Southwest Solutions, Inc. and Subsidiaries

Consolidated Financial Statements and
Supplementary Information

September 30, 2019

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Independent Auditors' Report

To the Board of Directors of
Southwest Solutions, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Southwest Solutions, Inc. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of September 30, 2019, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of September 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Adjustments to Prior Period Consolidated Financial Statements

The consolidated financial statements of the Organization as of September 30, 2018, were audited by other auditors whose report dated June 25, 2019, expressed an unmodified opinion on those consolidated financial statements. As discussed in Note 3 to the consolidated financial statements, the Organization restated its 2018 consolidated financial statements to correct errors relating to recording of investments and deferred revenue, overstatements of long-term debt and interest payable, and classification of net assets as well as for a change in the application of consolidation guidance related to its involvement in certain limited partnerships, resulting in the removal of certain presentation and disclosure requirements. The other auditors reported on the consolidated financial statements before the adjustments.

As part of our audit of the 2019 consolidated financial statements, we also audited the adjustments described in Note 3 that were applied to restate the 2018 consolidated financial statements. In our opinion, such adjustments and the change in the application of accounting for consolidations are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2018 consolidated financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 consolidated financial statements as a whole.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and it 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 consolidating 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2021 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Southfield, Michigan
April 23, 2021

Southwest Solutions, Inc. and Subsidiaries

Consolidated Statement of Financial Position
September 30, 2019

Assets

Current Assets	
Cash and cash equivalents - unrestricted	$ 5,025,536
Cash and cash equivalents - restricted	9,081,316
Accounts receivable, net	1,619,799
Grants and contributions receivable, net	2,236,793
Prepaid expenses	428,591
Property held for resale	2,073,604
Total current assets	20,465,639
Other Assets	
Notes receivable	1,272,509
Cash and cash equivalents - restricted long-term	2,361,998
Total other assets	3,634,507
Property and equipment, net	71,472,311
Total assets	$ 95,572,457

Liabilities and Net Assets

Current Liabilities	
Accounts payable	$ 1,574,317
Accrued liabilities and other	3,316,126
Security deposits	348,416
Deferred revenue	3,322,067
Current portion of long-term debt	3,152,573
Other current liabilities	787,482
Total current liabilities	12,500,981
Long-Term Liabilities	
Interest payable	3,568,879
Long-term debt, net of current portion	25,130,239
Total long-term liabilities	28,699,118
Total liabilities	41,200,099
Net Assets	
Net assets without donor restrictions	
Controlling interest	24,154,785
Noncontrolling interest	22,369,777
	46,524,562
Net assets with donor restrictions	7,847,796
Total net assets	54,372,358
Total liabilities and net assets	$ 95,572,457

See notes to consolidated financial statements

Southwest Solutions, Inc. and Subsidiaries

Consolidated Statement of Activities
Year Ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Fee for service	$ 7,933,932	$ -	$ 7,933,932
Grants	10,887,745	2,947,675	13,835,420
Foundation revenue	2,450,896	120,000	2,570,896
Contributions	1,101,771	-	1,101,771
Property management fees	133,367	-	133,367
Sales of property	6,275,778	-	6,275,778
Net rental income	4,985,352	-	4,985,352
Interest income	138,219	-	138,219
Net gain on sale of property	956,812	-	956,812
Other revenue	1,379,188	-	1,379,188
Net assets released from restrictions	2,246,496	(2,246,496)	-
Total revenue and support	38,489,556	821,179	39,310,735
Expenses			
Program	36,168,969	-	36,168,969
Support services	7,032,026	-	7,032,026
Total expenses	43,200,995	-	43,200,995
Change in net assets from operating activities	(4,711,439)	821,179	(3,890,260)
Non-operating Activities			
Equity contributions	2,590,920	-	2,590,920
Cancellation of indebtedness	427,360	-	427,360
Total non-operating activities	3,018,280	-	3,018,280
Change in net assets	(1,693,159)	821,179	(871,980)
Net Assets, beginning, as restated	48,217,721	7,026,617	55,244,338
Net Assets, ending	$ 46,524,562	$ 7,847,796	$ 54,372,358

See notes to consolidated financial statements

Southwest Solutions, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended September 30, 2019

	Counseling	Housing	Economic Solutions	Total Program	Management and General	Fundraising	Total Support Services	Total
Personnel	$ 8,534,239	$ 1,450,863	$ 2,002,755	$ 11,987,857	$ 4,086,719	$ 370,410	$ 4,457,129	$ 16,444,986
Professional fees	1,574,440	571,840	857,299	3,003,579	1,208,553	55,500	1,264,053	4,267,632
Cost of goods sold and program supplies	4,129,286	5,219,199	204,178	9,552,663	17,799	102,990	120,789	9,673,452
Facility maintenance and occupancy	750,909	7,904,209	338,168	8,993,286	199,678	33,741	233,419	9,226,705
Furniture and equipment	38,590	-	8,428	47,018	4,887	-	4,887	51,905
Supplies	121,448	94,606	54,033	270,087	75,367	3,563	78,930	349,017
Travel and meeting	185,779	24,216	88,928	298,923	27,653	2,514	30,167	329,090
Other expenses	563,779	1,291,503	160,274	2,015,556	797,564	45,088	842,652	2,858,208
Total expenses	$ 15,898,470	$ 16,556,436	$ 3,714,063	$ 36,168,969	$ 6,418,220	$ 613,806	$ 7,032,026	$ 43,200,995

See notes to consolidated financial statements

Southwest Solutions, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended September 30, 2019

Cash Flow from Operating Activities	
Change in net assets	$ (871,980)
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	4,248,954
Bad debt	745,541
Gain on investment	(3,977)
Net gain on sale of property	(956,812)
Cancellation of indebtedness	(427,360)
Amortization of debt financing costs	44,280
Equity contributions	(2,590,920)
Changes in assets and liabilities:	
Accounts, grants, contributions and notes receivable	1,226,428
Prepaid expenses	201,432
Property held for resale	1,266,907
Accounts payable	(1,985,786)
Deferred revenue	524,688
Accrued liabilities and other	477,716
Interest payable	155,141
Net cash flows from operating activities	2,054,252
Cash Flows from Investing Activities	
Purchases of property and equipment	(3,256,919)
Proceeds from sales of property	3,092,612
Proceeds from sale of investments	90,111
Net deposits of restricted cash	(1,541,964)
Net cash flows from investing activities	(1,616,160)
Cash Flows from Financing Activities	
Principal payments on long-term debt	(3,046,011)
Proceeds from long-term debt	2,761,339
Equity contributions	2,590,920
Payment of debt financing costs	(135,000)
Net cash flows from financing activities	2,171,248
Net change in cash and cash equivalents - unrestricted	2,609,340
CASH AND CASH EQUIVALENTS - UNRESTRICTED, Beginning	2,416,196
CASH AND CASH EQUIVALENTS - UNRESTRICTED, Ending	$ 5,025,536

Supplemental Cash Flow Disclosures	
Cash paid for interest	$ 778,270

See notes to consolidated financial statements

1. Nature of Business

The accompanying consolidated financial statements reflect the consolidated financial position and changes in net assets and cash flows of Southwest Solutions, Inc. (SWS) and subsidiaries, Asset Services, Inc. (Services); Southwest Counseling Solutions (SWCS); Southwest Economic Solutions (SWES); and Southwest Housing Solutions Corporation and Subsidiaries (SWHS); and the Veritable Group, Inc. which provides brokerage services (collectively, the Organization).

SWS is a Michigan nonprofit corporation organized in October 2001 for the primary purpose of holding membership interests in SWCS, SWES, SWHS and Services.

Services was formed to purchase, own, and manage buildings and equipment used by and leased to SWCS and other affiliated organizations. Services is a wholly owned subsidiary of SWS. On December 2, 2020, the Board of Directors of SWS approved the merger of Services with and into SWCS pursuant to a Plan of Merger. Services' sole asset is property currently leased by SWCS. The merger will occur in fiscal year 2021.

SWCS is a Michigan nonprofit corporation organized to provide behavioral health services for adults, children, youth and families, juvenile justice and supportive housing to residents of southeastern Michigan. SWS is the sole member of SWCS.

SWCS 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, specialized and family therapy, psychopharmacology, care coordination/case management, integrated health services, supported employment, psychosocial rehabilitation, vocational/prevocational opportunities and prevention programs.

Children, Youth, and Family

Provides comprehensive outpatient and community based mental health services to children and youth with serious emotional disorders and their families. Services include integrated bio-psychosocial assessments, information and referrals; crisis Intervention 24/7; individual, group, and family therapy; psychopharmacology; school-based services; infant mental health; transition aged youth services; wraparound services; parent and youth peer support services; care coordination/case management; and prevention services. Provides services to at-risk youth and their families (adjudicated youth involved in the juvenile justice system, youth on probation, youth at risk of adjudication; and or youth with serious emotional disorders). Services include individual, group and family counseling; crisis intervention 24/7; juvenile court representation/coordination; care coordination; youth and family mentoring; youth leadership development; 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, housing search, 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.

SWES was formed on February 21, 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. SWS is the sole member of SWES.

Included in SWES is ProsperUS Detroit MicroLending (ProsperUS). ProsperUS is a tax-exempt not-for-profit corporation established in 2013 to receive and administer loan funds to support the educational and aspirations of Detroit neighborhood based entrepreneurs. Subsequent to year end ProsperUS was transferred to be a subsidiary of SWS and later spun off to operate independently.

SWHS 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, SWHS is dedicated to commercial and residential revitalization. SWS is the sole member of SWHS. SWHS includes the following subsidiaries:

- Southwest Design Solutions, LLC (SDS), a wholly owned subsidiary of SWHS, was formed to provide architectural and design services for affordable housing-related projects. Southwest Design Solutions was inactive in 2019 and was dissolved in January 2020.
- Bagley Housing Association, Inc. (Bagley) is a not-for-profit corporation in which SWHS 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 SWHS, 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 SWHS, holds commercial real estate.
- Michigan Lending Solutions (Lending Solutions), a low-profit limited liability company (L3C) of which SWHS is a majority member owner, was formed to provide affordable lending solutions to individuals and families in underserved areas of southeastern Michigan, with concentration in the city of Detroit, Michigan.
- Preservation Partners I GP, Inc. and Preservation Partners, I LP, Inc. are both wholly owned subsidiaries of SWHS, which collectively own 100 percent of Newberry Homes Limited Dividend Housing Association Limited Partnership (Newberry Homes).
- 5716 Partners, LLC, (5716 Partners) a wholly owned subsidiary of SWHS was established to develop and maintain the commercial property located at 5716 Michigan Ave, Detroit Michigan.
- Murray Townhomes, LLC, (Murray Townhomes) of which SWHS owns 90 percent, was established in 2018 for the purpose of the historic renovation of a 12-unit multifamily housing complex in southwest Detroit.

The following wholly owned properties provide affordable housing rental units in southwest Detroit pursuant to Section 42 of the Internal Revenue Code (collectively referred to as the "Housing Projects"):

- 250 WGB, Inc. and 250 WGB, LLC are both wholly owned subsidiaries of SWHS, 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.

- 388 W. Grand Blvd. Apartments, Inc. and 388 WGB, LLC are both wholly owned subsidiaries of SWHS, 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 with both one and two-bedroom units.

- Martin Gardens, Inc. and Preservation Partners II, LP, Inc. are both wholly owned subsidiaries of SWHS, which collectively own 100 percent of Martin Gardens Limited Dividend Housing Association Limited Partnership (Martin Gardens).

- Rademacher Lodge Nonprofit Housing Corporation (Rademacher), a wholly owned subsidiary of SWHS, owns residential real estate.

- Southwest Housing Partners, Inc. and SWHP, Inc. are both wholly owned subsidiaries of SWHS, which collectively own 100 percent of Southwest Housing Partners Limited Dividend Housing Association Limited Partnership (SHP).

- Springwells Partners, Inc. and Preservation Partners III, LP, Inc. are both wholly owned subsidiaries of SWHS, which collectively own 100 percent of Springwells Partners Limited Dividend Housing Association Limited Partnership (Springwells Partners).

- Springwells Partners II, Inc. and Preservation Partners IV, LP, Inc. are both wholly owned subsidiaries of SWHS, which collectively own 100 percent of Springwells Partners II Limited Dividend Housing Association Limited Partnership (Springwells Partners II).

- Springwells Partners III, Inc. and Preservation Partners V, LP, Inc. are both wholly owned subsidiaries of SWHS, which collectively own 100 percent of Springwells Partners III Limited Dividend Housing Association Limited Partnership (Springwells Partners III).

SWHS is also the 100 percent owner of certain corporate entities (and the 79 percent owner of Mack Ashland GP, LLC) that are general partners that own 0.01 percent 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 Limited Partnerships). They are located in southeast Michigan and provide affordable housing pursuant to Section 42 of the Internal Revenue Code. The Limited Partnerships are made up of the following LDHALPs:

- Coolidge Place
- Hubbard Communities
- Mack-Ashland
- Mack-Ashland II
- McKinstry Place
- Piquette Square
- Scotten Park
- Southwest Housing Partners II
- Springwells Partners IV
- Springwells Partners V

In July 2019, 5716 Partners, LLC and Covenant Community Care, inc. formed, 5716 and 5728 Michigan Condominium Association.

In June 2019, Coolidge Place LDHALP was formed to develop and own a 64-unit affordable housing development in Oak Park Michigan. SW Coolidge Place, wholly owned by SWHS, is in partnership with Spero Coolidge Place, Inc., wholly owned by Lighthouse (fka South Oakland Shelter), and collectively they own .01 percent of Coolidge Place LDHALP.

Veritable Group, Inc. is a wholly owned subsidiary of SWS. It was inactive in 2019 and was dissolved in June 2020.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of SWS, Services, SWES, SWCS, SWHS, and the Veritable Group.

Also included in the consolidated financial statements are the Limited Partnerships for which the general partners, have control. The equity attributable to the Limited Partnerships not owned by the SWHS is reported as noncontrolling interest in the accompanying consolidated financial statements. All intercompany activity has been eliminated in consolidation. For the purpose of consolidation, the effects of eliminations of revenue and expenses due to intercompany transactions between SWHS and the Limited Partnerships are attributed to SWHS.

The consolidated financial statements of SWS have been prepared on the basis of accounting principles generally accepted in the United States (GAAP). The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Organization maintains bank deposit accounts that are insured by the Federal Deposit Insurance Corporation up to $250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

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

SWCS has contracted with Detroit Wayne Integrated Health Network (DWIHN) as a provider of mental health services and services to those with disabilities. SWCS receives fee for service payments based on the billing codes for services rendered to consumers assigned to the SWCS. Accounts receivable are stated at net invoice amounts.

The allowance for doubtful accounts is based on past collection history and current credit conditions. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance was $856,568 at September 30, 2019.

Grants and Contributions Receivable

The Organization receives grant revenue through contracts with certain governmental agencies. Revenue under these contracts is recognized when earned. Grant money received in advance is recorded as deferred revenue. Grants receivable are stated at net invoice amounts.

The reports 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. There were no outstanding settlements as of September 30, 2019.

One grantor represents approximately 18% of grants and contributions receivable at September 30, 2019.

The allowance for doubtful accounts is based on past collection history and current credit conditions and was $119,256 at September 30, 2019. When management determines that a receivable is uncollectible, the balance is charged to bad debt expense.

Contributions

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 at the present value of estimated future cash flows.

Contributions without donor-imposed restrictions are reported as support without donor restrictions. Contributions with donor-imposed time or purpose restrictions are reported as support with donor restrictions.

The Organization records donated services and goods using the fair value when the donation is received.

Notes Receivable

Notes receivable are reported at original issue amount less principal repaid. Interest is recognized according to terms of the specific notes. An allowance for loan losses is determined based on a specific assessment of all notes that are delinquent or determined to be doubtful to be collected. Notes are considered delinquent if the repayment terms are not met. All amounts deemed to be uncollectible are charged against the allowance for loan losses in the period that determination is made.

The Organization has $3,455,362 of notes receivable, net of an allowance for doubtful accounts totaling $2,182,853 at September 30, 2019. Repayment on these notes receivable is based upon various terms, notes are generally secured, and repayment is expected in more than one year and, therefore, are classified as long term. Some notes are potentially forgivable and are allowed for completely.

Property Held for Resale and Sales of Property

Property held for resale consists primarily of foreclosed homes acquired from bank trusts for the purpose of renovation and resale, 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 are recognized when earned, which is at the time of sale.

Property and Equipment

Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are depreciated on a straight-line basis over their estimated useful lives (ranging from 3 to 30 years). The Organization's policy is to capitalize property and equipment greater than $5,000 with a life of more than one year. Costs of maintenance and repairs are charged to expense when incurred.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including buildings, equipment and other intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable.

Net Rental Income

Net rental income is recorded at gross potential rent less vacancy losses when earned.

Income Taxes

SWS, SWCS, SWES, SWHS, ProsperUS, Bagley and Rademacher have received notification that they qualify as tax-exempt organizations under Section 501(c)(3) and Services under Section 501(c)(2) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, are not subject to federal or state income taxes. However, income from certain activities not directly related to their tax-exempt purposes is subject to taxation as unrelated business income. It is The Organization's policy to recognize interest and penalties related to uncertain tax positions in income tax expense. Bagley lost its tax exempt status and is in the process of reapplying.

Veritable Group, Inc., SDS, Creative Arts, Lithuanian Hall, 5716 Partners, 250 WGB, LLC, 388 WGB, LLC, and Murray Townhomes are limited liability companies. Martin Gardens, Inc., Southwest Housing Partners, Inc., SWHP, Inc., Preservation Partners I GP, Inc., Preservation Partners II, LP, Inc., Preservation Partners III, LP, Inc., Preservation Partners IV, LP, Inc., Preservation Partners V, LP, Inc., 250 WGB, Inc., 388 W. Grand Blvd. Apartments, Inc., Springwells Partners, Inc., Springwells Partners II, Inc., Springwells Partners III, Inc., are C corporations; Lending Solutions is a low profit limited liability company; and the remaining 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.

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, 2019.

With few exceptions, the Organization is no longer subject to U.S. Federal and State income tax examinations by tax authorities for the years before 2016. The Organization is not currently under examination by any taxing jurisdiction.

Classification of Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence or donor imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Net Assets Without Donor Restrictions Net assets that are not subject to donor imposed stipulations.

Net Assets With Donor Restrictions Net assets subject to donor imposed stipulations that will be met either by actions of the Organization and/or the passage of time or are required to be maintained in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Board Designated Net Assets The Organization's Board of Directors has the ability to designate identified amounts of net assets without restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. There were no Board designations at September 30, 2019.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the consolidated statements of activities. Costs have been charged between various programs and support services on an actual basis or have been allocated generally based on a ratio of the number of full time equivalent positions in each program or on the number of tenants. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Non-Operating Activities

The Organization excludes from its measure of operating activity items that are not integral to its operations such as cancellation of indebtedness and equity contributions.

Use of Estimates

The preparation of the 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of Financial Accounting Standards Board's Accounting Standards Update

In 2019, the Organization adopted the Financial Accounting Standard Board's (FASB) 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 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. The new standard changes the following aspects of the financial statements:

- The unrestricted net assets class has been renamed net assets without donor restrictions.
- The temporarily restricted net asset class has been renamed net assets with donor restrictions.
- The consolidated financial statements include a consolidated statement of functional expense.
- The consolidated financial statements include a disclosure about liquidity and availability of resources at September 30, 2019.

Upcoming Accounting Pronouncements

In May 2014, the FASB issued 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 disclosures 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, 2021. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Organization has not yet determined which application method it will use. Management does not expect the new standard to significantly impact the amount or timing of revenue recognized; however, there will be substantial new disclosures required once the Organization adopts the new standard.

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-to-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 activities. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The reporting of lease-related expenses in the statements of activities 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, 2023 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Organization's financial statements as a result of the Organization's operating leases, that will be reported on the statement of financial position at adoption. Upon adoption, The Organization will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the results of activities are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization’s year ending September 30, 2020 and will be applied on a modified prospective basis. The Organization does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts, but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This standard will require cash flow statements to explain the change during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Amounts reported as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update also includes a requirement that the footnotes to the financial statements explain the nature of the restrictions. the Organization will be required to apply the standard for fiscal years beginning after December 15, 2018 (2020). The standard should be applied retrospectively upon adoption. The Organization is currently assessing the effect that ASU 2016-18 will have on its consolidated financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2020-07 will have on its consolidated financial statements.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 23, 2021, which is the date the consolidated financial statements were available to be issued.

In August 2019, SWHS executed a purchase/sell agreement for several parcels of land. The agreements have been extended until August 2021.

In November 2019, SWHS obtained a $3,000,000 line of credit with a certain bank to be used for working capital and real estate development activities. Interest only payments are due monthly at a variable interest rate of prime. The line matures in November 2021, as extended, and is secured by commercial real estate.

In November 2019, SWHS entered into a mortgage for $390,000 with a certain bank. Monthly payments of $2,645, including interest of 5.25%, were required beginning December 7, 2019, balance due November 7, 2024. The mortgage payable is secured by an assignment of rents.

In December 2019, SWES obtained a $250,000 line of credit with a certain bank to be used for working capital. Interest only payments are due monthly at a variable interest rate of prime beginning January 23, 2020. The line renews annually and is secured by a loan portfolio.

On April 23, 2020, SWS was granted a Paycheck Protection Program Loan (PPP). The loan proceeds were for the benefit of SWS and its affiliates. SWS will apply for forgiveness in fiscal 2021.

In June 2020, SWHS closed on the sale of its Murray Townhomes property and the related mortgage owed to Invest Detroit Foundation, was fully satisfied at that time. At the same time, SWHS' interest in the entity was reduced to 10%.

During August 2020, Neighborhood Reinvestment Corporation, doing business as NeighborWorks America, authorized the release of net assets with restrictions in the amount of $2,994,100.

SWHS is in the pre-development stage for various housing projects. MSHDA LIHTC applications have been submitted and are pending approval.

The spread of COVID-19 has severely impacted many local economies and nonprofit organizations around the country. Nonprofit organizations are being forced to modify operations for long or indefinite periods of time. The Organization is an essential business and has remained open throughout the pandemic. Measures have been taken to protect the health and safety of clients and employees. A large percentage of our workforce works remotely, however, the Organization has also taken measures to contain the spread of the virus, including social distancing, health screening and quarantines. The Organization remains subject to both current and potential future regulations related to COVID-19 issued by local, state and federal governmental agencies, as well as the economic impact associated with these regulations, which could affect operations

The governor mandated construction shutdown due to COVID-19, significantly delayed the completion of a certain development project and has reduced the number of real estate sales realized. Monthly rental income has declined by approximately 13% due to the national eviction moratorium.

3. Restatement

In 2019, SWCS determined that errors were made in prior years relating to the recording of investments and deferred revenue due to an error in recognition and measurement. As a result, SWCS restated its beginning net assets to reflect these items in accordance with current authoritative accounting guidance.

In 2019, SWHS restated its 2018 consolidated financial statements to correct certain errors made in prior years, due to an oversight in the recognition and measurement of certain subsidiaries' long-term debt and interest payable at amounts more than the obligations.

In 2019, SWS restated its 2018 consolidated financial statements to correct an eliminating entry recorded in error due to an oversight in financial statement preparation affecting the classification of its net assets between with and without donor restrictions.

The effect of the restatements on the September 30, 2018 consolidated net assets was as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Net assets beginning of year as previously stated	$ 47,036,487	$ 6,061,659	$ 53,098,146
SWCS correction of investment in Bridgeway Services, Inc.	(2,420,450)	-	(2,420,450)
SWCS correction of contributions with donor restrictions	-	350,000	350,000
SWHS correction of long-term debt and interest payable on various housing projects	4,216,642	-	4,216,642
SWS correction of net asset classification	(614,958)	614,958	-
Net assets beginning of year restated	$ 48,217,721	$ 7,026,617	$ 55,244,338

The effect of the restatement on the 2018 consolidated change in net assets was a decrease of $74,966.

SWHS also determined in 2019 that a mistake occurred in prior years in the application of the consolidation criteria for not-for-profit entities by using the potential variable interest entities (VIEs) criteria rather than using the control of limited partnerships criteria to determine consolidation requirements. The application of the control of limited partnerships criteria in 2019 to determine which entities to consolidate resulted in the same conclusions as using the VIE criteria in 2018. Accordingly there was no effect on the recognition and measurements of assets and liabilities or amounts of controlling and noncontrolling interests in the consolidated financial statements; however, this application did eliminate the presentation and disclosures required using the VIE model for SWHS's involvement in the limited partnerships that are consolidated.

4. Information about Limited Partnerships

SWHS is the 100 percent owner of certain corporate entities (and the 79 percent owner of Mack-Ashland) that are general partners and own 0.01 to 1 percent of several LDHALPs (as disclosed in Note 1). SWHS is the management agent for the Limited Partnerships. The LDHALPs are considered to be subsidiaries because the related partnership agreements and associated agreements call for SWHS, through the general partners, to provide certain project performance guarantees and operating deficit funding requirements.

SWHS, through the 100 percent-owned general partner entities, determined that it has control and economic interest in the Limited Partnerships, 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 consolidated financial statements as consolidated subsidiaries.

During 2019, SWHS received equity contributions totaling $2,590,920 from the limited partners of the Coolidge Place LDHALP and Springwells IV LDHALP projects to fund project development and operating costs, which are reported as non-operating activities on the consolidated statement of activities. The creditors and beneficial interest holders of the Limited partnerships have no recourse to the assets of SWHS, other than as disclosed in Note 7 to the consolidated financial statements.

5. Property and Equipment

The cost of property and equipment at September 30, 2019 is summarized as follows:

	Southwest Solutions and Subsidiaries (Net Limited Partnerships)	Limited Partnerships	Total
Land	$ 1,992,280	$ 3,431,523	$ 5,423,803
Land improvements	2,309,907	5,260,660	7,570,567
Building and improvements	48,337,594	46,787,664	95,125,258
Leasehold improvements	2,740,756	-	2,740,756
Furniture and fixtures	3,875,041	3,469,731	7,344,772
Vehicles	656,875	-	656,875
Construction in process	1,382,880	7,548,577	8,931,457
Other	204,997	2,119,512	2,324,509
Total cost	61,500,330	68,617,667	130,117,997
Less: Accumulated depreciation	(35,020,953)	(23,624,733)	(58,645,686)
Net carrying amount	$ 26,479,377	$ 44,992,934	$ 71,472,311

The depreciation expense for the year ended September 30, 2019 is summarized as follows:

	Southwest Solutions and Subsidiaries (Net Limited Partnerships)	Limited Partnership	Total
Depreciation expense	$ 1,928,469	$ 2,320,485	$ 4,248,954

There are outstanding commitments for construction of approximately $10.5 million as of September 30, 2019 on Coolidge Place.

6. Cash and Cash Equivalents - Restricted

The detail of restricted cash and cash equivalents is summarized in the following schedule:

Cash held by the Limited Partnerships as reserves for operating deficits, capital replacement, exit tax liabilities, social services deficits, and commercial asset management deficits	$ 5,050,154
Cash held by the Housing Projects as escrows and reserves for operating deficits, capital replacement, and insurance and tax obligations	568,141
Grant-specific funds	5,049,150
Other	775,869
Total cash and cash equivalents - restricted	11,443,314
Less: current portion	9,081,316
Total long-term cash and cash equivalents - restricted	$ 2,361,998

7. Long-term Debt

Long-term debt at September 30, 2019 consisted of the following:

SWHS		
Loan payable to Bank of Ann Arbor, collateralized by real property (Lithuanian Hall), with an original amount of $840,000. Payments are due in monthly installments of interest at a fixed rate of 5.5 percent, plus principal in an aggregate amount of $5,817, through the maturity date of April 25, 2024.	$	830,460
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 1 percent (effectively 6.25 percent at September 30, 2019) and is due monthly based on draws outstanding. Any remaining unpaid principal and interest balance was due in February 2021. Management is in the process of renewing.		649,302
Notes payable to Illinois Financing Fund (IFF), collateralized by a mortgage on 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.		558,557
Loan payable to IFF, collateralized by a mortgage on 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.		256,589
Loan payable to PNC Bank totaling $249,000. The note bears interest at a rate of 4.015 percent. Payments are due in 43 equal consecutive monthly installments in the amount of $1,519 beginning on February 13, 2016. The note has been extended and paid in full subsequent to year end.		216,644
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 per day and is paid quarterly. The entire balance of the loan is due in full at the maturity date in August 2021. No principal payments shall be permitted prior to the maturity date.		500,000
Mortgage payable owed by Murray Townhomes, LLC to Invest Detroit Foundation in the amount of $240,000. Interest only payments due monthly at a rate of 5% beginning August 1, 2018. The mortgage payable is secured by the land an an assignment of rents. The mortgage was paid in full in June 2020, when the property was sold.		240,000
Notes payable owed by Bagley to financial institutions with fixed interest rates ranging from 4.00 percent to 6.00 percent. The notes are due on demand. The notes are collateralized by the respective properties that are included within Bagley.		35,074
Unconditional payment loans owed by 250 WGB 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. The loan was due December 2019, see paragraph after table.		699,671

Unconditional payment loan owed by 388 WGB 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. The loan was due December 2019, see paragraph after table.	$	674,400
Loan payable to Capital Impact Partners owed by Lending Solutions. The loan bears interest at 5 percent 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 in November 2025, but was paid off in 2020.		94,767
Loan payable to the City of Detroit HOME Investor Rehabilitation/New Construction Loan Program owed by Martin Gardens. The loan is secured by the land and property improvements of the project. The loan bears interest at a rate of 5.25 percent and requires annual payments totaling $1,200. Outstanding principal and any unpaid interest are due in full in December 2025.		364,842
Loan payable to the City of Detroit HOME Investor Rehabilitation/New Construction Loan Program owed by Martin Gardens. The loan is secured by the land and property improvements of the project. The loan bears interest at a rate of 5.25 percent, has no required principal payments. Effective July 1, 2016, the loan became self-amortizing over the remaining life of the loan. The forgiveness of debt and unpaid interest is amortized using the straight-line method and will be forgiven annually through December 2025.		979,197
Loans payable to the City of Detroit HOME Investor Rehabilitation/New Construction Loan Program owed by Southwest Housing Partners. The loans are collateralized by the mortgage and security agreement and an assignment of leases and rents covering the real estate and property. The loans bear interest at a rate of 6.75 percent and require monthly interest payments. One loan is self-amortizing over the remaining life of the loan. The forgiveness of debt and unpaid interest is amortized using the straight-line method and will be forgiven annually through June 2022. Outstanding principal and any unpaid interest on the other two loans are due in full June 2022.		1,683,563
Note payable to HUD owed by Rademacher. The note bears an interest rate of 8.375 percent and is due in full by June 1, 2032. Monthly payments have been suspended pending imminent sale of the property. The loan is secured by the real estate mortgage and an assignment of leases and rents covering the real estate and property.		525,880
Mortgage payable owed by 5716 partners to bank of Ann Arbor in the amount of $2,000,000. Monthly payments of $13,848, including interest of 5.50 percent were required beginning October 5, 2019, balance due September 5, 2024. The mortgage payable is secured by an assignment of rents and a commercial guaranty.		1,995,318
Note payable to a bank owed by Springwells Partners. The note bears an interest at a rate of 6.63 percent and requires monthly principal and interest payments totaling $3,538 through 2024. The loan is secured by the first real estate mortgage and an assignment of leases and rents covering the real estate and property.		472,176

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 interest bearing, and is each due at the point of sale of the property. The majority of properties held at September 30, 2019 are expected to be sold within 12 months, and, as such, the loans are expected to be repaid within one year.	$	722,452
Notes payable owed by certain LDHALPs (as described in Note 1) to financial institutions and equity funds, collateralized by the respective projects' real and personal properties, with interest rates ranging from 0 percent to 6.00 percent and requiring monthly payments of principal and interest ranging from $0 to $25,885 per month. The notes mature between July 2023 and December 2063. SWHS has no liability with respect to these notes payable beyond the collateral of the respective LDHALP.		16,520,645
SWCS		
Multiple vehicle loans payable to a bank, requiring monthly payments ranging from $542 to $639, including interest ranging from 5.14 to 5.42 percent, through February 2021.		11,045
Mortgage loan payable in monthly installments of $4,434, including interest at 4.85 percent. The loan is collateralized by the 1600 Porter property and fixtures and an assignment of rents 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 SWS and is subject to covenants.		578,787
Total debt		28,609,369
Less: current portion		(3,152,573)
Less: net unamortized financing costs		(326,557)
Long-term portion	$	25,130,239

Future maturities on long-term debt outstanding as of September 30, 2019 are as follows:

	Southwest Solutions and Subsidiaries (Net Limited Partnership)	Limited Partnerships	Total
2020	$ 3,011,414	$ 141,159	$ 3,152,573
2021	1,508,628	146,772	1,655,400
2022	2,493,905	152,381	2,646,286
2023	343,696	159,005	502,701
2024	2,758,133	156,944	2,915,077
Thereafter	1,972,948	15,764,384	17,737,332
Total	$ 12,088,724	$ 16,520,645	$ 28,609,369

The 250 WGB and 388 WGB partnerships will be merged and re-syndicated as Savannah Wilshire subsequent to year end. Their related HOME loans will be combined and refinanced in conjunction with this re-syndication.

Certain notes include various covenants, some of which were not met or waived by lenders. No notes have been considered in default subsequent to year end.

Financing costs incurred are included in long term debt on the consolidated statement of financial position and are amortized using the straight line method which approximates the effective interest rate over the term of the bonds.

Interest expense for 2019 was $352,247 and $504,265 for the Organization's debt (net of the Limited Partnerships) and the Limited Partnerships' debt, respectively.

Interest payable on the consolidated statement of financial position of $3,568,879 relates primarily to the City of Detroit HOME Investor Rehabilitation/New Construction Loan Program or the HOME loan program through the Michigan State Housing Development Authority for the Housing Projects and Limited Partnerships. Some of the outstanding principal amount on the loans is 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.

8. Restrictions on Net Assets

Net assets with donor restrictions at September 30, 2019 are summarized as follows:

Neighborhood Reinvestment Corporation (NRC)	$ 2,994,100
Mortgage fund	1,900,000
My Next Move	838,542
W. K. Kellogg Foundation	542,330
Micro-Lending fund	236,860
United Way	179,362
Piquette Square	69,269
Other	1,087,333
Total Net Assets with Donor Restrictions	$ 7,847,796

During August 2020, Neighborhood Reinvestment Corporation, authorized the release of donor restricted net assets in the amount of $2,994,100 to net assets without restrictions.

Total changes in net assets without donor restrictions for the year ended September 30, 2019 are detailed below:

	Attributable to Noncontrolling Interests	Attributable to Controlling Interests	Total
Change in net assets without donor restrictions from operating activities	$ (2,951,748)	$ (1,759,691)	$ (4,711,439)
Cancellation of indebtedness	-	427,360	427,360
Equity contributions	2,590,920	-	2,590,920
Total	$ (360,828)	$ (1,332,331)	$ (1,693,159)

9. Operating Leases

SWCS has rental commitments under leases for office space and equipment with unrelated entities and vehicle lease commitments through car dealerships expiring on various dates through 2021.

Rent expense totaled $453,686 for the year ended September 30, 2019.

The approximate future minimum lease payments under all leases are as follows:

2020	$ 93,729
2021	28,860
Total	$ 122,589

10. Retirement Plan

SWS, SWCS, SWHS, and SWES are part of SWS' 403(b) plan covering substantially all full time employees. Under the plan, these entities contribute 5% of qualifying employees' salaries. The retirement plan expense was approximately $592,713 for the year ended September 30, 2019

11. Liquidity and Availability

The Organization's financial assets available within one year of the statement of financial position date for general expenditure such as operating expenses and fixed asset additions not financed with debt are as follows:

Financial Assets:	
Cash and cash equivalents	$ 16,468,850
Accounts receivable, net	1,619,799
Grants and contributions receivable	2,236,793
Notes receivable	1,272,509
Financial assets available one year	21,597,951
Less:	
Net assets with donor restrictions	(2,953,696)
Restricted cash and cash equivalents	(11,443,314)
Notes receivable, long-term	(1,272,509)
Financial assets available for general expenditures within one year	$ 5,928,432

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. SWHS structures rental payment to be due monthly to provide even cash flows throughout the year. In addition, the real estate development program has nonfinancial assets available for resale that typically sell within one year.

SWHS has a line of credit with TCF (fka Chemical Bank). There was no availability on the line at September 30, 2019.

On November 7, 2019, SWHS closed on a line of credit with a certain local bank. The line of credit has availability up to $3,000,000, a variable interest rate (prime rate) and the maturity date is November 7, 2021, as extended.

12. Bridgeway Joint Venture

SWCS and the Guidance Center (an unrelated third party) incorporated Bridgeway Services, Inc. (Bridgeway) as an equally owned joint venture, in which each party has significant influence over Bridgeway. Bridgeway was formed to provide programs of supervision and care for delinquent juveniles assigned to the Wayne County Juvenile Justice System under a care management contract from Wayne County Juvenile Justice Agency. Bridgeway receives reimbursement for each youth referred to the program based on a fixed fee contract amount.

Bridgeway gave grants to the Organization totaling $2,153,383 during the year ended September 30, 2019. The receivable from Bridgeway was $107,925 at September 30, 2019.

Southwest Solutions, Inc. and Subsidiaries

Consolidating Statement of Financial Position
September 30, 2019

	Southwest Solutions	Counseling	Asset Services	Economic Solutions	Housing	Eliminating Entries	Total	Limited Partnerships	Eliminating Entries	Total
Current Assets										
Cash and cash equivalents - unrestricted	$ 487,467	$ 754,782	$ 9,335	$ 645,463	$ 2,241,391	$ -	$ 4,138,438	$ 887,098	$ -	$ 5,025,536
Cash and cash equivalents - restricted	100,205	-	-	270,136	5,917,777	-	6,288,118	2,793,198	-	9,081,316
Accounts receivable, net	121,732	288,233	-	7,237	1,023,230	-	1,440,432	268,052	(88,685)	1,619,799
Grants and contributions receivable, net	154,285	1,450,328	-	632,180	-	-	2,236,793	-	-	2,236,793
Prepaid expenses	3,560	259,138	-	12,620	49,249	(1,224)	323,343	105,248	-	428,591
Property held for resale	-	-	-	-	2,073,604	-	2,073,604	-	-	2,073,604
Total current assets	867,249	2,752,481	9,335	1,567,636	11,305,251	(1,224)	16,500,728	4,053,596	(88,685)	20,465,639
Other Assets										
Notes receivable	-	-	-	720,219	8,303,797	-	9,024,016	-	(7,751,507)	1,272,509
Cash and cash equivalents - restricted long-term	-	-	-	-	105,042	-	105,042	2,256,956	-	2,361,998
Related party receivable	4,308,383	2,439,653	160,271	511,834	3,605,049	(8,705,103)	2,320,087	-	(2,320,087)	-
Total other assets	4,308,383	2,439,653	160,271	1,232,053	12,013,888	(8,705,103)	11,449,145	2,256,956	(10,071,594)	3,634,507
Property and equipment, net	59,370	901,515	224,292	100,778	25,193,422	-	26,479,377	52,480,451	(7,487,517)	71,472,311
Total assets	$ 5,235,002	$ 6,093,649	$ 393,898	$ 2,900,467	$ 48,512,561	$ (8,706,327)	$ 54,429,250	$ 58,791,003	$ (17,647,796)	$ 95,572,457
Current Liabilities										
Accounts payable	$ 588,688	$ 823,423	$ -	$ 43,736	$ 597,443	$ (765,558)	$ 1,287,732	$ 286,585	$ -	$ 1,574,317
Accrued liabilities and other	524,167	833,725	-	203,898	565,994	37,696	2,165,480	1,150,646	-	3,316,126
Security deposits	-	-	-	-	174,754	-	174,754	173,662	-	348,416
Deferred revenue	-	94,047	-	-	3,132,860	-	3,226,907	95,160	-	3,322,067
Current portion of long-term debt	-	32,892	-	-	2,978,522	-	3,011,414	141,159	-	3,152,573
Other current liabilities	-	107,712	(13,518)	-	(11,736)	-	82,458	1,516,693	(811,669)	787,482
Total current liabilities	1,112,855	1,891,799	(13,518)	247,634	7,437,837	(727,862)	9,948,745	3,363,905	(811,669)	12,500,981
Long-term Liabilities										
Interest payable	-	-	-	-	2,494,415	-	2,494,415	1,330,859	(256,395)	3,568,879
Long-term debt, net of current portion	-	556,940	-	-	8,478,422	-	9,035,362	22,778,320	(6,683,443)	25,130,239
Due to related parties	1,746,653	2,441,670	382,759	1,258,992	2,837,076	(8,578,465)	88,685	1,814,125	(1,902,810)	-
Total long-term liabilities	1,746,653	2,998,610	382,759	1,258,992	13,809,913	(8,578,465)	11,618,462	25,923,304	(8,842,648)	28,699,118
Total liabilities	2,859,508	4,890,409	369,241	1,506,626	21,247,750	(9,306,327)	21,567,207	29,287,209	(9,654,317)	41,200,099
Net Assets										
Without donor restrictions										
Controlling interest	2,275,494	288,815	24,657	303,303	21,521,978	600,000	25,014,247	7,134,017	(7,993,479)	24,154,785
Noncontrolling interest	-	-	-	-	-	-	-	22,369,777	-	22,369,777
	2,275,494	288,815	24,657	303,303	21,521,978	600,000	25,014,247	29,503,794	(7,993,479)	46,524,562
With donor restrictions	100,000	914,425	-	1,090,538	5,742,833	-	7,847,796	-	-	7,847,796
Total net assets	2,375,494	1,203,240	24,657	1,393,841	27,264,811	600,000	32,862,043	29,503,794	(7,993,479)	54,372,358
Total liabilities and net assets	$ 5,235,002	$ 6,093,649	$ 393,898	$ 2,900,467	$ 48,512,561	$ (8,706,327)	$ 54,429,250	$ 58,791,003	$ (17,647,796)	$ 95,572,457

Southwest Solutions, Inc. and Subsidiaries

Consolidating Statement of Activities
September 30, 2019

	Southwest Solutions	Counseling	Asset Services	Economic Solutions	Housing	Eliminating Entries	Total	Limited Partnerships	Eliminating Entries	Total
WITHOUT DONOR RESTRICTIONS										
Revenue and support										
Fee for service	$ -	$ 7,933,932	$ -	$ -	$ -	$ -	$ 7,933,932	$ -	$ -	$ 7,933,932
Grants	-	9,841,152	-	713,495	333,098	-	10,887,745	-	-	10,887,745
Foundation revenue	-	58,628	-	1,797,318	594,950	-	2,450,896	-	-	2,450,896
Contributions	677,896	22,376	-	388,299	13,200	-	1,101,771	-	-	1,101,771
Management fees	5,226,399	-	-	-	-	(5,226,399)	-	-	-	-
Property management fees	-	-	-	-	970,350	-	970,350	-	(836,983)	133,367
Sales of property	-	-	-	-	6,275,778	-	6,275,778	-	-	6,275,778
Net rental income	-	-	63,600	-	2,662,140	(605,693)	2,120,047	2,885,042	(19,737)	4,985,352
Interest income	-	-	-	30,428	148,823	-	179,251	86,876	(127,908)	138,219
Net gain (loss) on sale of property	-	-	-	(63,725)	1,020,537	-	956,812	-	-	956,812
Other revenue	-	1,108,337	-	60,770	123,507	(379)	1,292,235	86,953	-	1,379,188
	5,904,295	18,964,425	63,600	2,926,585	12,142,383	(5,832,471)	34,168,817	3,058,871	(984,628)	36,243,060
Net assets released from restrictions	2,549,372	350,000	-	1,744,276	102,846	(2,499,998)	2,246,496	-	-	2,246,496
Total revenue and support without donor restrictions	8,453,667	19,314,425	63,600	4,670,861	12,245,229	(8,332,469)	36,415,313	3,058,871	(984,628)	38,489,556
Expenses										
Program	2,499,998	19,091,418	-	3,709,581	13,748,655	(7,475,876)	31,573,776	6,010,619	(1,415,426)	36,168,969
Support services	5,491,127	1,159,404	63,604	881,075	893,409	(1,456,593)	7,032,026	-	-	7,032,026
Total expenses	7,991,125	20,250,822	63,604	4,590,656	14,642,064	(8,932,469)	38,605,802	6,010,619	(1,415,426)	43,200,995
Change in net assets from operating activities	462,542	(936,397)	(4)	80,205	(2,396,835)	600,000	(2,190,489)	(2,951,748)	430,798	(4,711,439)
Non-operating Activities										
Equity Contribution	-	-	-	-	-	-	-	2,590,920	-	2,590,920
Cancellation of indebtedness	-	-	-	-	427,360	-	427,360	-	-	427,360
Total non-operating activities	-	-	-	-	427,360	-	427,360	2,590,920	-	3,018,280
Change in net assets without donor restrictions	462,542	(936,397)	(4)	80,205	(1,969,475)	600,000	(1,763,129)	(360,828)	430,798	(1,693,159)
WITH DONOR RESTRICTION										
Revenue and support										
Grants	-	914,425	-	1,843,250	2,689,998	(2,499,998)	2,947,675	-	-	2,947,675
Foundation revenue	-	-	-	-	120,000	-	120,000	-	-	120,000
Net assets released from restrictions	(2,549,372)	(350,000)	-	(1,744,276)	(102,846)	2,499,998	(2,246,496)	-	-	(2,246,496)
Change in net assets with donor restrictions	(2,549,372)	564,425	-	98,974	2,707,152	-	821,179	-	-	821,179
Change in net assets	$ (2,086,830)	$ (371,972)	$ (4)	$ 179,179	$ 737,677	$ 600,000	$ (941,950)	$ (360,828)	$ 430,798	$ (871,980)