THE DETROIT INSTITUTE FOR CHILDREN

AUDITED FINANCIAL STATEMENTS

Years ended June 30, 2018 and 2017

THE DETROIT INSTITUTE FOR CHILDREN

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Detroit Institute for Children

Report on the Financial Statements

We have audited the accompanying financial statements of Detroit Institute for Children (a Michigan nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Detroit Institute for Children as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

UHY LLP

Farmington Hills, Michigan
November 15, 2018

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENTS OF FINANCIAL POSITION

	June 30, 2018	June 30, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 381,890**	$ 777,592
Contract accounts receivable, net	**362,721**	312,014
Contributions receivable, current	**34,757**	15,714
Other receivables	**5,015**	-
Prepaid expenses and deposits	**30,254**	27,022
Total current assets	**814,637**	1,132,342
MARKETABLE SECURITIES	**493,512**	3,706
CONTRIBUTIONS RECEIVABLE	**172,478**	-
PROPERTY AND EQUIPMENT	**14,831**	20,297
TOTAL ASSETS	**$ 1,495,458**	$ 1,156,345
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	**$ 21,788**	$ 2,643
Current portion of long-term debt	**5,000**	60,468
Accrued expenses	**39,038**	54,134
Total current liabilities	**65,826**	117,245
LONG-TERM DEBT	**5,000**	10,000
Total liabilities	**70,826**	127,245
NET ASSETS		
Unrestricted net assets	**1,107,903**	971,870
Temporarily restricted	**316,729**	57,230
Total net assets	**1,424,632**	1,029,100
TOTAL LIABILITIES AND NET ASSETS	**$ 1,495,458**	$ 1,156,345

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENT OF ACTIVITIES
Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Contract revenues	$ 3,315,995	$ -	$ 3,315,995
Gifts and bequests	229,020	316,689	545,709
United Way Community Services	15,953	-	15,953
Investment income	4,136	-	4,136
Miscellaneous income	34	-	34
Net assets released from restrictions	57,190	(57,190)	-
Total revenue and support	3,622,328	259,499	3,881,827
Expenses			
Program services:			
Contractual services	3,135,495	-	3,135,495
Supporting services:			
Management and general	227,097	-	227,097
Fundraising	123,703	-	123,703
Total expenses	3,486,295	-	3,486,295
Increase in net assets	136,033	259,499	395,532
Net assets, beginning of year	971,870	57,230	1,029,100
Net assets, end of year	**$ 1,107,903**	**$ 316,729**	**$ 1,424,632**

See notes to financial statements.

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENT OF ACTIVITIES
Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Contract revenues	$ 2,419,445	$ -	$ 2,419,445
Gifts and bequests	452,489	73,121	525,610
United Way Community Services	22,137	-	22,137
Investment income	204	-	204
Miscellaneous income	95	-	95
Net assets released from restrictions	22,179	(22,179)	-
Total revenue and support	2,916,549	50,942	2,967,491
Expenses			
Program services:			
Contractual services	2,330,631	-	2,330,631
Supporting services:			
Management and general	187,857	-	187,857
Fundraising	105,579	-	105,579
Total expenses	2,624,067	-	2,624,067
Increase (decrease) in net assets	292,482	50,942	343,424
Net assets, beginning of year	679,388	6,288	685,676
Net assets, end of year	**$ 971,870**	**$ 57,230**	**$ 1,029,100**

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENTS OF FUNCTIONAL EXPENSES
Years ended June 30, 2018 and 2017

	2018				2017			
	Contractual Services	Management and General	Fund Raising	Total Functional Expenses	Contractual Services	Management and General	Fund Raising	Total Functional Expenses
Salaries and wages	**$ 2,327,794**	**$ 105,984**	**$ 70,911**	**$ 2,504,689**	$ 1,709,406	$ 70,062	$ 55,677	$ 1,835,145
Taxes - payroll	**225,387**	**10,262**	**6,863**	**242,512**	191,061	5,038	5,708	201,807
Employee benefits	**117,818**	**23,271**	**3,182**	**144,271**	99,456	6,603	3,497	109,556
Employee mileage	**18,321**	**4,600**	**208**	**23,129**	8,710	2,367	162	11,239
Professional fees	**332,380**	**51,371**	**21,173**	**404,924**	202,682	58,400	20,528	281,610
Supplies	**40,372**	**4,202**	**4,202**	**48,776**	30,534	7,635	3,360	41,529
Purchased services	**7,418**	**2,293**	**1,918**	**11,629**	4,131	4,413	1,863	10,407
Utilities	**9,679**	**2,555**	**1,980**	**14,214**	8,040	4,325	2,020	14,385
Insurance	**11,413**	**3,804**	**3,804**	**19,021**	9,502	9,502	4,751	23,755
Printing	**3,640**	**1,213**	**1,213**	**6,066**	938	938	469	2,345
Rent	**11,880**	**3,960**	**3,960**	**19,800**	7,520	7,520	3,760	18,800
Bad Debt expense	**445**	**-**	**-**	**445**	36,325	-	-	36,325
Other expense	**25,668**	**12,489**	**3,196**	**41,353**	20,185	8,913	2,713	31,811
Depreciation and amortization	**3,280**	**1,093**	**1,093**	**5,466**	2,141	2,141	1,071	5,353
	$ 3,135,495	**$ 227,097**	**$ 123,703**	**$ 3,486,295**	$ 2,330,631	$ 187,857	$ 105,579	$ 2,624,067

See notes to financial statements.

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENTS OF CASH FLOWS

	Years ended June 30, 2018	2017
OPERATING ACTIVITIES		
Change in net assets	**$ 395,532**	$ 343,424
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation and amortization	**5,466**	5,353
Change in contractual allowances	**(47,050)**	36,325
Net realized and unrealized gain on investments	**(742)**	(46)
Changes in current assets and liabilities:		
Contract accounts receivable	**(3,657)**	183,186
Contributions receivable	**(191,521)**	-
Other receivables	**(5,015)**	56,044
Prepaid expenses	**(3,232)**	(6,013)
Accounts payable and accrued expenses	**4,049**	2,974
Net cash provided by operating activities	**153,830**	621,247
INVESTING ACTIVITY		
Proceeds from sale of investments	**3,495**	-
Purchases of investments	**(492,559)**	-
Expenditures for property and equipment	**-**	(1,056)
Net cash used in investing activities	**(489,064)**	(1,056)
FINANCING ACTIVITY		
Payments of long-term debt	**(60,468)**	(90,000)
NET CHANGE IN CASH	**(395,702)**	530,191
CASH, Beginning of year	**777,592**	247,401
CASH, End of year	**$ 381,890**	$ 777,592

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Institute and Nature of Activities

The Detroit Institute for Children ("the Institute") provides comprehensive diagnostic services and treatment for children and young adults with special needs in Michigan.

The mission of the Institute is to provide a passionate, integrated approach to services for Michigan's children with special needs and their families. The Institute specializes in providing care for children with developmental, learning, emotional and physical disabilities including specialized early intervention programs for children from birth to 5 years.

The Institute provides therapeutic and mental health services including occupational and physical therapies, speech language pathology, social work, psychological and special education evaluations and consultations in schools exclusively in the State of Michigan, primarily the City of Detroit and the surrounding metropolitan areas. Additionally, workshops are provided at little or no cost to parents and professionals who provide care and support to children with special needs.

Basis of Presentation

The Institute follows accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Institute follows to ensure they consistently report their financial condition, and results of operations and cash flows. References to GAAP issued by the FASB in the following footnotes are the FASB *Accounting Standards Codification (ASC)*.

Financial statement presentation follows the recommendations of the ASC topic presentation of Financial Statements for Not-for-Profit Entities. The Institute is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. No permanently restricted assets were held by the Institute and accordingly, these financial statements do not reflect any activities related to this class of net assets.

Use of Estimates

The preparation of the 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 financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, allowances for bad debts and contractual allowance and estimated useful lives of assets.

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks and cash on hand. For the purpose of the statement of cash flows, the Institute considers all highly-liquid investments that are not included with marketable securities and purchased with original maturities of three months or less to be cash equivalents. The Institute had, at times throughout the year, bank balances that exceeded FDIC federally insured limits. Management has deemed this as a normal business risk.

Investments

The Institute records its investments in marketable equity securities in accordance with ASC topic Not-for-Profit entities Investments. Accordingly, investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair market value. Any related gains or losses are reported in the statement of activities and changes in net assets.

Accounts Receivable and Revenue Recognition

The Institute recognizes contracted revenue on a fee per service basis net of an uncollectible allowance. The provision for the allowance is based on management's assessment of historical and expected net collections. Contractual accounts receivable are recorded net of an uncollectible allowance of $-0- and $47,050 at June 30, 2018 and 2017, respectively.

Property and Equipment and Depreciation and Amortization

Purchased property and equipment are stated at cost. Donated property and equipment is recorded at fair market value at the date of the gift. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these fixed assets to determine whether carrying values have been impaired. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 7 years.

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions are recognized as unrestricted when the donor makes a promise to give to the Institute that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Income Taxes

The Institute 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.

ASC guidance regarding accounting for uncertainty in income taxes clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At June 30, 2018 and 2017, there were no uncertain tax positions that require accrual.

Interest Expense

No interest expense was incurred for the years ended June 30, 2018 and 2017.

Functional Expenses

Direct identifiable expenses are charged to programs and supporting services accordingly. Expenses related to more than one function are charged to program services and support services based on management's estimates of periodic time and expense allocation. Management and general expenses include those expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the organization. Although the allocation method used is considered appropriate, other methods could be used that would produce different results.

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Subsequent Events

The Institute has performed a review of events subsequent to the balance sheet date through November 15, 2018, the date the financials were available to be issued.

On November 7, 2018, the Institute opened a line of credit with Huntington National Bank. Under the line of credit agreement with the bank, the Institute has available borrowings of approximately $200,000, with $-0- outstanding. Interest is payable at a monthly rate of 2.0 percent above the LIBOR rate (an effective rate of 4.3 percent at November 7, 2018). The line of credit is collateralized by the investments held at Huntington National Bank.

NOTE 2 – MARKETABLE SECURITIES

The cost and fair value of the Institute's investments at June 30, 2018 and 2017 are as follows:

	June 30, 2018		
	Cost	Fair Value	Unrealized Gain
Mutual funds	$ 492,559	$ 493,512	$ 953

	June 30, 2017		
	Cost	Fair Value	Unrealized Gain
Common stock	$ 1,597	$ 3,706	$ 2,109

The composition of investment income for the years ended June 30, 2018 and 2017 is as follows:

Interest and dividend income	$ 4,922	$ 158
Realized and unrealized gain	742	46
Investment fees	(1,528)	-
Total investment income	$ 4,136	$ 204

NOTE 3 – FAIR VALUE MEASUREMENTS

The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the ability to access.

Level 2 Inputs to the valuation methodology include

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held are deemed to be actively traded.

Equities: Valued at the closing price reported in the active market on which the individual securities are traded.

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

The preceding methods 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 Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

All of the Institute's assets were level two assets on the fair value hierarchy as of June 30, 2018 and 2017.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2018 and 2017:

	2018	2017
Software	$ 6,327	$ 6,327
Other depreciable property	20,250	20,250
Equipment	1,056	1,056
Total cost	27,633	27,633
Less accumulated depreciation and amortization	12,802	7,336
Property and equipment, net	$ 14,831	$ 20,297

NOTE 5 – LONG-TERM DEBT

Long-term debt consists of the following for the years ended June 30, 2018 and 2017:

	2018	2017
Note payable to the previous members of Pediatric Potential, LLC in annual payments of $5,000 due March 2020.The note is non-interest bearing and unsecured.	$ 10,000	$ 15,000
The Institute received an advance from the State of Michigan to supplement untimely Medicaid payments that were due to the Institute. The advance was non-interest bearing and was paid in full in 2018.	-	55,468
	10,000	70,468
Less portion due within one year	5,000	60,468
	$ 5,000	$ 10,000

Maturities of long-term debt are as follows:

Year ending June 30,	Total
2019	$ 5,000
2020	5,000
	$ 10,000

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following purpose or time restrictions at June 30, 2018 and 2017:

	2018	2017
iPad applications	$ 6,756	$ 7,512
Summer program	88,450	49,718
Workshops and training	30,000	-
Time restriction	191,523	-
Total temporarily restricted net assets	$ 316,729	$ 57,230

NOTE 7 – OPERATING LEASES

The Institute leased office space with various monthly payments approximating $1,650. Monthly payments escalate to $1,750 through November 2019, the end of the lease term. Lease expense for each of the years ended June 30, 2018 and 2017 was $19,800 and $18,800, respectively.

The Institute leases various office equipment for payments totaling approximately $500 per month expiring at various dates through July 2020. Lease expense for the years ended June 30, 2018 and 2017 was $7,515 and $7,434, respectively.

Total lease expense for the years ended June 30, 2018 and 2017 was $27,413 and $26,234, respectively.

Minimum future rental payments under non-cancelable operating leases having initial or remaining terms in excess of one year as of June 30, 2018 for each of the next three years are:

Year ending June 30,	Amount
2019	$ 26,373
2020	10,948
2021	79
	$ 37,400

NOTE 8 – RETIREMENT PLAN

The Institute has a defined contribution retirement plan available to substantially all employees. Participants may make basic tax-free contributions of their compensation up to the legal limit prescribed by Section 403(b) of the Internal Revenue Code. The Institute can make a discretionary contribution to the Plan based on 2% of employee's annual gross income for those employees who contribute 2% or more of their eligible annual gross income. No match was made for the years ended June 30, 2018 and 2017. Employer contributions are vested after working three (3) calendar years with at least 1,000 hours in each of the three years. The Institute incurred no expenses related to this plan, including fees, during the years ended June 30, 2018 and 2017.