

SVRC Industries, Inc.

REQUEST FOR PROPOSAL (RFP)

SVRC Industries, Inc., a 501(c)(3) private not-for-profit human services agency, is requesting proposals from qualified firms of certified public accountants to audit its consolidated financial statements (which include SVRC Industries, Inc., SVRC Industries Foundation, the Westlund Guidance Clinic, SVRC Marketplace, and SVRC Manager) and its' 401(k) Retirement Plan for calendar year(s) ending 2017, 2018, and 2019. These audits are to be performed in accordance with auditing standards generally accepted in the U.S., *Government Auditing Standards*, and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as well as the laws and standards prescribed by the State of Michigan and its Treasurer. Please visit the SVRC website at www.svrcindustries.com for agency highlights and program descriptions. Email SVRC at agwizdala@svrcindustries.com to request a full proposal package. Format accommodations available upon request. The deadline for submission is Friday, September 15, 2017, by 4:30 p.m..

SVRC Industries, Inc.

REQUEST FOR PROPOSAL (RFP)

I. INTRODUCTION

A. General Information

SVRC Industries, Inc., hereafter known as SVRC Industries, is requesting proposals from qualified firms of certified public accountants to audit its consolidated financial statements (which include SVRC Industries, Inc., SVRC Industries Foundation, the Westlund Guidance Clinic, the Joan Manley Wolfe Apartments, SVRC Marketplace, and SVRC Manager) and its' 401(k) Retirement Plan for calendar year(s) ending 2017, 2018, and 2019. These audits are to be performed in accordance with auditing standards generally accepted in the United States, *Government Auditing Standards*, and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as well as the laws and standards prescribed by the State of Michigan and its Treasurer.

B. Term of Engagement

A three (3)-year contract is contemplated. Each year shall be subject to the annual review and recommendation of SVRC Industries, Inc.'s Audit Committee.

C. Subcontracting

Firms submitting proposals are to disclose subcontracting of any portion of the engagement to other audit firms and identify the firms in the proposal. If this is to be done, that fact, and the name of the proposed subcontracting firms, must be clearly identified in the proposal. Following the award of the audit contract, no additional subcontracting will be allowed without the expressed prior written consent of SVRC Industries, Inc..

II. DESCRIPTION OF SVRC Industries, Inc.

SVRC Industries, Inc. was incorporated in 1962 as a 501(c) (3) private not-for-profit corporation. Over the years, the agency has grown significantly in both revenue base (current annual budget of \$12,000,000) and its' community-based services, partnerships and other collaborations with human service organizations. Please visit the SVRC website at www.svrcindustries.com for several of the agency highlights and program descriptions that should prove helpful in getting an in-general awareness for the mission of the agency. Also attached is a copy of the December 31, 2016 Consolidated Financial Statements and Single Audit Act Compliance Report in order for the bidder to clearly see the cost center structure, principles of consolidation and nature of federal grants that give rise to the Single Audit requirements.

Basis of Accounting

SVRC Industries prepares its financial statements on the accrual basis in accordance with accounting principles generally accepted in the United States. In addition, the operations of SVRC Industries, Inc. Foundation and Westlund Guidance Clinic subsidiary are reported on a consolidated basis with those of SVRC Industries. In addition, the SVRC Marketplace LLC and SVRC Manager, Inc. were created to facilitate the new SVRC Marketplace project. In August 2017, SVRC Industries will take over ownership of the Joan Manley Wolfe Apartments, which is a project with the U.S. Department of Housing and Urban Development (HUD).

Magnitude of Finance Operations

The Accounting Department is headed by Angela Gwizdala, Controller, under the leadership to the President/COO and consists of six employees.

Financial and Data Processing Systems

The accounting transactions are recorded on the accrual basis.

SVRC Industries, Inc. utilizes Macola Accounting System Version 7.8.500 software for the overall accounting/budgeting functions (general ledger, accounts receivable, accounts payable, and inventory management). Cost allocations, fixed assets, and other various supporting schedules and reconciliations are maintained in Microsoft Excel. Client time recordkeeping and billing to Saginaw County Community Mental Health Authority is processed through Vertex (web-based platform). Client mental health service billings are processed at Westlund Guidance Clinic utilizing NextStep (web-based scheduling, medical charting, and billing platform). Client and employee payroll is processed by Paycor. SVRC will contract with KMG Prestige for property management and accounting services for the Joan Manley Wolfe Apartments.

II. NATURE OF SERVICES REQUIRED

Scope of Work to be Performed

SVRC Industries desires the audit firm to express an opinion on the fair presentation of its consolidated financial statements in conformity with accounting principles generally accepted in the United States. In addition, the engagement will include preparation of Form 990's for SVRC Industries, Inc., the SVRC Foundation, SVRC Marketplace LLC, and the Westlund Guidance Clinic. The engagement will also include preparation federal and state tax returns (Forms 1065, K-1, etc.) for SVRC Manager Inc. Separate financial statements and audit report, along with necessary filing(s) for HUD will be included in the engagement as well.

Auditing Standards to be Followed

To meet the requirements of this request for proposals, the audit shall be performed in accordance with auditing standards generally accepted in the United States, *Government Auditing Standards*, and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Working Paper Retention and Access to Working Papers

All working papers and Reports must be retained, at the auditing firm’s expense, for a minimum of seven (7) years, unless the firm is notified in writing by SVRC Industries, Inc. of the need to extend the retention period. The audit firm will be required to make working papers available upon request by SVRC Industries, Inc.. Reports, documents, and working papers will only be released with specific written permission and direction from SVRC Industries, Inc..

In addition, the firm shall respond to reasonable inquiries of successor firms and allow successor audit firms to review working papers relating to matters of continuing accounting significance.

III. TIME REQUIREMENTS

The following is the calendar of events related to this RFP:

<u>EVENT</u>		<u>FIRM DATES</u>
Issue Request for Proposals (RFP)		Monday, July 31, 2017
<u>Deadline</u> for sending 'Confirmation of Interest' email Attn: Angela Gwizdala agwizdala@svrcindustries.com receipt of the email will be sent	4:30 p.m.	Friday, August 18, 2017
<u>Deadline</u> for Written Questions. Email the written questions to Attn: Angela Gwizdala agwizdala@svrcindustries.com receipt of email will be sent	4:30 p.m.	Friday, August 25, 2017
<u>Deadline</u> for submission of Proposals to SVRC Industries, Inc. (One sealed original and five (5) copies)	4:30 p.m.	Friday, September 15, 2017
Evaluation of Proposals	12:00 p.m.	Friday, September 22, 2017
Final Selection Made	by 4:30 p.m.	Friday, October 27, 2017
Firm Notified	by 4:30 p.m.	Tuesday, October 31, 2017

Date Preliminary Audit Work May Commence

SVRC Industries, Inc. will have records ready and all management personnel available to meet with the firm’s personnel for preliminary work as of Friday, February 2, 2018. It is anticipated that SVRC Industries, Inc., the Foundation and the Westlund Guidance Clinic will have their year-end general ledgers closed and be ready with reasonably adjusted trial balances by March 15, 2018. However, the year-end general ledgers for the SVRC Manager, Inc. and Joan Manley Wolfe Apartments will be closed by February 15, 2018 and the applicable audits, tax filings, and HUD reports/filings will need to be submitted within 90 days of year-end.

Audit Schedule

A schedule for the audit must be submitted with the firm's proposal and must contain the following milestones:

1. Interim work plan
2. Detailed audit plan
3. Fieldwork
4. Draft reports

Report Due Dates

A draft audit report shall be delivered to Angela Gwizdala, Controller by April 30, 2018. Two weeks should be allowed for proper review of the draft by all applicable individuals and/or committees. It is the goal that the final report would be ready for presentation to the Finance Committee and/or Board of Directors at the May, 2018 meeting.

V. ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION

Financial staff and Clerical Assistance

The SVRC Industries, Inc. Finance staff and responsible management personnel will be available during the audit to assist the firm by providing information, documentation and explanations. The preparation of any confirmations will be the responsibility of SVRC Industries, Inc..

Information Systems Assistance

Information Systems personnel will be available to provide systems documentation and explanations. The firm will be provided reasonable computer time and the use of SVRC Industries, Inc. computer hardware and software.

Statements and Schedules to be Prepared by the Staff of SVRC Industries, Inc.

The Budget and Finance staff will prepare statements and schedules for the firm wherever possible and appropriate.

Work Area, Internet Connection and Photocopying

SVRC Industries, Inc. will provide the firm with reasonable workspace, desks and chairs. The firm will also be provided with reasonable access to the internet, telephone lines, photocopying facilities and FAX machines.

Report Preparation

Report preparation, editing and printing shall be the responsibility of the selected firm.

SVRC Industries, Inc. In-Kind Services

Other than the items listed above, the firm's proposal shall contain any in-kind services, which may be necessary to the successful completion of the contract.

VI. PROPOSAL PREPARATION AND SUBMISSION PROCEDURES

Submission of Proposals

There is no expressed or implied obligation for SVRC Industries, Inc. to reimburse firms for any expense incurred in preparing proposals in response to this RFP. Submission of a proposal indicates acceptance by the firm of the conditions contained in this RFP unless clearly and specifically noted in the submitted proposal and is confirmed in the written contract between SVRC Industries, Inc. and the selected firm.

To be considered, a Confirmation of Interest Statement must be sent by email by 4:30 p.m. on August 18, 2017 to agwizdala@svrcindustries.com. Any questions regarding this RFP must also be emailed to agwizdala@svrcindustries.com. **A master and (5) copies of a proposal must be submitted by 4:30 p.m. on September 15, 2017 to Angela Gwizdala.** SVRC Industries, Inc. reserves the right to reject any or all proposals submitted after the prescribed time. An Audit RFP Evaluation Review Committee has been selected to evaluate proposals and make a recommendation to the SVRC Industries, Inc. Board. During the evaluation process, the Audit RFP Evaluation Review Committee and SVRC Industries, Inc. reserve the right, where it may serve SVRC Industries, Inc.'s best interest, to request additional information or clarifications from proposers, or to allow correction of errors or omissions. At the discretion of SVRC Industries, Inc. or the Audit RFP Evaluation Review Committee, firms submitting proposals may be requested to make an oral presentation as part of the evaluation process. The actual dates and times of an oral presentation appointment will be arranged with a firm if deemed necessary. **Not all firms may be asked to make oral presentations.**

SVRC Industries, Inc. reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposal, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between SVRC Industries, Inc. and the selected firm.

VII. CONTENT OF PROPOSALS

The purpose of the proposals is to demonstrate the qualifications, competence, experience, and capability of the firm seeking to undertake this request for proposal. As such, the substance of the proposals will carry more weight than their form or manner of presentation. The proposal should demonstrate the capabilities of the firm and should specifically identify the audit approach that will be used to meet the RFP requirements.

Detailed Proposal

The proposal should address all points outlined in the RFP. The proposal should be prepared simply and economically, providing a straightforward, concise description of the firm's capabilities to satisfy the requirements of the RFP. While additional data may be presented, the following subjects, item numbers 1 through 9, must be included. They represent the criteria against which the proposal will be evaluated.

1. Independence

- The firm should provide an affirmative statement that it is independent of SVRC Industries, Inc. and its subsidiaries as defined by the U.S. General Accounting Office's Governmental Auditing Standards (2011).
- The audit firm should also provide an affirmative statement that it is independent of all of the contracted service providers of SVRC Industries, Inc. as defined by those same standards.
- The firm should also list and describe the firm's professional relationships involving SVRC Industries, Inc. or any of its contracted service providers for the past five (5) years, together with a statement explaining why such relationships do not constitute a conflict of interest relative to performing the proposed audit.

2. License to Practice in Michigan

An affirmative statement should be included indicating the audit firm and all assigned key professional staff are properly licensed to practice in Michigan.

3. Firm Demographics

The proposal should state the size of the firm, size of the firm's non-profit/governmental audit staff, location of the office from which work on this engagement is to be performed, the number and nature of professional staff to be employed in this engagement on a full-time basis and the number and nature of staff to be employed on a part-time basis.

If the proposer is a joint venture or consortium, the demographics of each firm comprising the joint venture or consortium should be separately identified and the firm that is to serve as the principal auditor should be noted, if applicable. The firm is also required to submit a copy of the Report on its most recent external quality control review, with a statement whether that quality control review included a review of specific non-profit/government engagements.

The audit firm shall also provide information on the results of any federal or state desk reviews or field reviews of its audits during the past three (3) years. In addition, the firm shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three (3) years with state regulatory bodies or professional organizations.

4. Partner Supervisory and Staff Qualifications and Experience

The audit firm should identify the principal supervisory and management staff, including engagement partners, managers, other supervisors and specialists, who would be assigned

to the engagement and indicate whether each such person is licensed to practice as a certified public accountant in Michigan. The firm should also provide information on the non-profit auditing experience of each person.

The firm should provide as much information as possible regarding the number, qualifications, experience and training, including relevant continuing professional education, of the specific staff to be assigned to this engagement. The firm also should indicate how the quality of staff over the term of the agreement would be assured.

Engagement partners, managers, other supervisory staff and specialists may be changed if those personnel leave the firm, are promoted or are assigned to another office. These personnel may also be changed for other reasons with the express prior written permission of SVRC Industries, Inc.. However, in either case SVRC Industries, Inc. retains the right to approve or reject replacements.

Consultants and firm specialists mentioned in response to this RFP can only be changed with the express prior written permission of SVRC Industries, Inc., which retains the right to approve or reject replacements.

Other firm personnel may be changed at the discretion of the proposer provided replacements have substantially the same or better qualifications or experience.

5. Engagement Expertise

For the firm's office that will be assigned responsibility for the audit, list at least *three* engagements performed in the last five years that are similar to the engagement described in this RFP. These engagements should be ranked on the basis of total staff hours. Indicate the scope of work, date, engagement partners, total hours, and the name and telephone number of the principal client contact. In addition, as noted above, SVRC Industries, Inc. is unique as a non-profit in that it engages in light manufacturing and carries inventory. Therefore, the firm should also include a description of at least *three other* engagements that involve the audit of manufacturing activity and inventory.

6. Specific Audit Approach

The proposal should set forth a work plan, including an explanation of the audit methodology to be followed. The work plan should also describe how the firm will achieve audit and tax form preparation efficiency through risk-based auditing and through the application of technology to the engagement.

7. Identification of Anticipated Potential Audit Problems

The proposal should identify and describe any anticipated potential audit problems, the firm's approach to resolving these problems and any special assistance that will be requested from SVRC Industries, Inc..

9. Total All-inclusive Maximum Price

The proposal should contain all pricing information relative to performing the engagement as described in this RFP. The total all-inclusive maximum price is to contain all direct and indirect costs including all out-of-pocket expenses.

10. Conflict of Interest

The firm must indicate any potential conflict of interest that exists in regard to their ability to respond to this RFP. This includes a description of the firm's relationship to SVRC Industries, Inc. or any of its agents/agencies, subsidiaries/agencies or oversight unit, together with a statement explaining why such relationships do not constitute a conflict of interest relative to performing the services outlined in the proposal. To avoid any real or perceived conflict, all bids and contracts shall to the extent possible, identify any relative of the contractor or the contractor's employees who are presently employed by SVRC Industries, Inc.

VIII. EVALUATION PROCEDURES

The proposals submitted will be evaluated by an Audit Review Committee of the SVRC Industries, Inc. Board of Directors. The purpose of the proposal is to demonstrate the qualifications, competence, capacity, and capability of the vendor seeking to undertake this request for proposal. As such, the substance of the proposals will carry more weight than their form or manner of presentation. The proposal should demonstrate the qualifications of the vendor and should specify the approach that will be used to meet the request for proposal requirements. The committee members will evaluate the proposals submitted by the deadline, using SVRC's internal procurement evaluation checklist, based upon the following:

1. Past experience and performance on comparable projects. (30 points)
2. The capacity of the organization to provide the service level specifications outlined in the RFP within the periods specified. (20 points)
3. Properly addressing the nine (9) criteria spelled out in Section VII. (10 points)
4. The proposed total cost for services. (30 points)
5. Any other information deemed relevant by the committee. (10 points)

The proposal should address all the requirements outlined in the request for proposal. The proposal should be prepared simply and economically, providing a straightforward concise description of the firm's capabilities to satisfy the requirements of the request for proposal.

During the evaluation process, SVRC Industries, Inc. reserves the right, where it may serve SVRC Industries, Inc.'s best interest, to request additional information or clarification from vendors, or to allow correction of errors or omissions. At the discretion of SVRC Industries, Inc., vendors submitting proposals may be requested to make oral presentations as part of the evaluation process. Reasonable advance notice will be provided to selected vendors. **Not all vendors submitting a proposal will be asked to participate in oral presentations.**

It is anticipated that a firm will be selected by Friday, October 27, 2017. Following notification of the firm/individual, it is expected a contract will be executed between both parties immediately.

SVRC Industries, Inc. reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether or not that proposal is selected. SVRC Industries, Inc. also reserves the right to reject any and all proposals, awarding the contract to other than the lowest priced vendor, and to waive irregularities and/or formalities. In addition, SVRC Industries, Inc.

has the right to accept any proposal, which in its judgment best serves SVRC Industries, Inc.' s interest. Submission of a proposal indicates acceptance by the vendor of the conditions contained in this request for proposals, unless clearly and specifically noted in the proposal submitted and contained in the contract between SVRC Industries, Inc. and the selected vendor.

X. FIRM ASSURANCES

In that the selected firm will be required to assume responsibility for all services offered in their proposal, SVRC Industries, Inc. will consider the selected firm to be the sole point of contact with regard to any subcontractors. In connection with the performance of work under a contract with SVRC Industries, Inc., the contractor must agree not to discriminate against employees or applicants for employment on the basis of race, religion, color, national origin, or disability. The aforesaid provision shall include but not be limited to the following: recruitment or recruitment advertising; employment, upgrading, demotion, or transfer; layoff and selection or training, including apprenticeship, in accordance with rules and regulations promulgated by various Federal agencies.

XI. FREEDOM OF INFORMATION ACT

Firms are hereby notified that all information contained in their proposal is subject to the provisions of the Michigan Freedom of Information Act.

SVRC
Industries,
Inc. and
Subsidiaries



For the Year
Ended
December 31,
2016

Consolidated
Financial
Statements
and Single Audit
Act Compliance

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

May 15, 2017

Board of Directors
SVRC Industries, Inc. and Subsidiaries
Saginaw, Michigan

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of *SVRC Industries, Inc. and Subsidiaries* (a nonprofit organization) (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, 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.

Independent 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 auditor 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 December 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 consolidated financial statements, and our report dated May 26, 2016, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2017, 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 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 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.

Rehmann Lobarr LLC

CONSOLIDATED FINANCIAL STATEMENTS

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

		December 31,	
		2016	2015
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 1,177,978	\$ 198,243
Investments		14,286,114	14,335,397
Accounts receivable, net		2,153,034	1,694,913
Prepaid expenses		25,718	110,271
Inventory		61,901	122,663
Total current assets		<u>17,704,745</u>	<u>16,461,487</u>
Assets held by Saginaw Community Foundation (SCF)		172,731	160,560
Land, building and equipment, net		<u>5,163,274</u>	<u>4,745,275</u>
Total assets		<u>\$ 23,040,750</u>	<u>\$ 21,367,322</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Current liabilities:			
Accounts payable		\$ 402,793	\$ 302,963
Accrued expenses		461,089	395,642
Current portion of note payable		39,450	78,468
Short-term borrowings		350,000	-
Deferred revenue		35,065	38,200
Total current liabilities		<u>1,288,397</u>	<u>815,273</u>
Note payable, net of current portion		-	39,191
Deferred compensation		<u>780,907</u>	<u>851,839</u>
Total liabilities		<u>2,069,304</u>	<u>1,706,303</u>
Net assets			
Unrestricted:			
Board designated by SVRC Industries, Inc. Foundation		10,797,874	10,938,167
Invested in land, building and equipment, net of related debt		5,123,824	4,627,616
Undesignated		3,825,245	3,835,265
Total unrestricted		<u>19,746,943</u>	<u>19,401,048</u>
Temporarily restricted:			
Donor-imposed restrictions		1,051,772	99,411
Net assets held by Saginaw Community Foundation		172,731	160,560
Total temporarily restricted		<u>1,224,503</u>	<u>259,971</u>
Total net assets		<u>20,971,446</u>	<u>19,661,019</u>
Total liabilities and net assets		<u>\$ 23,040,750</u>	<u>\$ 21,367,322</u>

The accompanying notes are an integral part of these consolidated financial statements.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statement of Activities

Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total	
			2016	2015
Revenue and public support				
Contributions	\$ 12,858	\$ 634,500	\$ 647,358	\$ 56,270
Fees and grants from				
governmental and other agencies	7,468,486	317,361	7,785,847	6,321,250
Allocated by the United Way	1,631	-	1,631	2,836
Program service fees	1,630,639	-	1,630,639	1,058,805
Rental income	319,868	-	319,868	317,008
Sales - manufacturing	1,536,482	-	1,536,482	1,733,592
Sales - café	57,607	-	57,607	67,530
Janitorial contracts	424,540	-	424,540	399,830
Fundraising and other	35,851	500	36,351	108,078
ISD program partnerships	955,262	-	955,262	1,116,739
Academies	80,947	-	80,947	87,188
Investment income (loss)	1,210,673	-	1,210,673	(20,611)
Change in value of assets held by SCF	-	12,171	12,171	(6,233)
Total revenue and public support	13,734,844	964,532	14,699,376	11,242,282
Expenses				
Program services:				
My Choice Program	1,577,968	-	1,577,968	1,584,649
Manufacturing Department	1,651,179	-	1,651,179	1,656,955
Shiawassee Rehabilitation Program	147,895	-	147,895	134,705
Vocational Development	164,445	-	164,445	218,273
Janitorial	446,419	-	446,419	375,578
Bureau of Services for Blind Persons	-	-	-	175,860
S.A.I.D.	46,476	-	46,476	61,483
PATH Program	2,406,611	-	2,406,611	1,659,647
ISD School-Based Programs Activity	777,515	-	777,515	973,990
Juvenile Detention School	456,395	-	456,395	433,053
Michigan Prison Re-entry Initiative	173,140	-	173,140	226,778
SVRC Café	68,213	-	68,213	80,573
Tuscola Educational Center	184,279	-	184,279	172,923
Shiawassee WIA/WIOA Program	679,769	-	679,769	430,196
WIA/WIOA Youth	620,164	-	620,164	406,597
YouthBuild	294,015	-	294,015	303,108
Barnard Road Transition House	77,828	-	77,828	75,842
Economic Development	11,677	-	11,677	14,352
Great Lakes Bay WIA/WIOA Program	1,254,609	-	1,254,609	676,184
SVRC Marketplace	359,199	-	359,199	176,132
Westlund Guidance Clinic, Inc.	1,454,259	-	1,454,259	835,115
Supports Coordination	172,415	-	172,415	-
Total program services	13,024,470	-	13,024,470	10,671,993
Supporting services - management and general	364,479	-	364,479	306,570
Total expenses	13,388,949	-	13,388,949	10,978,563
Change in net assets	345,895	964,532	1,310,427	263,719
Net assets, beginning of year	19,401,048	259,971	19,661,019	19,397,300
Net assets, end of year	\$ 19,746,943	\$ 1,224,503	\$ 20,971,446	\$ 19,661,019

The accompanying notes are an integral part of these consolidated financial statements.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	Program Services				
	My Choice Program	Manufacturing Department	Shiawassee Rehabilitation Program	Vocational Development	Janitorial
Salaries	\$ 585,464	\$ 182,586	\$ 88,082	\$ 81,905	\$ 141,724
Employee benefits	100,843	22,869	14,774	11,880	11,569
Payroll taxes	51,131	21,466	7,426	6,966	11,337
Job coach wages and taxes	364,945	8,535	-	4,277	-
Total compensation	1,102,383	235,456	110,282	105,028	164,630
Professional fees	23,484	26,570	1,427	2,985	3,313
Contractual	-	-	-	-	-
Temporary support	1,739	5,535	-	870	290
Supplies	17,525	7,139	610	2,812	25,738
Telephone	17,118	2,624	10	1,206	2,654
Postage and shipping	5,818	24,307	65	480	703
Occupancy	23,424	27,122	1	8,838	28,705
Equipment rental and maintenance	60,854	10,419	-	4,426	5,711
Marketing and public information	894	4,756	-	56	267
Travel/mileage	2,845	1,576	709	792	513
Conferences/conventions	3,092	5,122	3	2,263	1,217
Specific assistance to individuals	145,546	292,755	32,744	7,087	188,848
SISD/MRS partnership	-	-	-	-	-
Membership dues	9,399	1,266	-	899	1,110
Transportation and manufacturing costs	66,659	941,842	-	5,455	7,892
Miscellaneous	3,356	626	-	257	1,473
Interest	-	-	-	-	-
Program equipment	3,140	1,619	-	23	4,767
Screenings and injury expenses	6,895	625	1,253	110	1,743
Recipient support services and activities	11,248	-	-	-	-
General insurance	33,651	14,894	791	6,896	5,724
Depreciation	38,898	46,926	-	13,962	1,121
Total	\$ 1,577,968	\$ 1,651,179	\$ 147,895	\$ 164,445	\$ 446,419

S.A.I.D.	PATH Program	ISD School-Based Programs Activity	Juvenile Detention School	Michigan Prison Re-entry Initiative	SVRC Café
\$ 26,673	\$ 1,304,849	\$ 399,621	\$ 324,684	\$ 36,132	\$ 23,900
2,106	251,135	50,857	61,994	8,902	7,226
2,126	105,562	33,910	26,906	3,289	1,557
-	-	-	-	-	622
30,905	1,661,546	484,388	413,584	48,323	33,305
571	4,147	4,227	3,061	748	327
-	-	-	-	-	-
290	124,253	3,633	17,278	54,338	-
276	49,337	1,709	6,517	-	32,461
143	1,397	1,956	488	555	-
71	7,747	18	254	-	-
630	-	20,929	-	-	-
671	1,346	856	1,441	-	-
7	-	180	10	-	-
343	11,141	18,789	1,333	1,741	612
120	141,093	2,891	4,667	-	10
540	-	58,685	-	-	-
-	-	165,381	-	-	-
107	-	-	1,160	-	-
104	-	-	-	-	-
4,090	6,399	5,138	441	-	897
-	-	-	-	-	-
2	-	949	2,140	-	36
20	90	2,682	1,047	10	-
4,954	387,764	1,116	100	67,197	-
902	10,351	3,988	2,874	228	565
1,730	-	-	-	-	-
<u>\$ 46,476</u>	<u>\$ 2,406,611</u>	<u>\$ 777,515</u>	<u>\$ 456,395</u>	<u>\$ 173,140</u>	<u>\$ 68,213</u>

continued...

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	Program Services				
	Tuscola Educational Center	Shiawassee WIA/WIOA Program	WIA/WIOA Youth	YouthBuild	Barnard Road Transition House
Salaries	\$ 43,556	\$ 301,175	\$ 216,534	\$ 109,641	\$ 9,071
Employee benefits	6,976	77,703	39,624	14,771	1,419
Payroll taxes	3,605	25,047	15,881	9,295	673
Job coach wages and taxes	-	-	-	-	819
Total compensation	54,137	403,925	272,039	133,707	11,982
Professional fees	982	925	1,027	888	253
Contractual	-	-	-	-	-
Temporary support	-	24,363	90,538	24,430	-
Supplies	6,200	7,883	5,717	3,623	26
Telephone	876	1,476	3,429	453	2,567
Postage and shipping	-	1,407	457	27	-
Occupancy	78,158	-	-	9,413	13,275
Equipment rental and maintenance	750	3,098	-	21,749	2,251
Marketing and public information	-	208	26	353	125
Travel/mileage	299	2,107	8,500	382	190
Conferences/conventions	214	2,934	18,202	2,904	74
Specific assistance to individuals	7,544	-	172,821	26,832	218
SISD/MRS partnership	-	-	-	-	-
Membership dues	-	139	-	-	-
Transportation and manufacturing costs	-	-	-	-	-
Miscellaneous	320	6	243	32,859	-
Interest	-	-	-	-	-
Program equipment	98	6,098	-	-	42
Screenings and injury expenses	-	330	90	30	10
Recipient support services and activities	-	222,865	45,231	35,728	-
General insurance	14,880	2,005	1,844	637	3,833
Depreciation	19,821	-	-	-	42,982
Total	\$ 184,279	\$ 679,769	\$ 620,164	\$ 294,015	\$ 77,828

Program Services						Supporting Services - Management and General
Economic Development	Great Lakes Bay WIA/WIOA Program	SVRC Marketplace	Westlund Guidance Clinic, Inc.	Supports Coordination	Total Program Services	SVRC Industries, Inc.
\$ 7,851	\$ 766,807	\$ 51,618	\$ 726,003	\$ 103,240	\$ 5,531,116	\$ 36,352
1,064	139,834	5,885	80,587	11,650	923,668	16,641
865	62,303	4,084	59,634	7,407	460,470	3,653
-	-	-	-	-	379,198	-
9,780	968,944	61,587	866,224	122,297	7,294,452	56,646
160	2,407	235,194	10,299	92	323,087	44,636
-	-	-	399,864	-	399,864	-
-	8,011	-	-	-	355,568	1,782
64	1,362	747	10,661	1,563	181,970	2,428
79	593	371	5,340	1,167	44,502	144
20	580	16	1,635	-	43,605	259
-	-	22,623	39,271	38,784	311,173	5,418
157	-	530	66,486	387	181,132	3,209
2	-	3,128	227	200	10,439	9,078
203	16,424	1,156	2,003	1,907	73,565	968
8	8,787	516	8,470	983	203,570	2,819
-	-	-	-	-	933,620	1,367
-	-	-	-	-	165,381	-
1,162	-	-	323	-	15,565	492
-	-	-	-	-	1,021,952	876
5	-	431	2,488	-	59,029	11,531
-	-	-	-	-	-	1,460
-	-	1,886	2,093	4,046	26,939	927
-	588	-	2,842	380	18,745	190
-	238,799	-	-	-	1,015,002	-
37	8,114	9,107	13,171	609	135,101	8,148
-	-	21,907	22,862	-	210,209	16,760
\$ 11,677	\$ 1,254,609	\$ 359,199	\$ 1,454,259	\$ 172,415	\$ 13,024,470	\$ 169,138

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SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statement of Functional Expenses

Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	Supporting Services - Management and General			Total Expenses	
	Westlund Guidance Clinic, Inc.	SVRC Industries, Inc. Foundation	Total Supporting Services - Management and General	2016	2015
Salaries	\$ -	\$ -	\$ 36,352	\$ 5,567,468	\$ 4,276,578
Employee benefits	-	-	16,641	940,309	783,304
Payroll taxes	-	-	3,653	464,123	363,167
Job coach wages and taxes	-	-	-	379,198	400,995
Total compensation	-	-	56,646	7,351,098	5,824,044
Professional fees	2,575	72,186	119,397	442,484	210,177
Contractual	-	-	-	399,864	429,006
Temporary support	22,342	-	24,124	379,692	319,099
Supplies	11,957	-	14,385	196,355	162,127
Telephone	1,335	-	1,479	45,981	42,971
Postage and shipping	409	-	668	44,273	45,644
Occupancy	9,643	-	15,061	326,234	308,949
Equipment rental and maintenance	16,622	-	19,831	200,963	84,737
Marketing and public information	57	-	9,135	19,574	36,438
Travel/mileage	501	-	1,469	75,034	58,947
Conferences/conventions	2,118	-	4,937	208,507	45,265
Specific assistance to individuals	-	-	1,367	934,987	762,547
SISD/MRS partnership	-	-	-	165,381	170,512
Membership dues	81	-	573	16,138	17,203
Transportation and manufacturing costs	-	-	876	1,022,828	1,134,791
Miscellaneous	2,695	-	14,226	73,255	65,644
Interest	-	3,134	4,594	4,594	5,608
Program equipment	523	-	1,450	28,389	58,643
Screenings and injury expenses	710	-	900	19,645	7,910
Recipient support services and activities	-	-	-	1,015,002	776,606
General insurance	3,293	-	11,441	146,542	138,256
Depreciation	5,715	39,445	61,920	272,129	273,439
Total	\$ 80,576	\$ 114,765	\$ 364,479	\$13,388,949	\$10,978,563

concluded

The accompanying notes are an integral part of these consolidated financial statements.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 1,310,427	\$ 263,719
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	272,129	273,439
Realized and unrealized (gain) loss on investments	(830,729)	364,856
Dividends and interest reinvested	(379,944)	(378,498)
Gain on sale of assets	-	(38)
Change in value of assets held by the Community Foundation	(12,171)	6,233
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable, net	(458,121)	(199,139)
Prepaid expenses	84,553	(93,168)
Inventory	60,762	(1,107)
Accounts payable	99,830	(48,865)
Accrued expenses	65,447	50,974
Deferred revenue	(3,135)	24,213
Net cash provided by operating activities	<u>209,048</u>	<u>262,619</u>
Cash flows from investing activities		
Purchases of investments	(183,796)	(286,023)
Payment of deferred compensation	(70,932)	(111,824)
Proceeds from sales and maturities of investments	1,443,752	120,450
Acquisition of land, building and equipment	(690,128)	(578,960)
Net cash provided by (used in) investing activities	<u>498,896</u>	<u>(856,357)</u>
Cash flows from financing activities		
Net short-term borrowings	350,000	-
Principal repayments on note payable	(78,209)	(75,735)
Net cash provided by (used in) financing activities	<u>271,791</u>	<u>(75,735)</u>
Net increase (decrease) in cash and cash equivalents	979,735	(669,473)
Cash and cash equivalents, beginning of year	<u>198,243</u>	<u>867,716</u>
Cash and cash equivalents, end of year	<u>\$ 1,177,978</u>	<u>\$ 198,243</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$ 4,594</u>	<u>\$ 5,608</u>

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mission of Organization

SVRC Industries, Inc. and Subsidiaries (the "Organization") is a nonprofit organization that exists essentially to create and sustain opportunities and support systems for persons with barriers to employment and community access. Support for the Organization comes mainly from government grants, program service fees, and manufacturing sales. The significant accounting policies of the Organization are described below to enhance the usefulness of the consolidated financial statements to the reader.

Consolidation

The consolidated financial statements include the accounts of SVRC Industries, Inc. ("SVRC"), SVRC Industries, Inc. Foundation ("Foundation") and Westlund Guidance Clinic, Inc. ("Westlund"). Inter-company transactions and balances have been eliminated in consolidation. Additionally, the SVRC Industries Foundation, LLC has been consolidated with the SVRC Industries, Inc. Foundation for reporting purposes.

Basis of Presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. For external financial reporting purposes, the Organization reports information regarding its consolidated financial position and activities within three classes of net assets. These classes consist of unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received that include donor restrictions as to their use are recorded as either temporarily restricted or permanently restricted net assets depending on the nature of the donor limitations. When these restricted contributions are received and expended within the same year, the contribution is recorded as an unrestricted contribution.

Net Assets

Net assets include the excess or deficiency of assets over liabilities, classified according to the existence or absence of donor-imposed restrictions:

Unrestricted net assets - The part of net assets of the Organization that is neither temporarily nor permanently restricted by donor-imposed stipulations. These assets are available for general operations.

Temporarily restricted net assets - The part of net assets generally resulting from contributions whose use by the Organization is limited by donor-imposed conditions that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those conditions. The Organization has \$642,142 and \$259,971 in temporarily restricted net assets at December 31, 2016 and 2015, respectively.

Permanently restricted net assets - The part of net assets of the Organization that would generally result from contributions whose use by the Organization is limited by donor-imposed conditions that neither expire by passage of time nor can be fulfilled or removed by actions of the Organization. The Organization has no permanently restricted net assets as of December 31, 2016 and 2015.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Cash and Cash Equivalents and Investments

For purposes of the consolidated statement of cash flows, the Organization considers cash for operations to be cash and cash equivalents.

Cash and cash equivalents consist of demand deposits in banks, cash on hand and deposits in money market funds with original maturities when purchased of less than three months. The Organization maintains the majority of its deposits in one financial institution, which at times, may exceed the federally insured limits. Management does not believe the Organization is exposed to any significant interest rate or other financial risk as a result of these deposits.

The Organization invests its excess cash primarily in high-quality short and long-term liquid money market, mutual fund instruments, common stock, bonds, and equities. The Organization maintains a policy of making investments only with institutions with at least investment grade (or equivalent) credit rating. Due to the general nature of investments, they are subject to little interest rate or other risk.

Investment securities purchased are initially recorded at cost and investment securities received by gift are recorded at fair value at the date of donation. Thereafter, the carrying value of such investments are adjusted to fair value which is determined using published exchange market quotations where applicable or estimated fair values provided by external investment managers or other sources. Investment income (loss) (including realized and unrealized gains and losses on investments, interest, dividends, and fees) is included in the change in unrestricted and temporarily restricted net assets, as appropriate.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 2 to the financial statements.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following is a description of the valuation methodologies and key inputs used to measure assets recorded at fair value.

Fair value measurements of the beneficial interest in assets held by the Saginaw Community Foundation (SCF) are based upon quoted prices of the underlying investments. The underlying Foundation assets cannot be liquidated or redeemed by the Organization. As such, no quoted prices or active market are available for this asset (Level 3). As a practical expedient, the carrying value of this asset approximates the fair value of the total investments held in the Foundation.

Investments in common stock, corporate bonds, exchange traded funds, government securities, mutual funds and money markets are measured at fair value, which is determined by using quoted market prices.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Accounts Receivable

Accounts receivable are unsecured and consist primarily of reimbursements due from funding agencies and amounts due from customers, which are related to sales. Accounts receivable are shown net of an allowance for uncollectibles, which is based on management's estimate using collection history trends.

Approximately 34% of accounts receivable balances at December 31, 2016 was attributable to three customers and 58% attributable to three customers at December 31, 2015.

Inventory

Inventory, which consists of parts for manufacturing, is stated at the lower of cost, determined by the average cost method, or market.

Land, Building, Equipment and Depreciation

The cost of land, building and equipment is capitalized in the period purchased. Acquired assets are stated at cost and donated assets at fair market value at the time of donation. Depreciation is recorded over the estimated useful lives of the respective assets ranging from 2 to 40 years, on a straight-line basis. Maintenance and repairs which do not enhance the value or extend the useful life of the asset are expensed when incurred. Management annually reviews these assets to determine whether carrying values have been impaired.

Deferred Revenue

Deferred revenue represents amounts received prior to year-end and in advance of the related grant expenses.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Income Taxes

The Organization is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the Organization was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income.” Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income.

The Organization analyzes its income tax filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions, to identify potential uncertain tax positions. The Organization treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of its management and general expense.

The Organization has evaluated its income tax filing positions for the fiscal years 2013 through 2016, the years which remain subject to examination as of December 31, 2016. The Organization concluded that there are no significant uncertain tax positions requiring recognition in the Organization’s consolidated financial statements. The Organization does not expect the total amount of unrecognized tax benefits (“UTB”) (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Organization does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2016 or 2015, and is not aware of any claims for such amounts by federal or state income tax authorities.

Program Service Fees, Sales, Grants and Deferred Revenue

The majority of the Organization’s funding is received through reimbursement grants and agreements, program services fees, and sales to the public. Fees and grants from governmental agencies, program service fees, and ISD school-based revenue is recognized at the time the service is provided or reimbursable expense is incurred. Revenues from sales to the public are recognized upon shipment.

Functional Expenses

Functional expenses are presented in a manner that denotes whether they are program or supporting services expenses by natural classification (such as salaries and wages, supplies, etc.).

Management and General Expenses

Management and general activities includes activities that are not identifiable with a specific program or fundraising activity but that are indispensable to the conduct of those activities and to an organization’s existence and are allocated on the following basis:

Liability insurance is allocated based on population served and staff full time equivalents (“FTEs”).

Occupancy is allocated on the basis of square footage.

Membership dues, professional services, postage and shipping, and printing and publications are allocated on FTEs within each program.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Comparative Information

The consolidated financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 income and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to fair value of investments.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2016, the most recent consolidated statement of financial position presented herein, through May 15, 2017, the date the accompanying consolidated financial statements were available to be issued. No such significant events or transactions were identified.

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization utilizes fair value measurements to record fair value adjustments to investments and to determine fair value disclosures. Investments are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 1 securities include common stock, and mutual funds that are traded on an active exchange, such as the New York Stock Exchange, and are traded by dealers or brokers in active over-the-counter markets. Level 2 fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 2 securities include corporate bonds and money market funds. The Organization has Level 3 assets held by the Saginaw Community Foundation (See Note 1).

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following tables set forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31:

2016	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
Common Stock	\$ 6,700,223	\$ -	\$ -	\$ 6,700,223
Corporate Bonds	-	1,832,983	-	1,832,983
Exchange Traded Funds				
Equity	55,836	-	-	55,836
Mutual funds:				
Fixed income	1,956,469	-	-	1,956,469
Equity	2,801,632	-	-	2,801,632
Money market	-	938,971	-	938,971
Total investments	11,514,160	2,771,954	-	14,286,114
Assets held by Saginaw				
Community Foundation (SCF)	-	-	172,731	-
Total investments and assets held by Saginaw				
Community Foundation (SCF)	\$ 11,514,160	\$ 2,771,954	\$ 172,731	\$ 14,286,114

2015	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
Investments:				
Common Stock	\$ 6,463,387	\$ -	\$ -	\$ 6,463,387
Corporate Bonds	-	2,231,891	-	2,231,891
Exchange Traded Funds				
Equity	88,933	-	-	88,933
Mutual funds:				
Fixed income	1,911,778	-	-	1,911,778
Equity	2,501,637	-	-	2,501,637
Government securities	-	57,375	-	57,375
Money market	-	1,080,396	-	1,080,396
Total investments	10,965,735	3,369,662	-	14,335,397
Assets held by Saginaw				
Community Foundation (SCF)	-	-	160,560	160,560
Total investments and assets held by Saginaw				
Community Foundation (SCF)	\$ 10,965,735	\$ 3,369,662	\$ 160,560	\$ 14,495,957

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The following table sets forth a summary of changes in the fair value of the Organization's beneficial interest in assets held by SCF, Level 3 assets measured at fair value on a recurring basis:

Balance at January 1, 2015	\$ 166,793
Change in fair market value	(7,700)
Interest and dividends	3,127
Program management expense	<u>(1,660)</u>
Balance at December 31, 2015	160,560
Change in fair market value	11,199
Interest and dividends	2,620
Program management expense	<u>(1,648)</u>
Balance at December 31, 2016	<u>\$ 172,731</u>

The components of investment income (loss) for the years ended December 31, were as follows:

	2016	2015
Realized gain	\$ 194,682	\$ 193,107
Unrealized gain (loss)	636,047	(557,963)
Interest and dividends	<u>380,929</u>	<u>344,245</u>
Total	<u>\$ 1,211,658</u>	<u>\$ (20,611)</u>

3. ACCOUNTS RECEIVABLE

As of December 31, 2016 and 2015, the accounts receivable balance consists of the following:

	2016	2015
Trade receivables	\$ 1,265,247	\$ 1,127,254
Grant receivables	693,101	641,465
Contribution receivables	265,000	-
Less: expected contractual insurance write-offs	<u>(70,314)</u>	<u>(73,806)</u>
Total accounts receivable, net	<u>\$ 2,153,034</u>	<u>\$ 1,694,913</u>

All of the trade and grant receivables are expected to be collected within one year. The contribution receivables not expected to be collected in one year is \$100,000. Management has not recorded this at present value as they have determined the discount would be insignificant.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. LAND, BUILDING AND EQUIPMENT

Net land, building and equipment consists of the following at December 31:

	2016	2015
Land	\$ 190,555	\$ 190,555
Construction in progress	841,374	293,457
SVRC building and improvements	3,376,710	3,376,710
Westlund buildings and improvements	999,267	989,097
Tuscola building and improvements	1,330,428	1,303,367
Barnard Road building and improvements	1,434,606	1,434,606
Machinery and equipment	426,782	410,726
Furniture and fixtures	292,893	291,735
Vehicles	648,455	579,401
S.A.I.D. equipment	19,536	19,536
	<hr/>	<hr/>
Total	9,560,606	8,889,190
Less accumulated depreciation	4,397,332	4,143,915
	<hr/>	<hr/>
Net land, building, and equipment	<u>\$ 5,163,274</u>	<u>\$ 4,745,275</u>

Depreciation expense totaled \$272,129 and \$273,439 in 2016 and 2015, respectively.

5. DEBT

The Organization's short-term borrowings consist of outstanding draws on a \$500,000 line of credit with interest charged at 3.5 % at December 31, 2016. The agreement expires September 30, 2017. Borrowings are collateralized by certain inventories and eligible accounts receivable. Outstanding borrowings were \$350,000 as of December 31, 2016. There were no outstanding borrowings as of December 31, 2015.

Note payable consists of the following obligation at December 31:

	2016	2015
\$668,889 note payable to a bank, secured by the Citizens Wealth Management Account, due through April 2017, in monthly installments ranging from \$3,907 to \$25,907, plus interest at 6.5%	\$ 39,450	\$ 117,659
Less current portion	39,450	78,468
	<hr/>	<hr/>
Note payable, net of current portion	<u>\$ -</u>	<u>\$ 39,191</u>

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Scheduled principal and maturities for note payable for the years succeeding December 31, 2016 are summarized as follows:

Year Ended December 31,	Amount
2017	<u>\$ 39,450</u>

Interest expense totaled \$4,594 and \$5,608 in 2016 and 2015, respectively.

6. EMPLOYEE BENEFIT PLAN

The Organization participates in a Safe Harbor 401(k) plan covering all full-time salaried staff and part-time staff once attaining age 21. Employees are eligible to participate on the first day of the next quarter after 90 days of employment. Each employee may also elect to make salary reduction contributions to the 401(k) plan to the maximum percentage allowable not to exceed the limits as defined by the Internal Revenue Code.

The Organization matches dollar for dollar on the first 5% contributed by the employee for a maximum 5% match. Employees are vested 100% in the plan. For the years ended December 31, 2016 and 2015, the Organization contributed \$231,977 and \$198,920, respectively.

7. DEFERRED COMPENSATION

The Organization has a deferred compensation package with its former President, who retired as of February 1, 2013. The plan required bi-weekly contributions totaling \$10,000 for each year worked. When the recipient attained the age of 59 ½, he was eligible to begin receiving payments from the plan. The liability of the Organization is limited to the fair value of related investments. There were no contributions for 2016 and 2015. Balance of this plan totaled \$780,907 and \$851,839 in 2016 and 2015, respectively.

8. CHARTER SCHOOLS

The Organization acts as a management company through an agreement with the Saginaw Intermediate School District for the Saginaw County Learn-to-Earn Academy ("L2E"). The L2E provides services to approximately 100 to 120 students. The L2E is for students in Saginaw County who are between the ages of 14-20 and have dropped out of high school programs, or for qualified special education students up to age 26. Students must reside within the boundaries of the Saginaw Intermediate School District.

This alternative education program is its own corporate entity and SVRC provides labor, materials, and supervision necessary for the provision of administration and all educational services to students of the Academy. The Organization charged the Saginaw Learn-to-Earn Academy for administrative fees and wages totaling \$80,947 and \$94,637 for the years ended December 31, 2016 and 2015, respectively.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

9. LEASES (INCLUDING RELATED PARTY)

The Organization has various noncancelable operating leases for the use of personal property. Total rent expense under the operating lease agreements was \$1,692 and \$1,692, for the years ended December 31, 2016 and 2015, respectively. Future rental payments under these leases are as follows:

Year Ending	Amount
2017	<u>\$ 1,602</u>

The Organization's leasing operations consists of leases with related and unrelated parties that are renewed on an annual basis. Total lease revenue received was \$319,867 in 2016 and \$317,008 in 2015. Of the amount received in 2016, \$201,830 was received from the Saginaw Learn-to-Earn Academy, with the remaining \$118,037 being received from other unrelated companies. Of the amount received in 2015, \$220,199 was received from the Saginaw Learn-to-Earn Academy, with the remaining \$96,809 being received from other unrelated companies.

10. SAGINAW COMMUNITY FOUNDATION

The Organization has established an endowment fund with the Saginaw Community Foundation ("SCF") and specified itself as beneficiary (see note 1). The total held in this separate account amounted to \$172,731 and \$160,560 at December 31, 2016 and 2015, respectively. Variance power remains with the administrators of the SCF. Annual revaluation occurs based on changes to the market value and fees charged, and this revaluation is treated as an increase or decrease to temporarily restricted net assets in the statement of activities.

In addition, the Organization maintains a separate account with the SCF to allow for donor contributions. While such contributions are earmarked for the Organization, the variance power held by the Foundation precludes their recognition in the accompanying consolidated financial statements in accordance with generally accepted accounting principles. The total held in this separate account amounted to \$70,447 and \$65,483 at December 31, 2016 and 2015, respectively.



INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

May 15, 2017

Board of Directors
SVRC Industries, Inc. and Subsidiaries
Saginaw, Michigan

We have audited the consolidated financial statements of *SVRC Industries, Inc. and Subsidiaries* (a nonprofit organization) as of and for the year ended December 31, 2016, and have issued our report thereon dated May 15, 2017, which expressed an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Rehmann Robson LLC".

SUPPLEMENTARY INFORMATION

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidating Schedule of Financial Position - Unrestricted

December 31, 2016

	SVRC Industries, Inc.	Westlund Guidance Clinic, Inc.	SVRC Industries, Inc. Foundation	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 124,281	\$ 1,925	\$ -	\$ -	\$ 126,206
Investments	2,788,240	-	11,497,874	-	14,286,114
Accounts receivable, net	1,719,936	433,098	-	-	2,153,034
Prepaid expenses	24,053	1,665	-	-	25,718
Inventory	61,901	-	-	-	61,901
Due from Foundation	700,000	-	-	(700,000)	-
Due from Westlund	261,689	-	-	(261,689)	-
Total current assets	5,680,100	436,688	11,497,874	(961,689)	16,652,973
Land, building and equipment, net	3,763,523	524,568	875,183	-	5,163,274
Total assets	\$ 9,443,623	\$ 961,256	\$ 12,373,057	\$ (961,689)	\$ 21,816,247
Liabilities					
Current liabilities:					
Accounts payable	\$ 402,536	\$ 257	\$ -	\$ -	\$ 402,793
Accrued expenses	367,810	93,279	-	-	461,089
Current portion of note payable	-	-	39,450	-	39,450
Short-term borrowings	350,000	-	-	-	350,000
Due to SVRC Industries, Inc.	-	261,689	700,000	(961,689)	-
Deferred revenue	27,174	7,891	-	-	35,065
Total current liabilities	1,147,520	363,116	739,450	(961,689)	1,288,397
Deferred compensation	780,907	-	-	-	780,907
Total liabilities	1,928,427	363,116	739,450	(961,689)	2,069,304
Unrestricted net assets					
Board designated by SVRC Industries, Inc. Foundation	-	-	10,797,874	-	10,797,874
Invested in land, building and equipment, net of related debt	3,763,523	524,568	835,733	-	5,123,824
Undesignated	3,751,673	73,572	-	-	3,825,245
Total unrestricted net assets	7,515,196	598,140	11,633,607	-	19,746,943
Total liabilities and net assets	\$ 9,443,623	\$ 961,256	\$ 12,373,057	\$ (961,689)	\$ 21,816,247

See Independent Auditors' Report on Supplementary Information.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidating Schedule of Activities - Unrestricted

Year Ended December 31, 2016

	SVRC Industries, Inc.	Westlund Guidance Clinic, Inc.	SVRC Industries, Inc. Foundation	Eliminations	Total
Changes in unrestricted net assets					
Revenue and public support					
Contributions	\$ 12,391	\$ 340	\$ 81,343	\$ (81,216)	\$ 12,858
Fees and grants					
from governmental agencies	7,468,486	-	-	-	7,468,486
Allocated by the United Way	1,631	-	-	-	1,631
Program service fees	109,724	1,520,915	-	-	1,630,639
Rental income	317,414	2,454	-	-	319,868
Sales - manufacturing	1,536,482	-	-	-	1,536,482
Sales - café	57,607	-	-	-	57,607
Janitorial contracts	424,540	-	-	-	424,540
Fundraising and other	16,962	18,889	-	-	35,851
ISD program partnerships	955,262	-	-	-	955,262
Academies	80,947	-	-	-	80,947
Investment income	153,779	-	1,056,894	-	1,210,673
Total revenue and public support	11,135,225	1,542,598	1,138,237	(81,216)	13,734,844
Expenses					
Program services:					
My Choice Program	1,577,968	-	-	-	1,577,968
Manufacturing Department	1,651,179	-	-	-	1,651,179
Shiawassee Rehabilitation Program	147,895	-	-	-	147,895
Vocational Development	164,445	-	-	-	164,445
Janitorial	446,419	-	-	-	446,419
S.A.I.D.	46,476	-	-	-	46,476
PATH Program	2,406,611	-	-	-	2,406,611
ISD School-Based Programs Activity	777,515	-	-	-	777,515
Juvenile Detention School	456,395	-	-	-	456,395
Michigan Prison Reentry Initiative	173,140	-	-	-	173,140
SVRC Café	68,213	-	-	-	68,213
Tuscola Educational Center	184,279	-	-	-	184,279
Shiawassee WIA/WIOA Program	679,769	-	-	-	679,769
WIA/WIOA Youth	620,164	-	-	-	620,164
YouthBuild	294,015	-	-	-	294,015
Barnard Road Transition House	77,828	-	-	-	77,828
Economic Development	11,677	-	-	-	11,677
Great Lakes Bay WIA/WIOA Program	1,254,609	-	-	-	1,254,609
SVRC Marketplace	359,199	-	-	-	359,199
Westlund Guidance Clinic, Inc.	-	1,454,259	-	-	1,454,259
Supports Coordination	172,415	-	-	-	172,415
Total program services	11,570,211	1,454,259	-	-	13,024,470
Supporting services -					
Management and general	250,354	80,576	114,765	(81,216)	364,479
Total expenses	11,820,565	1,534,835	114,765	(81,216)	13,388,949
Net transfers from Foundation	1,125,001	-	-	(1,125,001)	-
Net transfers to SVRC Industries, Inc.	-	-	(1,125,001)	1,125,001	-
Net transfers	1,125,001	-	(1,125,001)	-	-
Increase (decrease) in unrestricted net assets	439,661	7,763	(101,529)	-	345,895

continued...

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidating Schedule of Activities - Unrestricted Year Ended December 31, 2016

	SVRC Industries, Inc.	Westlund Guidance Clinic, Inc.	SVRC Industries, Inc. Foundation	Eliminations	Total
Unrestricted net assets, beginning of year:					
Board designation by SVRC Industries, Inc. Foundation	\$ -	\$ -	\$ 10,938,167	\$ -	\$ 10,938,167
Invested in land, building and equipment, net of related debt	3,306,384	524,263	796,969	-	4,627,616
Undesignated	3,769,151	66,114	-	-	3,835,265
Total unrestricted net assets, beginning of year	7,075,535	590,377	11,735,136	-	19,401,048
Unrestricted net assets, end of year:					
Board designation by SVRC Industries, Inc. Foundation	-	-	10,797,874	-	10,797,874
Invested in land, building and equipment, net of related debt	3,763,523	524,568	835,733	-	5,123,824
Undesignated	3,751,673	73,572	-	-	3,825,245
Total unrestricted net assets, end of year	\$ 7,515,196	\$ 598,140	\$ 11,633,607	\$ -	\$ 19,746,943

See Independent Auditors' Report on Supplementary Information.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidating Schedule of Financial Position

SVRC Industries, Inc. Foundation

December 31, 2016

	SVRC Industries, Inc. Foundation	SVRC Industries, Inc. Foundation, LLC	Adjustments	Consolidated SVRC Industries, Inc. Foundation
Assets				
Investments	\$ 11,497,874	\$ -	\$ -	\$ 11,497,874
Land, building and equipment, net	-	875,183	-	875,183
Total assets	\$ 11,497,874	\$ 875,183	\$ -	\$ 12,373,057
Liabilities				
Current liabilities:				
Current portion of note payable	\$ -	\$ 39,450	\$ -	\$ 39,450
Due to SVRC Industries, Inc.	-	700,000	-	700,000
Total liabilities (all current)	-	739,450	-	739,450
Unrestricted net assets				
Board designation by SVRC Industries, Inc. Foundation	11,497,874	-	(700,000)	10,797,874
Invested in land, building and equipment, net of related debt	-	135,733	700,000	835,733
Total unrestricted net assets	11,497,874	135,733	-	11,633,607
Total liabilities and net assets	\$ 11,497,874	\$ 875,183	\$ -	\$ 12,373,057

See Independent Auditors' Report on Supplementary Information.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidating Schedule of Activities

SVRC Industries, Inc. Foundation

Year Ended December 31, 2016

	SVRC Industries, Inc. Foundation	SVRC Industries, Inc. Foundation, LLC	Consolidating SVRC Industries, Inc. Foundation
Revenue and public support			
Contributions	\$ -	\$ 81,343	\$ 81,343
Investment gain	1,056,894	-	1,056,894
Total revenue and public support	1,056,894	81,343	1,138,237
Expenses			
Supporting services - Management and general:			
Professional fees	72,186	-	72,186
Interest	-	3,134	3,134
Depreciation	-	39,445	39,445
Total expenses	72,186	42,579	114,765
Net transfers to SVRC Industries, Inc.	(1,300,001)	-	(1,300,001)
Net transfers from SVRC Industries, Inc.	175,000	-	175,000
(Decrease) increase in unrestricted net assets	(140,293)	38,764	(101,529)
Unrestricted net assets, beginning of year	11,638,167	96,969	11,735,136
Unrestricted net assets, end of year	\$ 11,497,874	\$ 135,733	\$ 11,633,607

See Independent Auditors' Report on Supplementary Information.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Budgetary Comparison Schedule - Unrestricted

Year Ended December 31, 2016

	Budget	Actual	Actual over (under) Budget
Changes in unrestricted net assets			
Revenue and public support			
Contributions	\$ 17,500	\$ 12,858	\$ (4,642)
Fees and grants from			
governmental agencies	8,230,208	7,468,486	(761,722)
Allocated by the United Way	4,000	1,631	(2,369)
Program service fees	2,103,761	1,630,639	(473,122)
Rental income	299,557	319,868	20,311
Sales - manufacturing	1,775,000	1,536,482	(238,518)
Sales - café	64,500	57,607	(6,893)
Janitorial contracts	475,000	424,540	(50,460)
Fundraising and other	(14,000)	35,851	49,851
ISD program partnerships	900,000	955,262	55,262
Academies	85,000	80,947	(4,053)
Investment income (loss)	30,000	1,210,673	1,180,673
Net assets released from restrictions	-	-	-
Total revenue and public support	13,970,526	13,734,844	(235,682)
Expenses			
Program services:			
My Choice Program	1,617,290	1,577,968	(39,322)
Manufacturing Department	1,633,187	1,651,179	17,992
Shiawassee Rehabilitation Program	133,951	147,895	13,944
Vocational Development	261,428	164,445	(96,983)
Janitorial	370,040	446,419	76,379
S.A.I.D.	58,329	46,476	(11,853)
PATH Program	2,142,378	2,406,611	264,233
ISD School-Based Program Activity	1,092,588	777,515	(315,073)
Juvenile Detention School	498,333	456,395	(41,938)
Michigan Prison Re-entry Initiative	220,078	173,140	(46,938)
SVRC Café	84,601	68,213	(16,388)
Tuscola Educational Center	184,534	184,279	(255)
Shiawassee WIA/WIOA Program	470,000	679,769	209,769
WIA/WIOA Youth	636,611	620,164	(16,447)
YouthBuild	325,758	294,015	(31,743)
Barnard Road Transition House	83,974	77,828	(6,146)
Great Lakes Bay WIA/WIOA Program	2,144,254	1,254,609	(889,645)
SVRC Marketplace	98,933	359,199	260,266
Economic Development	15,249	11,677	(3,572)
Westlund Guidance Clinic, Inc.	925,919	1,454,259	528,340
Supports Coordination	508,035	172,415	(335,620)
Total program services	13,505,470	13,024,470	(481,000)
Supporting services -			
Management and general	155,088	364,479	209,391
Total expenses	13,660,558	13,388,949	(271,609)
Increase in unrestricted net assets	309,968	345,895	35,927
Unrestricted net assets, beginning of year	19,401,048	19,401,048	-
Unrestricted net assets, end of year	\$ 19,711,016	\$ 19,746,943	\$ 35,927

See Independent Auditors' Report on Supplementary Information.

SINGLE AUDIT ACT COMPLIANCE

Independent Auditors' Report on the Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance

May 15, 2017

To the Board of Directors
SVRC Industries, Inc. and Subsidiaries
Saginaw, Michigan

We have audited the consolidated financial statements of *SVRC Industries, Inc. and Subsidiaries* (a nonprofit organization) as of and for the year ended December 31, 2016, and have issued our report thereon dated May 15, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through/ Grantor Number	Federal Expenditures
U.S. Department of Agriculture				
Supplemental Nutrition Assistance Program (SNAP) Cluster:				
Supplemental Nutrition Assistance Program	10.561	GLBMW	67606-95523-16	\$ 46,064
Supplemental Nutrition Assistance Program	10.561	GLBMW	67606-95540-16	6,206
Supplemental Nutrition Assistance Program	10.561	GLBMW	67606-95542-16	3,463
Supplemental Nutrition Assistance Program	10.561	GLBMW	67607-95523-16	2,264
Supplemental Nutrition Assistance Program	10.561	GLBMW	67606-95523-17	8,842
Supplemental Nutrition Assistance Program	10.561	GLBMW	67606-95540-17	1,742
Supplemental Nutrition Assistance Program	10.561	GLBMW	67607-95523-17	640
				69,221
Total U.S. Department of Agriculture				
U.S. Department of Labor				
Workforce Innovation and Opportunity Act (WIOA) Cluster:				
Adult Worker	17.258	GLBMW	67485-95540-16	129,360
Adult Worker	17.258	GLBMW	67485-95542-16	104,763
Adult Worker	17.258	GLBMW	67485-95523-16	202,778
Dislocated Worker	17.278	GLBMW	67487-95540-16	77,318
Dislocated Worker	17.278	GLBMW	67487-95542-16	65,175
Dislocated Worker	17.278	GLBMW	67487-95523-16	73,255
Adult Worker	17.258	GLBMW	67485-95540-17	41,779
Adult Worker	17.258	GLBMW	67485-95542-17	27,429
Adult Worker	17.258	GLBMW	67485-95523-17	67,577
Dislocated Worker	17.278	GLBMW	67487-95540-17	26,568
Dislocated Worker	17.278	GLBMW	67487-95542-17	28,176
Dislocated Worker	17.278	GLBMW	67487-95523-17	47,764
WIOA Career Services	17.258	GSMW	430-WCS-16	262,838
WIOA Comprehensive Services	17.258	GSMW	200-17-WCS-430	135,361
WIOA Youth Activities:				
Out of School Services	17.259	GSMW	220-17-WOY-430	21,253
Out of School Services	17.259	GLBMW	67486-95538-16	275,008
Out of School Services	17.259	GLBMW	67486-95537-16	93,169
Out of School Services	17.259	GLBMW	67486-95536-16	84,866
Out of School Services	17.259	GLBMW	67486-95538-17	114,268
Out of School Services	17.259	GLBMW	67486-95537-17	29,445
Out of School Services	17.259	GLBMW	67486-95536-17	23,092
				1,931,242
YouthBuild	17.274	Direct	YB-26226-14-60-A-26	261,028

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SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through/ Grantor Number	Federal Expenditures
U.S. Department of Labor (concluded)				
WIOA National Dislocated Worker Grants:				
JD NEG	17.277	GLBMW	67495-95540-16	\$ 9,241
JD NEG	17.277	GLBMW	67495-95542-16	1,323
JD NEG	17.277	GLBMW	67495-95523-16	37,177
TRW NEG	17.277	GLBMW	67498-95540-16	253
TRW NEG	17.277	GLBMW	67498-95542-16	5
TRW NEG	17.277	GLBMW	67498-95523-16	11,672
TRW NEG	17.277	GLBMW	67498-95540-17	16,418
TRW NEG	17.277	GLBMW	67498-95523-17	49,790
Sector Partnership NEG	17.277	GLBMW	67493-95540-16	70,039
Sector Partnership NEG	17.277	GLBMW	67493-95542-16	40,882
Sector Partnership NEG	17.277	GLBMW	67493-95523-16	93,686
Sector Partnership NEG	17.277	GLBMW	67493-95540-17	10,478
Sector Partnership NEG	17.277	GLBMW	67493-95542-17	4,545
Sector Partnership NEG	17.277	GLBMW	67493-95523-17	17,156
Sector Partnership NEG	17.277	GSMW	160-17-SPNEG-430	23,824
Job Driven NEG	17.277	GSMW	430-JDNEG-16	19,664
Job Driven NEG	17.277	GSMW	703-17-JDNEG-430	13,974
				<u>420,127</u>
Total U.S. Department of Labor				<u>2,612,397</u>
U.S. Department of Education				
Title I, Part A:				
Title I - Part D	84.013A	SISD	051700 - 1516	89,718
Title I - Part D	84.013A	SISD	051700 - 1617	<u>72,416</u>
Total U.S. Department of Education				<u>162,134</u>
U.S. Department of Health and Human Services				
Temporary Assistance for Needy Families (TANF) Cluster:				
PATH	93.558	GLBMW	67641-95523-16	919,926
PATH	93.558	GLBMW	67641-95540-16	352,509
PATH	93.558	GLBMW	67641-95542-16	108,651
PATH	93.558	GLBMW	67641-95523-17	302,202
PATH	93.558	GLBMW	67641-95540-17	88,664
PATH	93.558	GLBMW	67641-95542-17	20,208
PATH	93.558	GSMW	700-17-PATH-430	202,855
DHS - Support Services	93.558	GLBMW	67638-95523-16	28,116
DHS - Support Services	93.558	GLBMW	67638-95540-16	25,000
DHS - Support Services	93.558	GLBMW	67638-95542-16	<u>17,434</u>
Total U.S. Department of Health and Human Services				<u>2,065,565</u>
Total Expenditures of Federal Awards				<u><u>\$ 4,909,317</u></u>

See notes to schedule of expenditures of federal awards.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of SVRC Industries, Inc. and Subsidiaries (the "Organization") under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the Organization's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

For purposes of charging indirect costs to federal awards, the Organization has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The Organization receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
GLBMW	Great Lakes Bay Michigan Works!
GSMW	Genesee/Shiawassee Michigan Works!
SISD	Saginaw Intermediate School District



Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

May 15, 2017

The Board of Directors
SVRC Industries, Inc. and Subsidiaries
Saginaw, Michigan

We have audited, in accordance with the 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, the consolidated financial statements of *SVRC Industries, Inc. and Subsidiaries* (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Lobson LLC

**Independent Auditors' Report on Compliance for the Major Federal Program
and Internal Control over Compliance Required by the Uniform Guidance**

May 15, 2017

The Board of Directors
SVRC Industries, Inc. and Subsidiaries
Saginaw, Michigan

Report on Compliance for the Major Federal Program

We have audited the compliance of *SVRC Industries, Inc. and Subsidiaries'* (the "Organization") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2016. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirement of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Unmodified Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rehmann Lohman LLC". The signature is written in a cursive, flowing style.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major programs and type of auditors' report issued on compliance for each major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
17.258, 17.259, & 17.278	Workforce Innovation and Opportunity Act (WIOA) Cluster	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes no

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were identified.

SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2016

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were identified.

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SVRC INDUSTRIES, INC. AND SUBSIDIARIES

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2016

There were no prior year findings.

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