricted net assets, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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  
Southwest Solutions and Subsidiaries

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest Solutions and Subsidiaries as of September 30, 2016 and the results of their changes in net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Plante & Moran, PLLC*

August 29, 2017

# Southwest Solutions and Subsidiaries

## Consolidated Balance Sheet September 30, 2016

<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 7,299,308
Receivables:	
Trade	1,808,846
Grants	4,667,351
Patient services	102,741
Other	90,314
Allowance for uncollectible accounts	(219,256)
Property held for resale	4,874,362
Prepaid expenses and other current assets	307,214
	<hr/>
Total current assets	18,930,880
<b>Investments - Other</b>	52,091
<b>Property and Equipment - Net (Note 3)</b>	76,262,070
<b>Developments in Progress</b>	1,714,792
<b>Assets Limited as to Use (Note 4)</b>	6,229,993
<b>Long-term Notes Receivable (Note 5)</b>	8,286,832
<b>Other Assets</b>	1,594,158
	<hr/>
Total assets	<b><u><u>\$ 113,070,816</u></u></b>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 3,534,858
Current portion of notes payable (Note 6)	6,081,569
Deferred revenue	540,432
Accrued liabilities and other	4,186,021
	<hr/>
Total current liabilities	14,342,880
<b>Notes Payable (VIE restricted portion - \$20,812,446) - Net of current portion (Note 6)</b>	35,256,945
<b>Interest Payable - Long term (Note 6)</b>	5,813,869
	<hr/>
Total liabilities	55,413,694
<b>Net Assets</b>	
Unrestricted:	
Controlling interest	12,442,807
Noncontrolling interest	38,225,121
Temporarily restricted (Note 7)	3,995,094
Permanently restricted (Note 7)	2,994,100
	<hr/>
Total net assets	57,657,122
	<hr/>
Total liabilities and net assets	<b><u><u>\$ 113,070,816</u></u></b>

# Southwest Solutions and Subsidiaries

## Consolidated Statement of Unrestricted Revenue, Expenses, and Other Changes in Unrestricted Net Assets Year Ended September 30, 2016

### Changes in Unrestricted Net Assets

Revenue and support:	
Grant funding and capitation revenue	\$ 30,651,473
Patient and other services	1,433,322
Contributions	2,201,477
Rent	5,053,462
Program revenue	757,362
Property management fees	329,057
Sales of property	5,657,426
Interest	530,186
Miscellaneous income	600,619
	<hr/>
Total revenue and support	47,214,384
Net assets released from restrictions	<hr/>
	3,235,397
	<hr/>
Total unrestricted revenue, support, and net assets released from restrictions	50,449,781
Expenses:	
Program services	51,575,117
Support services	5,792,041
	<hr/>
Total expenses	57,367,158
<b>Decrease in Unrestricted Net Assets from Operating Activities</b>	<b>(6,917,377)</b>
<b>Cancellation of Indebtedness (Note 2)</b>	<b>6,119,156</b>
<b>Equity Contributions (Note 2)</b>	<b>1,503,579</b>
	<hr/>
<b>Increase in Unrestricted Net Assets</b>	<b>705,358</b>
<b>Less Increase in Unrestricted Net Assets Attributable to     Noncontrolling Interests</b>	<b>(1,899,135)</b>
	<hr/>
<b>Decrease in Unrestricted Net Assets Attributable to Controlling Interests</b>	<b>\$ (1,193,777)</b>

# Southwest Solutions and Subsidiaries

## Consolidated Statement of Changes in Net Assets Year Ended September 30, 2016

<b>Unrestricted Net Assets</b>	
Decrease in unrestricted net assets attributable to controlling interests	\$ (1,193,777)
Increase in unrestricted net assets attributable to noncontrolling interests	<u>1,899,135</u>
<b>Increase in Unrestricted Net Assets</b>	705,358
<b>Temporarily Restricted Net Assets</b>	
Contributions	920,993
Net assets released from restrictions	<u>(3,186,367)</u>
<b>Decrease in Temporarily Restricted Net Assets</b>	(2,265,374)
<b>Permanently Restricted Net Assets</b>	
Contributions	225,000
Net assets released from restrictions	<u>(49,030)</u>
<b>Increase in Permanently Restricted Net Assets</b>	<u>175,970</u>
<b>Decrease in Net Assets</b>	(1,384,046)
<b>Net Assets - Beginning of year - As restated</b>	<u>59,041,168</u>
<b>Net Assets - End of year</b>	<u><b>\$ 57,657,122</b></u>

# Southwest Solutions and Subsidiaries

## Consolidated Statement of Cash Flows Year Ended September 30, 2016

<b>Cash Flows from Operating Activities</b>	
Decrease in net assets	\$ (1,384,046)
Adjustments to reconcile decrease in net assets to net cash from operating activities:	
Depreciation	4,551,500
Asset impairment	1,296,170
Bad debt expense	257,533
Loss on disposal of assets	684,859
Equity contributions received	(1,503,579)
Restricted contributions	(225,000)
Debt forgiveness	(6,119,156)
Gain from Partners 4 Health	(3,135)
Changes in operating assets and liabilities which provided (used) cash:	
Accounts receivable	944,236
Prepaid expenses and other	(310,454)
Property held for resale	(3,179,603)
Accounts payable	844,866
Interest payable	655,327
Accrued liabilities and other	126,700
Deferred revenue	(2,202,431)
Net cash used in operating activities	(5,566,213)
<b>Cash Flows from Investing Activities</b>	
Purchase of property and equipment	(2,656,422)
Purchases of investments	-
Proceeds from sale of investments	-
Increase in assets limited as to use	2,864,576
Proceeds from long-term notes receivable	662,770
Cash invested in developments in progress	(234,060)
Net cash provided by investing activities	636,864
<b>Cash Flows from Financing Activities</b>	
Proceeds from notes payable	4,930,167
Repayment on notes payable	(1,633,499)
Restricted contributions	225,000
Equity contributions received	1,503,579
Net cash provided by financing activities	5,025,247
<b>Net Increase in Cash and Cash Equivalents</b>	95,898
<b>Cash and Cash Equivalents - Beginning of year</b>	7,203,410
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 7,299,308</b>
<b>Supplemental Disclosure of Cash Flow Information - Cash paid for interest</b>	<b>\$ 631,787</b>

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note I - Nature of Business and Significant Accounting Policies

**Nature of Organization** - The accompanying consolidated financial statements reflect the consolidated financial position and changes in net assets and cash flows of Southwest Solutions (Solutions) and its wholly owned subsidiaries, Southwest Counseling Solutions (Counseling), Asset Services, Inc. (Services), Southwest Economic Solutions (Economic Solutions), and Southwest Housing Corporation and Subsidiaries (Housing) (collectively, the "Organization").

Solutions is a Michigan nonprofit corporation organized in October 2001 for the primary purpose of holding membership interests in Counseling, Services, Economic Solutions, and Housing.

Included in Solutions is the Veritable Group, a wholly owned subsidiary that provides services as a brokerage company.

Counseling is organized and operated to ensure the provision and availability of mental health services, juvenile justice, family literacy, and housing and employment support services to residents of southeastern Michigan.

Program descriptions are as follows:

- **Outpatient Adult** - Provides comprehensive outpatient mental health services to adults with mental illness and their families. Services include psychosocial assessment, information, and referral; crisis intervention; individual, group, and family therapy; psychopharmacology; care coordination/case management; supported employment; psychosocial rehabilitation; vocational/pre-vocational opportunities; and prevention programs.
- **School-based and Early Childhood** - Provides literacy services to preschool and early school-aged children and their families. Services include preschool/early childhood education, adult education (including English as a second language instruction), guided parent/child interaction, and parenting education. Sponsors/organizes community-wide literacy awareness events. Provides guidance, support, and technical assistance to local childcare providers and children at risk of childcare expulsion.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note I - Nature of Business and Significant Accounting Policies (Continued)

- **Children, Youth, and Family** - Provides comprehensive outpatient mental health services to children with serious emotional disorders and their families. Services include psychosocial assessment, information, and referral; crisis intervention (24/7); individual, group, and family therapy; psychopharmacology; infant mental health; care coordination/case management; and prevention services. Provides services to at-risk youth and their families (adjudicated youth involved with juvenile justice system, youth on probation, youth at risk of adjudication, and/or youth with a serious emotional disorder). Services include individual, group, and family counseling; crisis intervention (24/7); juvenile court representation/coordination; care coordination/wraparound services; youth/family mentoring; youth leadership development; and parent/family support.
- **Supportive Housing Services** - Provides permanent housing services to individuals/families with disabling conditions (mental illness, developmental disabilities, substance abuse disorders, or chronic health conditions), veterans, and at-risk youth who are homeless. Services include outreach to shelters/street outreach; assessment; individual and group therapy; care coordination; crisis intervention (24/7); home finding, housing inspection, and permanent housing placement; rental assistance and assistance with rent/utility payments; assistance to landlords; emergency funding; and assistance with disability application/determination.

Services was formed to purchase, own, and manage buildings and equipment used by and leased to Counseling and other affiliated organizations.

Economic Solutions was formed on October 1, 2013 to promote and preserve home ownership, advance financial literacy, and empower families and individuals to improve their economic prospects by providing financial fitness and credit counseling, home buyer education, foreclosure intervention counseling, workforce development, adult education, and entrepreneurial training.

Included in Economic Solutions is ProsperUS Detroit Micro-Lending (ProsperUS). ProsperUS is a tax-exempt not-for-profit corporation established in 2013 to receive and administer loan funds to support the educational and charitable purposes of Housing.

Housing was organized to acquire, rehabilitate, construct, operate, manage, lease, and sell housing facilities to provide affordable housing to low-income individuals and to promote the general well-being of the residents of the community. In addition, as part of economic development, Housing is dedicated to commercial and residential revitalization.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note I - Nature of Business and Significant Accounting Policies (Continued)

Included in Housing are the following:

- Southwest Design Solutions, LLC (SDS), a wholly owned subsidiary of Housing, was formed to provide architectural and design services for affordable housing-related projects.
- Bagley Housing Association, Inc. (Bagley) is a not-for-profit corporation of which Housing has a 100 percent controlling interest. Bagley provides affordable single-family housing to families in the Hubbard Richard and Hubbard Farms districts of southwest Detroit.
- Creative Arts, LLC (Creative Arts), a wholly owned subsidiary of Housing, was formed during 2009 for the purpose of acquiring and renovating a 12,000 square foot building generally known as the Third Precinct.
- Lithuanian Hall, LLC (Lithuanian Hall), a wholly owned subsidiary of Housing, holds commercial real estate.
- Michigan Lending Solutions (Lending Solutions), a low-profit limited liability company (L3C) of which Housing is a majority-member owner, was formed to provide affordable lending solutions to individuals and families in underserved areas of southeastern Michigan, with a concentration in the city of Detroit.
- 250 W. Grand Blvd. Apartments, Inc. and 250 WGB, LLC are both wholly owned subsidiaries of Housing, which collectively own 100 percent of 250 WGB Apartments Limited Dividend Housing Association Limited Partnership (250 WGB), a 20-unit apartment building in southwest Detroit, Michigan, with both one-bedroom and two-bedroom units. 250 WGB provides affordable housing pursuant to Section 42 of the Internal Revenue Code.
- 388 W. Grand Blvd. Apartments, Inc. and 388 WGB, LLC are both wholly owned subsidiaries of Housing which collectively own 100 percent of 388 W. Grand Blvd. Limited Dividend Housing Association Limited Partnership (388 WGB), a 20-unit apartment building in southwest Detroit, Michigan, with both one-bedroom and two-bedroom units. 388 WGB provides affordable housing pursuant to Section 42 of the Internal Revenue Code.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note I - Nature of Business and Significant Accounting Policies (Continued)

Housing is also the 100 percent owner of certain corporate entities (and the 79 percent owner of Mack Ashland GP, LLC) that are general partners which own 0.1 to 1 percent of several limited dividend housing association limited partnerships (LDHALPs). The LDHALPs are formed to purchase, develop, and operate property providing affordable housing (the "Projects"). They are located in southeast Michigan and provide affordable housing pursuant to Section 42 of the Internal Revenue Code. The Projects are made up of the following LDHALPs:

- Martin Gardens
- Southwest Housing Partners
- Southwest Housing Partners II
- Springwells Partners
- Springwells Partners II
- Springwells Partners III
- Springwells Partners IV
- Springwells Partners V
- Hubbard Communities
- VA - Piquette Square
- Mack Ashland
- Scotten Park
- McKinstry Place
- Mack Ashland II

In addition, Housing established several entities which are collectively referred to as The 5716 Michigan Avenue Project (5716), which were established as a commercial property development which utilizes New Markets Tax Credits. 5716 is comprised of the following entities:

- **5716 Lender, LLC (Lender)** - A wholly owned subsidiary of Housing which was established to receive certain loans and equity investments on behalf of the 5716 Project
- **5716 Manager, LLC (Manager)** - A wholly owned subsidiary of Housing. Manager was established to conduct the day-to-day operations of 5716. 5716 Tenant, LLC (Tenant) was established as a vehicle with which historical tax credits could accumulate and be distributed through a master lease structure. 5716 Partners, LLC (Partners) was established to develop and maintain the commercial property. Manager includes the accounts of Tenant, of which it owns .01 percent, and Partners, of which it owns 89 percent. Tenant and Partners are consolidated in their entirety as a result of Manager's control and certain rights with respect to the entities.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

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

Under the terms of the 5716 Project, Housing is a party to a put option that grants the investor member of Chase NMTC SWHS, LLC, an unrelated entity that participates in the 5716 Project but is not consolidated into Housing, the option to sell its membership interest to Solutions for approximately \$30,000, plus the recapture amount and any other amounts due and owing under the indemnifications clauses of the loan agreement between Partners and NDC New Markets Investments LVI, LLC, another unrelated entity which participates in the 5716 Project but is not consolidated into Housing. The option can be exercised for 60 days after the last day of the new markets tax credit compliance period, which ends during 2018.

In support of the 5716 Project, Solutions has also entered into a guarantee agreement with NDC New Markets Investments LVI, LLC for the full payment of debt, and also for the full recapture amount of new markets tax credits.

The majority of the Organization's total revenue and support comes from grant funding and capitation payments. Grant funding and capitation revenue totaled approximately \$19.0 million and \$11.6 million, respectively, for the year ended September 30, 2016.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

Significant accounting policies are as follows:

**Principles of Consolidation** - The consolidated financial statements include the accounts of Southwest Solutions, Asset Services, Inc., Southwest Economic Solutions, Southwest Counseling Solutions, and Southwest Housing Corporation and Subsidiaries. Also included in the consolidated financial statements are the Projects, which are variable interest entities (VIEs) for which the general partners are the primary beneficiary. The consolidated financial statements also include the accounts of Tenant and Partners, which are VIEs for which Manager is the primary beneficiary. The equity attributable to the VIEs not owned by Housing is reported as noncontrolling interest in the accompanying consolidated financial statements. For the purpose of consolidation, the effects of eliminations of revenue and expenses due to intercompany transactions between Solutions and the VIEs are attributed to Solutions.

**Cash Equivalents** - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

**Concentrations of Credit Risk Arising from Deposit Accounts** - The Organization maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Solutions and its subsidiaries evaluate the financial institutions with which they deposit funds; however, it is not practical to insure all cash deposits.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

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

**Capitation Revenue and Accounts Receivable** - Counseling has contracted with CareLink Network and ConsumerLink Network as a provider of mental health services and services to those with disabilities. Counseling receives monthly capitation payments based on the number of consumers assigned to it. Accounts receivable are stated at net invoice amounts.

**Patient Revenue and Accounts Receivable** - Patient service revenue and the related accounts receivable are recorded at estimated reimbursable amounts in the period earned. An allowance for doubtful accounts is established based on specific assessment of all billings that remain unpaid following normal payment periods.

**Rent Revenue** - The Projects record net apartment rentals at gross potential rent less vacancy losses when earned.

**Grant Revenue, Receivables, and Settlements Due Funding Sources** - Counseling and Housing receive revenue under contracts with certain governmental agencies, including the Detroit Wayne Mental Health Authority (DWMHA). Revenue under these contracts is recognized when earned. Deferred revenue is recorded when advance payments are received. Accounts receivable are stated at net billed amounts. An allowance for doubtful accounts is established based on a specific assessment of all billings that remain unpaid following normal payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

The reports of Counseling and Housing relating to certain of these contracts are subject to review or audit by the responsible governmental agency to determine compliance with award documents and may be subject to possible adjustment of the recorded settlement. Based on the last review conducted, Counseling recorded a settlement of \$57,000 which is outstanding at September 30, 2016. Housing had no outstanding settlements as of September 30, 2016.

**Trade Accounts Receivable** - Trade accounts receivable consist primarily of amounts due from tenants and from advances to the Projects with developments in progress. All receivables are considered fully collectible at September 30, 2016.

**Property Held for Resale** - Property held for resale consists primarily of foreclosed homes acquired from bank trusts for the purpose of renovation and resale, and which are renovated through a contract with an unrelated third party. Property held for resale is accounted for at the lower of cost or market. Sales of property revenue is recognized when earned, which is at the time of sale.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

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

**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. Estimated useful lives of the assets range from 3 to 40 years. Costs of maintenance and repairs are charged to expense when incurred.

Construction in progress reflects amounts expended on the development of affordable housing projects, the assets of which have not been placed in service at year end. Construction is to be funded primarily from equity contributions and issuance of long-term debt.

**Developments in Progress** - Reimbursable expenses incurred toward new projects are recorded as developments in progress until financing is complete.

**Contributions and Contributions Receivable** - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded as a contribution receivable at the present value of estimated future cash flows and net of allowances.

**Tax Status** - Solutions, Counseling, Housing, Economic Solutions, Bagley, and ProsperUS are exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code and are classified as organizations that are not private foundations under Section 509(a). Services is exempt from federal income taxes under Section 501(c)(2) of the United States Internal Revenue Code. Veritable Group, SDS, Creative Arts, Lithuanian Hall, 250 WGB, 388 WGB, Lender, Manager, Tenant, and Partners are limited liability companies, Lending Solutions is a low-profit limited liability company, and the Projects are limited partnerships, all of which do not pay federal income taxes under the provisions of the Internal Revenue Code. Members and partners of the LLCs and partnerships include their respective shares of the LLCs' and partnerships' net income or loss on their individual tax returns. Accordingly, there is no provision for income taxes included in the consolidated financial statements.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note I - Nature of Business and Significant Accounting Policies (Continued)

The general partners are corporations subject to taxation pursuant to the Internal Revenue Code. A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the year. Deferred tax liabilities or assets are recognized for the estimated future tax effects of temporary differences between book and tax accounting and operating loss and tax credit carryforwards. There are no provisions for income taxes and no deferred tax assets or liabilities at September 30, 2016.

**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.

Unrestricted net assets have been designated by Solutions' board for future operating and capital purposes.

**Functional Allocation of Expenses** - The costs of providing program and support services have been reported on a functional basis in the consolidated statements of unrestricted revenue, expenses, and other changes in unrestricted net assets 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.

**Use of Estimates** - The preparation of consolidated 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 consolidated 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.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note I - Nature of Business and Significant Accounting Policies (Continued)

**Upcoming Accounting Pronouncements** - In May 2014, 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 September 30, 2020. 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 consolidated financial statements, if any.

In response to ASU No. 2014-09, *Revenue from Contracts with Customers*, the FASB has issued a proposed ASU, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. If approved, the proposed ASU would have the same effective date as ASU No. 2014-09 and is expected to result in more contracts in which a resource provider is not itself receiving commensurate value for the resources provided being accounted for as contributions received rather than as exchange transactions. Those contracts accounted for as contributions received are outside the scope of ASU No. 2014-09. Therefore, if the ASU is approved, upon implementation of both ASUs, an increase in contribution revenue and a decrease in exchange revenue is possible; however, the Organization does not expect there to be a significant change in the timing of revenue recognition.

In August 2016, the FASB issued 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 September 30, 2019 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.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

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

In February 2016, the 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. 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 September 30, 2021 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.

**Subsequent Events** - The consolidated financial statements and related disclosures include evaluation of events up through and including August 29, 2017, which is the date the consolidated financial statements were available to be issued.

**Impairment or Disposal of Long-lived Assets** - The Organization reviews the recoverability of long-lived assets, including buildings, equipment, and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. During the year ended September 30, 2016, the Organization determined there was an impairment at Springwells Partners III, and then estimated the project's fair value based on the present value of the estimated future cash inflows of assets. As a result, the Organization recorded an impairment charge to operations totaling \$1,296,170. There were no other impairments noted.

### Note 2 - Information About Variable Interest Entities

Housing is the 100 percent owner of certain corporate entities (and the 79 percent owner of Mack Ashland), which are general partners and which own 0.1 to 1 percent of several LDHALPs (as disclosed in Note 1). Housing is the management agent for the Projects. The LDHALPs are considered to be variable interest entities because the related partnership agreements and associated agreements call for Housing, through the general partners, to provide certain project performance guarantees and operating deficit funding requirements.

Housing is also the 100 percent owner of Manager, which owns 89 percent of Partners and .01 percent of Tenant (as disclosed in Note 1). Partners and Tenant are considered to be variable interest entities because the holders of the equity investment at risk lack the power to direct activities that most significantly impact Partners' and Tenant's economic performance.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note 2 - Information About Variable Interest Entities (Continued)

Housing, through the 100 percent owned general partner entities and Manager, determined that it is the primary beneficiary of the Projects, Tenant, and Partners because the agreements provide it with (1) the power to direct the activities of the entities that most significantly impact economic performance and (2) the obligation to absorb losses that could potentially be significant to the entities. As a result, these entities have been included in the financial statements as consolidated variable interest entities.

Included in the consolidated balance sheet as of September 30, 2016 are the following amounts related to the VIEs:

Current assets	\$ 1,710,655
Property and equipment	78,928,525
Other assets	<u>6,254,698</u>
Total assets	<u>\$ 86,893,878</u>
Current liabilities	\$ 5,155,118
Long-term debt	39,109,696
Interest payable	<u>4,403,943</u>
Total liabilities	<u>\$ 48,668,757</u>
Equity - Noncontrolling interest	<u>\$ 38,225,121</u>

During the year ended September 30, 2016, equity contributions totaling \$1,403,579 were received from unrelated limited partners pursuant to partnership agreements and were primarily utilized to fund construction costs on low-income housing tax credit projects.

During the year ended September 30, 2016, the entire outstanding loan principal balance and deferred interest related to certain notes payable owed by Springwells Partners and Springwells Partners II to the City of Detroit HOME Investor Rehabilitation/New Construction Loan Program were forgiven. As a result, other nonoperating income totaling \$6,119,156 was recognized in relation to the forgiveness of the principal in the amount of \$3,729,900 and the related accrued interest in the amount of \$2,389,256.

Housing has provided a note to Chase NMTC SWHS, LLC as a part of the 5716 Project. The note receivable totaled \$7,241,555 at September 30, 2016 and is further disclosed in Note 6. Housing has no other involvement with Chase NMTC SWHS, LLC.

The note was made to fund equity contributions made by the unaffiliated company to fund the 5716 Partners project.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note 2 - Information About Variable Interest Entities (Continued)

Chase NMTC SWHS, LLC is considered to be a variable interest entity because it could not have conducted its intended business of providing equity funding to the 5716 Project without this loan. Housing determined that it is not the primary beneficiary of the unaffiliated company because it does not have the power through voting or similar rights to direct the operations of the unaffiliated company's business.

Housing does not have an equity investment in Chase NMTC SWHS, LLC. As of September 30, 2016, Housing's maximum exposure to loss as a result of its involvement with Chase NMTC SWHS, LLC is equal to the outstanding loan balance.

The creditors and beneficial interest holders of the VIEs have no recourse to the assets of Housing other than as disclosed in Note 6 to the consolidated financial statements.

### Note 3 - Property and Equipment

The cost of property and equipment at September 30, 2015 is summarized as follows:

	Southwest Solutions and Subsidiaries (Net of Projects)	Projects	Total
Land and land improvements	\$ 2,099,619	\$ 10,963,490	\$ 13,063,109
Buildings and improvements	12,142,805	83,088,680	95,231,485
Vehicles	566,835	-	566,835
Furniture and fixtures	1,028,780	4,497,478	5,526,258
Equipment	4,145,871	-	4,145,871
Leasehold improvements	2,497,879	-	2,497,879
Construction in progress	-	1,978,058	1,978,058
Total cost	22,481,789	100,527,706	123,009,495
Accumulated depreciation	(13,454,417)	(33,293,008)	(46,747,425)
Net carrying amount	\$ 9,027,372	\$ 67,234,698	\$ 76,262,070

Depreciation expense for the year ended September 30, 2016 was as follows:

	Southwest Solutions and Subsidiaries (Net of Projects)	Projects	Total
Depreciation expense	\$ 859,597	\$ 3,691,903	\$ 4,551,500

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note 4 - Assets Limited as to Use

Assets limited as to use consist of the following at September 30, 2016:

Cash held by the Projects as reserves for operating deficits, capital replacement, exit tax liabilities, social services deficits, and commercial asset management deficits	\$ 5,034,703
Cash held by the LLCs to fund construction and tax escrows of developments	29,331
Cash held by Lending Solutions for loan program	77,206
Loan receivables from loan program	72,572
Assets held in conjunction with donor restrictions for the support of the residential revitalization and the promotion of home ownership in Detroit	<u>1,016,181</u>
Total assets limited as to use	<u>\$ 6,229,993</u>

### Note 5 - Long-term Note Receivable

The Organization has a note receivable through Lender due from Chase NMTC SWHS, LLC (Chase), an entity included in the development of 5716, but which is not related to Housing. The proceeds were used by Chase to assist in acquiring a 99.99 percent membership interest in NDC New Markets Investments LVI, LLC (CDE) and to make member equity contributions to 5716. The note is collateralized by a leverage loan pledge agreement and bears interest at 1.2615 percent per annum. Monthly payments of interest are required, which commenced on June 5, 2010. Principal repayment begins on October 27, 2018 in the amount of \$1,000,000, followed by monthly payments of interest in arrears and principal in the amount of \$32,365 from June 5, 2030 through April 5, 2045. The balance outstanding on the note receivable was \$7,241,555 at September 30, 2016.

In addition, Housing and Counseling have \$1,045,277 of notes receivable from other entities. Repayment on these notes receivable is based upon cash flow, is unsecured, and is expected in more than one year.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note 6 - Long-term Debt

Notes payable consist of the following at September 30, 2016:

Counseling multiple vehicle loans payable to a bank, requiring monthly payments ranging from \$542 to \$639, including interest ranging from 5.14 to 5.24 percent, through February 2021	\$ 35,514
Counseling mortgage loan payable in monthly installments of \$4,434, including principal and interest at 4.85 percent. The note is collateralized by the 1600 Porter property and matures on March, 27, 2022, with any remaining unpaid principal and interest due at that time. The loan is further secured by a guarantee from Solutions, and is subject to covenants	650,807
Services mortgage payable to a bank, collateralized by the property, guaranteed by Counseling and Solutions, requiring monthly payments of \$5,037, including interest at 5.00 percent, through March 2022	306,383
Services note payable, collateralized by telephone equipment, requiring monthly payments of \$1,885, including interest at 3.00 percent for 60 months and matures in 2017	34,126
Lithuanian Hall loan payable to a bank, collateralized by real property, with a fixed interest rate of 5.74 percent, requiring monthly payments of principal and interest ranging from \$6,589 to \$7,170 per month, with a balloon payment for the remaining balance due on March 5, 2018	883,400
Housing notes payable to Great Lakes Capital Fund, uncollateralized, bearing no rate of interest, and repayable based on achieving certain cash flow targets	50,000
Housing note payable to the City of Detroit for \$200,000 received to fund an LDHALP through a pass-through loan. The note payable is uncollateralized, bears no interest, and requires principal payments to the extent repayments from the pass-through loan are received from the LDHALP. No payments to this loan were required for the year ended September 30, 2016	200,000
Housing line of credit with Chemical Bank with a maximum withdrawal of \$650,000, collateralized by certain property. The outstanding balance bears interest at a rate of prime plus one basis point percent (effectively 4.50 percent at September 30, 2016) and is due monthly based on draws outstanding. Any remaining unpaid principal and interest balance is due on May 22, 2019	638,725

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note 6 - Long-term Debt (Continued)

Housing notes payable to Illinois Financing Fund (IFF), collateralized by certain property, requiring monthly payments of principal and interest totaling \$6,144, with fixed interest rates of 5.375 percent. The remaining unpaid principal and interest are due in 2029. The notes are collateralized by the respective properties	\$ 679,404
Housing loan payable to IFF, collateralized by certain property, requiring monthly payments of principal and interest totaling \$2,593, with an initial interest rate of 5.375 percent. The remaining unpaid principal and interest are due in 2030	304,506
Creative Arts loan payable owed to IFF, collateralized by a mortgage on certain property and an assignment of rent and leases. Beginning on December 1, 2016, the loan requires monthly payments of principal and interest totaling \$1,216. The loan includes interest at a fixed rate of 5.375 percent and matures on November 1, 2031	150,000
Bagley notes payable to financial institutions with fixed interest rates ranging from 4.00 to 6.00 percent. The notes are due in 2017. The notes are collateralized by the respective properties that are included within Bagley	35,074
Line of credit with PNC Bank totaling \$249,000, amended and restated as a term note on January 31, 2016. The note bears interest at a rate of 4.015 percent. Payments are due in 43 equal consecutive monthly installments in the amount of \$1,518.51 beginning on February 13, 2016. Any outstanding principal and accrued interest due are payable in full on September 1, 2019	243,565
Housing promissory note with Oak Ridge Properties, LLC with a principal sum of \$500,000, secured by a mortgage on certain property and an assignment of leases and rents. Interest accrues at 6 percent per annum or \$82.19 per day. Entire balance of the loan is due in full at the maturity date of August 17, 2021. No principal payments shall be permitted prior to the maturity date	500,000
Housing line of credit with Community Housing Capital with a maximum withdrawal of \$1,000,000 to acquire and rehab REO properties. The outstanding balance is unsecured, and interest at a rate of 6.50 percent is due monthly based on draws outstanding. Outstanding principal is due in full on August 7, 2017	581,738

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note 6 - Long-term Debt (Continued)

250 WGB unconditional payment loans owed to the City of Detroit HOME Investor Rehabilitation/New Construction Loan Program, collateralized by a mortgage on certain property, bearing interest at 5.30 percent, and requiring monthly payments of principal and interest totaling \$1,150. Outstanding principal, together with unpaid interest, is due in full on December 31, 2019

\$ 696,042

388 WGB unconditional payment loan owed to the City of Detroit HOME Investor Rehabilitation/New Construction Loan Program, collateralized by a mortgage and certain property, bearing interest at 0.50 percent, and requiring annual principal-only payments of \$1,200. Accrued interest, along with the unpaid principal balance of the loan, is due on December 31, 2018

673,500

Lending Solutions loan payable owed to Capital Impact Partners. The loan bears no interest, and is secured by a liquidity requirement whereby the lender retains 50 percent of loan proceeds in a credit enhancement account to apply against any outstanding principal at such time payments are past due. Outstanding principal is due in full on November 1, 2025

130,908

Housing revolving loan with Community Housing Capital with a maximum withdrawal of \$500,000 to acquire and rehab REO properties. The outstanding balance is unsecured, and interest at a rate of 6.5 percent is due monthly based on draws outstanding. Outstanding principal is due in full on June 6, 2017

85,037

Housing loans due to a private lending source in conjunction with the acquisition and renovation of properties acquired for resale. Each individual loan is secured by the related acquired property, is noninterest bearing, and is each due at the point of sale of the property. The majority of properties held at September 30, 2016 are expected to be sold within 12 months, and, as such, are expected to be repaid within one year

3,781,115

LDHALPs notes payable owed to financial institutions and equity funds, collateralized by the respective Projects' real and personal properties, with interest rates ranging from 0 to 7.19 percent, and requiring monthly payments of principal and interest ranging from \$0 to \$4,485 per month. The notes mature between December 2022 and December 2063. Housing has no liability with respect to these notes payable beyond the collateral of the respective LDHALP

20,812,446

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note 6 - Long-term Debt (Continued)

Partners notes payable owed to a private funding source, collateralized by all real property of Partners, with an interest rate of 1.2615 percent. Two of the notes require interest-only payments per month through October 2018, at which time the entire principal balance is due in full on the notes. The three other notes require interest-only payments per month through May 2030 (with one note requiring a principal-only payment of \$151,788 in May 2018), and then principal and interest payments per month ranging from \$9,413 to \$22,045 from June 2030 to May 2045, at which time all remaining principal and interest are due in full. The notes payable have certain financial covenants required at the substantial completion of the 5716 Project and continuing through October 2018. Payment on the notes began on June 1, 2010. The notes are guaranteed in their entirety by Solutions and Counseling

	<u>\$ 9,866,224</u>
Total	<u>\$ 41,338,514</u>

Future maturities on notes payable outstanding as of September 30, 2016 are as follows:

Years Ending September 30	Southwest Solutions and Subsidiaries Debt (Net of Projects)	VIE Debt	Total
2017	\$ 5,327,558	\$ 754,011	\$ 6,081,569
2018	1,000,675	313,019	1,313,694
2019	1,045,257	168,826	1,214,083
2020	851,924	176,639	1,028,563
2021	660,302	185,200	845,502
2022 and thereafter	1,774,128	29,080,975	30,855,103
Total	<u>\$ 10,659,844</u>	<u>\$ 30,678,670</u>	<u>\$ 41,338,514</u>

Total interest expense on this debt for the year ended September 30, 2016 was as follows:

	Southwest Solutions and Subsidiaries Interest (Net of Projects)	VIE Interest
Interest expense	\$ 320,005	\$ 967,109

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note 6 - Long-term Debt (Continued)

Interest payable on the consolidated balance sheet of \$5,813,869 relates to funds borrowed through the HOME Loan program for the Projects. The outstanding principal amounts on the loans are included in the notes payable amounts noted above for the LDHALPs. The loan terms vary by loan, with some loans requiring principal and interest payments each month and others requiring unpaid interest and remaining principal amounts at the time of loan maturity. The loans mature between December 2022 and December 2063.

### Note 7 - Net Assets

Temporarily restricted net assets held by Solutions, Housing, Counseling, and Economic Solutions at September 30, 2016 include the following:

Purpose-restricted for Federal Home Loan Bank Affordable Housing Program	\$ 1,661,900
Purpose-restricted for Earn and Learn Program	748,130
Time- and purpose-restricted for ProsperUS Program	74,724
Purpose-restricted for ProsperUS Program	762,582
Purpose-restricted for specific program use	<u>747,758</u>
Total	<u>\$ 3,995,094</u>

Federal Home Loan Bank Affordable Housing Program net assets were received in the form of a mortgage to be used to provide housing to low-income households. Provided that Housing complies with the terms of the mortgage agreement, the mortgage will be forgiven at the end of 15 years and Housing will retain the contributed funds. The amount is classified as temporarily restricted until the mortgage is forgiven.

Permanently restricted net assets totaling \$2,994,100 at September 30, 2016 include funds received through an agreement with Neighborhood Reinvestment Corporation (NRC). NRC is a program that has provided funds to Housing to support lending to certain populations, the corpus and earnings of which may only be used to support a revolving loan fund to be used to fund loans for capital expenditures related to property acquisition and renovation. Included in this balance are funds totaling \$2,466,836 that are part of the NeighborWorks America Capital Fund.

Total changes in unrestricted net assets for the year ended September 30, 2016 are detailed below:

	Noncontrolling Interests	Controlling Interests	Total
Decrease in unrestricted net assets from operating activities	\$ (5,618,324)	\$ (1,299,053)	\$ (6,917,377)
Cancellation of indebtedness	6,119,156	-	6,119,156
Equity contributions	<u>1,398,303</u>	<u>105,276</u>	<u>1,503,579</u>
Total	<u>\$ 1,899,135</u>	<u>\$ (1,193,777)</u>	<u>\$ 705,358</u>

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note 8 - Operating Leases

Counseling has rental commitments under leases for office space and equipment with other entities and vehicle lease commitments through car dealerships expiring on various dates through 2020.

The future minimum lease payments under all leases at September 30, 2016 are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2017	\$ 334,906
2018	278,622
2019	191,661
2020	<u>6,533</u>
Total	<u>\$ 811,722</u>

### Note 9 - Retirement Plan

Solutions, Counseling, Housing, and Economic Solutions are part of Solutions' 403(b) plan covering substantially all full-time employees. Under the plan, these entities contribute 5 percent of qualifying employees' salaries to the purchase of individual annuity policies. The retirement plan expense was approximately \$652,000 for the year ended September 30, 2016.

### Note 10 - Deferred Compensation Agreement

During the year ended September 30, 2005, Solutions established a nonqualified executive deferred compensation plan for the benefit of certain key management employees. Under this agreement, Solutions is obligated to provide an agreed-upon annual contribution for each participant, subject to Internal Revenue Code limitations. Any excess annual contribution will be multiplied by a factor of 1.065 and carried forward to the next succeeding year. The distribution of benefits will commence in accordance with each participant's election at the later of the date he or she is scheduled to receive Social Security benefits or separation from service as a full-time employee. Participants are immediately vested in their plan contributions and any earnings thereon. The benefit is also payable upon the employee's death or disability. The present value of future benefits to be paid is being accrued as earned over the employee's service period and is included in accrued liabilities on Solutions' consolidated balance sheet. The outstanding liability related to this plan totaled \$105,713 at September 30, 2016. The related expense totaled \$6,288 for the year ended September 30, 2016.

# Southwest Solutions and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2016

### Note 11 - Functional Classification of Expenses

Major classes of program and support services are as follows:

Program services:	
Outpatient adult	\$ 6,318,894
Children, youth, and family	9,029,100
School based and early childhood	4,092,476
Supportive housing services	9,434,547
Residential services	<u>22,700,100</u>
Total program services	51,575,117
Support services - Management and general	<u>5,792,041</u>
Total expenses	<u>\$ 57,367,158</u>

### Note 12 - Related Party Transactions

Housing is affiliated through common board members with Rademacher Lodge Non-Profit Housing Corporation (Rademacher), which operates an apartment complex under Section 202 of the National Housing Act. Rademacher currently leases its facility to another unrelated organization for shelter for homeless individuals. Financial results for Rademacher at September 30, 2016 are as follows:

Total assets	<u>\$ 487,011</u>
Total liabilities	\$ 781,749
Net deficit	<u>(294,738)</u>
Liabilities and net deficit	<u>\$ 487,011</u>

Rademacher's net loss totaled \$33,634 for the year ended September 30, 2016.

Housing has advanced \$185,593 to Rademacher at September 30, 2016 to fund working capital deficits, which is included in long-term notes receivable. Housing's ability to realize this receivable is dependent on the ability of Rademacher to generate future revenue in excess of expenses.

### Note 13 - Prior Period Adjustment

The accompanying consolidated financial statements have been restated to correct an error made in a prior year related to the recognition of the Counseling's sponsorship of Bridgeway Services, Inc., which was previously accounted for incorrectly under the equity method of accounting. As a result of the restatement, beginning unrestricted net assets as of September 30, 2015 was reduced by \$706,651.

## **Additional Information**

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## Independent Auditor's Report on Additional Information

To the Board of Directors  
Southwest Solutions and Subsidiaries

We have audited the consolidated financial statements of Southwest Solutions and Subsidiaries as of and for the year ended September 30, 2016 and have issued our report thereon dated August 29, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purpose of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*Plante & Moran, PLLC*

August 29, 2017

## Southwest Solutions and Subsidiaries

## Consolidating Balance Sheet September 30, 2016

	Southwest Solutions	Southwest Counseling Solutions	Asset Services, Inc.	Southwest Economic Solutions	Southwest Housing Corporation and Subsidiaries	Eliminations	Total	Southwest Projects	Eliminations	Total
<b>Assets</b>										
<b>Current Assets</b>										
Cash and cash equivalents	\$ 1,076,352	\$ 1,264,386	\$ 18,667	\$ 457,148	\$ 3,292,468	\$ -	\$ 6,109,021	\$ 1,190,287	\$ -	\$ 7,299,308
Receivables:										
Trade	-	-	-	693,640	739,177	(173,013)	1,259,804	549,042	-	1,808,846
Grants	-	4,667,351	-	-	-	-	4,667,351	-	-	4,667,351
Advances to affiliated entities	5,417,448	-	35,414	322,128	1,347,818	(5,990,975)	1,131,833	-	(1,131,833)	-
Patient services	-	102,741	-	-	-	-	102,741	-	-	102,741
Other	-	90,314	-	-	-	-	90,314	-	-	90,314
Allowance for uncollectible accounts	-	(219,256)	-	-	-	-	(219,256)	-	-	(219,256)
Property held for resale	-	-	-	-	4,874,362	-	4,874,362	-	-	4,874,362
Prepaid expenses and other current assets	2,065	34,300	4,537	15,847	11,279	-	68,028	239,186	-	307,214
Total current assets	6,495,865	5,939,836	58,618	1,488,763	10,265,104	(6,163,988)	18,084,198	1,978,515	(1,131,833)	18,930,880
Investments - Other	-	52,091	-	-	-	-	52,091	-	-	52,091
Property and Equipment - Net	36,046	1,509,075	339,966	192,844	6,949,442	-	9,027,373	78,928,525	(11,693,828)	76,262,070
Developments in Progress	-	-	-	-	1,714,792	-	1,714,792	-	-	1,714,792
Assets Limited as to Use	-	-	-	-	2,497,850	-	2,497,850	5,034,703	(1,302,560)	6,229,993
Long-term Notes Receivable	-	1,368,952	-	-	10,117,181	(770,433)	10,715,700	7,241,555	(9,670,423)	8,286,832
Long-term Due from Affiliated Entity	-	971,769	-	-	194,115	(1,165,884)	-	-	-	-
Other Assets	-	-	-	-	8,301,993	-	8,301,993	1,219,995	(7,927,830)	1,594,158
Total assets	<u>\$ 6,531,911</u>	<u>\$ 9,841,723</u>	<u>\$ 398,584</u>	<u>\$ 1,681,607</u>	<u>\$ 40,040,477</u>	<u>\$ (8,100,305)</u>	<u>\$ 50,393,997</u>	<u>\$ 94,403,293</u>	<u>\$ (31,726,474)</u>	<u>\$ 113,070,816</u>

# Southwest Solutions and Subsidiaries

## Consolidating Balance Sheet (Continued) September 30, 2016

	Southwest Solutions	Southwest Counseling Solutions	Asset Services, Inc.	Southwest Economic Solutions	Southwest Housing Corporation and Subsidiaries	Eliminations	Total	Southwest Projects	Eliminations	Total
<b>Liabilities and Net Assets (Deficit)</b>										
<b>Current Liabilities</b>										
Accounts payable	\$ 395,164	\$ 1,330,684	\$ 2,068	\$ 153,909	\$ 680,316	\$ -	\$ 2,562,141	\$ 972,717	\$ -	\$ 3,534,858
Due to affiliated entities	2,938,983	31,736	62,878	795,891	4,239,239	(8,068,727)	-	3,603,240	(3,603,240)	-
Current portion of notes payable	-	24,509	79,446	-	5,223,603	-	5,327,558	754,011	-	6,081,569
Deferred revenue	-	-	-	-	540,432	-	540,432	-	-	540,432
Accrued liabilities and other	510,097	1,427,696	-	159,278	1,138,956	(31,578)	3,204,449	981,572	-	4,186,021
Total current liabilities	3,844,244	2,814,625	144,392	1,109,078	11,822,546	(8,100,305)	11,634,580	6,311,540	(3,603,240)	14,342,880
<b>Notes Payable</b> (VIE restricted portion - \$20,812,446) - Net of current portion	-	661,812	261,063	-	4,409,411	-	5,332,286	38,391,597	(8,466,938)	35,256,945
<b>Interest Payable</b> - Long term	-	-	-	-	1,569,309	-	1,569,309	4,403,943	(159,383)	5,813,869
Total liabilities	3,844,244	3,476,437	405,455	1,109,078	17,801,266	(8,100,305)	18,536,175	49,107,080	(12,229,561)	55,413,694
<b>Net Assets (Deficit)</b>										
Unrestricted:										
Controlling interest	1,879,017	6,030,377	(6,871)	468,042	15,883,105	614,958	24,868,628	7,071,092	(19,496,913)	12,442,807
Noncontrolling interest	-	-	-	-	-	-	-	38,225,121	-	38,225,121
Temporarily restricted	808,650	334,909	-	104,487	3,362,006	(614,958)	3,995,094	-	-	3,995,094
Permanently restricted	-	-	-	-	2,994,100	-	2,994,100	-	-	2,994,100
Total net assets (deficit)	2,687,667	6,365,286	(6,871)	572,529	22,239,211	-	31,857,822	45,296,213	(19,496,913)	57,657,122
Total liabilities and net assets (deficit)	<u>\$ 6,531,911</u>	<u>\$ 9,841,723</u>	<u>\$ 398,584</u>	<u>\$ 1,681,607</u>	<u>\$ 40,040,477</u>	<u>\$ (8,100,305)</u>	<u>\$ 50,393,997</u>	<u>\$ 94,403,293</u>	<u>\$ (31,726,474)</u>	<u>\$ 113,070,816</u>

## Southwest Solutions and Subsidiaries

### Consolidating Statement of Unrestricted Revenue, Expenses, and Other Changes in Unrestricted Net Assets Year Ended September 30, 2016

	Southwest Solutions	Southwest Counseling Solutions	Asset Services, Inc.	Southwest Economic Solutions	Southwest Housing Corporation and Subsidiaries	Eliminations	Total	Southwest Projects	Eliminations	Total
<b>Changes in Unrestricted Net Assets</b>										
Revenue and support:										
Grant funding and capitation revenue	\$ -	\$ 27,673,612	\$ -	\$ 3,972,706	\$ 2,230,474	\$ (3,225,319)	\$ 30,651,473	\$ -	\$ -	\$ 30,651,473
Patient and other services	-	1,433,322	-	-	-	-	1,433,322	-	-	1,433,322
ASO management fees	4,547,812	-	-	-	-	(4,547,812)	-	-	-	-
Contributions	721,840	725,273	-	68,557	685,807	-	2,201,477	-	-	2,201,477
Rent	-	-	212,483	-	947,822	(516,947)	643,358	4,410,104	-	5,053,462
Program revenue	-	609,859	-	-	1,150,809	-	1,760,668	-	(1,003,306)	757,362
Property management fees	-	-	-	-	716,839	-	716,839	-	(387,782)	329,057
Sales of property	-	-	-	-	5,657,426	-	5,657,426	-	-	5,657,426
Interest	1,825	-	-	390	335,598	-	337,813	237,609	(45,236)	530,186
Miscellaneous income	78,926	-	-	219,827	9,160	(36,000)	271,913	328,706	-	600,619
<b>Total revenue and support</b>	<b>5,350,403</b>	<b>30,442,066</b>	<b>212,483</b>	<b>4,261,480</b>	<b>11,733,935</b>	<b>(8,326,078)</b>	<b>43,674,289</b>	<b>4,976,419</b>	<b>(1,436,324)</b>	<b>47,214,384</b>
Net assets released from restrictions	104,540	206,241	-	293,993	2,630,623	-	3,235,397	-	-	3,235,397
<b>Total unrestricted revenue, support, and net assets released from restrictions</b>	<b>5,454,943</b>	<b>30,648,307</b>	<b>212,483</b>	<b>4,555,473</b>	<b>14,364,558</b>	<b>(8,326,078)</b>	<b>46,909,686</b>	<b>4,976,419</b>	<b>(1,436,324)</b>	<b>50,449,781</b>
Expenses:										
Program services	-	28,875,017	93,668	3,478,385	13,628,352	(3,391,143)	42,684,279	10,538,776	(1,647,938)	51,575,117
Support services	5,597,223	2,210,711	52,037	945,734	1,921,271	(4,934,935)	5,792,041	-	-	5,792,041
<b>Total expenses</b>	<b>5,597,223</b>	<b>31,085,728</b>	<b>145,705</b>	<b>4,424,119</b>	<b>15,549,623</b>	<b>(8,326,078)</b>	<b>48,476,320</b>	<b>10,538,776</b>	<b>(1,647,938)</b>	<b>57,367,158</b>
<b>(Decrease) Increase in Unrestricted Net Assets from Operating Activities</b>	<b>(142,280)</b>	<b>(437,421)</b>	<b>66,778</b>	<b>131,354</b>	<b>(1,185,065)</b>	<b>-</b>	<b>(1,566,634)</b>	<b>(5,562,357)</b>	<b>211,614</b>	<b>(6,917,377)</b>
<b>Cancellation of Indebtedness</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,119,156</b>	<b>-</b>	<b>6,119,156</b>
<b>Equity Contributions</b>	<b>273,000</b>	<b>(125,000)</b>	<b>(48,000)</b>	<b>302,420</b>	<b>(297,144)</b>	<b>-</b>	<b>105,276</b>	<b>1,398,303</b>	<b>-</b>	<b>1,503,579</b>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<b>130,720</b>	<b>(562,421)</b>	<b>18,778</b>	<b>433,774</b>	<b>(1,482,209)</b>	<b>-</b>	<b>(1,461,358)</b>	<b>1,955,102</b>	<b>211,614</b>	<b>705,358</b>
<b>Less Increase in Unrestricted Net Assets Attributable to Noncontrolling Interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,899,135)</b>	<b>-</b>	<b>(1,899,135)</b>
<b>Increase (Decrease) in Unrestricted Net Assets Attributable to Controlling Interests</b>	<b>\$ 130,720</b>	<b>\$ (562,421)</b>	<b>\$ 18,778</b>	<b>\$ 433,774</b>	<b>\$ (1,482,209)</b>	<b>\$ -</b>	<b>\$ (1,461,358)</b>	<b>\$ 55,967</b>	<b>\$ 211,614</b>	<b>\$ (1,193,777)</b>

## Southwest Solutions and Subsidiaries

### Consolidating Statement of Changes in Net Assets Year Ended September 30, 2016

	Southwest Solutions	Southwest Counseling Solutions	Asset Services, Inc.	Southwest Economic Solutions	Southwest Housing Corporation and Subsidiaries	Eliminations	Total	Southwest Projects	Eliminations	Total
<b>Increase (Decrease) in Unrestricted Net Assets Attributable to Controlling Interests</b>	\$ 130,720	\$ (562,421)	\$ 18,778	\$ 433,774	\$ (1,482,209)	\$ -	\$ (1,461,358)	\$ 55,967	\$ 211,614	\$ (1,193,777)
<b>Increase in Unrestricted Net Assets Attributable to Noncontrolling Interests</b>	-	-	-	-	-	-	-	1,899,135	-	1,899,135
<b>Increase (Decrease) in Unrestricted Net Assets</b>	130,720	(562,421)	18,778	433,774	(1,482,209)	-	(1,461,358)	1,955,102	211,614	705,358
<b>Changes in Temporarily Restricted Net Assets</b>										
Contributions	-	356,243	-	100,500	464,250	-	920,993	-	-	920,993
Net assets released from restrictions	(104,540)	(206,241)	-	(293,993)	(2,581,593)	-	(3,186,367)	-	-	(3,186,367)
<b>Increase (Decrease) in Temporarily Restricted Net Assets</b>	(104,540)	150,002	-	(193,493)	(2,117,343)	-	(2,265,374)	-	-	(2,265,374)
<b>Increase in Permanently Restricted Net Assets</b>										
Contributions	-	-	-	-	225,000	-	225,000	-	-	225,000
Net assets released from restrictions	-	-	-	-	(49,030)	-	(49,030)	-	-	(49,030)
<b>Increase in Permanently Restricted Net Assets</b>	-	-	-	-	175,970	-	175,970	-	-	175,970
<b>Increase (Decrease) in Net Assets</b>	26,180	(412,419)	18,778	240,281	(3,423,582)	-	(3,550,762)	1,955,102	211,614	(1,384,046)
<b>Net Assets - Beginning of year - As restated</b>	2,661,487	6,777,705	(25,649)	332,248	25,662,793	-	35,408,584	43,341,111	(19,708,527)	59,041,168
<b>Net Assets - End of year</b>	<u>\$ 2,687,667</u>	<u>\$ 6,365,286</u>	<u>\$ (6,871)</u>	<u>\$ 572,529</u>	<u>\$ 22,239,211</u>	<u>\$ -</u>	<u>\$ 31,857,822</u>	<u>\$ 45,296,213</u>	<u>\$ (19,496,913)</u>	<u>\$ 57,657,122</u>