

# **THE DETROIT INSTITUTE FOR CHILDREN**

AUDITED FINANCIAL STATEMENTS

Years ended June 30, 2016 and 2015

# 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 not-for-profit organization), which comprised the statements of financial position as of June 30, 2016 and 2015, 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.

Board of Trustees  
The Detroit Institute for Children  
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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, 2016 and 2015, 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  
October 17, 2016

**THE DETROIT INSTITUTE FOR CHILDREN**  
**STATEMENTS OF FINANCIAL POSITION**

	June 30,	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 247,401	\$ 440,409
Marketable securities	3,660	3,271
Contract accounts receivable, net	531,525	264,628
Other receivables	71,758	3,867
Prepaid expenses and deposits	21,009	16,552
Property and equipment	24,594	-
	<u>899,947</u>	<u>728,727</u>
<b>TOTAL ASSETS</b>	<b>\$ 899,947</b>	<b>\$ 728,727</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 18,546	\$ 48,550
Current portion of long-term debt	90,000	77,000
Accrued expenses	35,257	46,370
	<u>143,803</u>	<u>171,920</u>
Total current liabilities	143,803	171,920
<b>LONG-TERM DEBT</b>	<u>70,468</u>	160,468
Total liabilities	<u>214,271</u>	<u>332,388</u>
<b>NET ASSETS</b>		
Unrestricted net assets	679,388	373,774
Temporarily restricted	6,288	22,565
	<u>685,676</u>	<u>396,339</u>
Total net assets	685,676	396,339
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 899,947</b>	<b>\$ 728,727</b>

**THE DETROIT INSTITUTE FOR CHILDREN**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue and support</b>			
Contract revenues	\$ 2,701,389	\$ -	\$ 2,701,389
Gifts and bequests	192,345	6,289	198,634
United Way Community Services	16,158	-	16,158
Investment (loss)	475	-	475
Miscellaneous income	124,006	-	124,006
Net assets released from restrictions	22,566	(22,566)	-
<b>Total revenue and support</b>	<u>3,056,939</u>	<u>(16,277)</u>	<u>3,040,662</u>
<b>Expenses</b>			
Program services:			
Contractual services	2,503,802	-	2,503,802
Supporting services:			
Management and general	143,224	-	143,224
Fundraising	104,299	-	104,299
<b>Total expenses</b>	<u>2,751,325</u>	<u>-</u>	<u>2,751,325</u>
Increase (decrease) in net assets	305,614	(16,277)	289,337
Net assets, beginning of year	<u>373,774</u>	<u>22,565</u>	<u>396,339</u>
<b>Net assets, end of year</b>	<u><u>\$ 679,388</u></u>	<u><u>\$ 6,288</u></u>	<u><u>\$ 685,676</u></u>

**THE DETROIT INSTITUTE FOR CHILDREN**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue and support</b>			
Contract revenues	\$ 2,062,580	\$ -	\$ 2,062,580
Gifts and bequests	597,858	13,230	611,088
United Way Community Services	22,370	-	22,370
Investment (loss)	(66)	-	(66)
Miscellaneous income	3,574	-	3,574
Net assets released from restrictions	84,782	(84,782)	-
<b>Total revenue and support</b>	<u>2,771,098</u>	<u>(71,552)</u>	<u>2,699,546</u>
<b>Expenses</b>			
Program services:			
Contractual services	1,898,533	-	1,898,533
Supporting services:			
Management and general	175,715	-	175,715
Fundraising	78,775	-	78,775
<b>Total expenses</b>	<u>2,153,023</u>	<u>-</u>	<u>2,153,023</u>
Increase (decrease) in net assets	618,075	(71,552)	546,523
Net assets (deficit), beginning of year	<u>(244,301)</u>	<u>94,117</u>	<u>(150,184)</u>
<b>Net assets, end of year</b>	<u><u>\$ 373,774</u></u>	<u><u>\$ 22,565</u></u>	<u><u>\$ 396,339</u></u>

**THE DETROIT INSTITUTE FOR CHILDREN**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Years ended June 30, 2016 and 2015

	2016				2015			
	Contractual Services	Management and General	Fund Raising	Total Functional Expenses	Contractual Services	Management and General	Fund Raising	Total Functional Expenses
Salaries and wages	\$ 1,821,836	\$ 52,504	\$ 37,727	\$ 1,912,067	\$ 1,085,551	\$ 66,656	\$ 24,086	\$ 1,176,293
Taxes - payroll	214,035	4,811	3,277	222,123	111,381	7,379	1,837	120,597
Employee benefits	52,464	5,410	3,887	61,761	49,183	2,547	849	52,579
Employee mileage	10,186	881	633	11,700	11,994	721	240	12,955
Professional fees	299,242	41,659	26,793	367,694	591,046	59,901	33,095	684,042
Supplies	46,336	6,373	4,579	57,288	17,761	7,102	2,367	27,230
Purchased services	2,599	5,527	4,501	12,627	875	7,115	2,372	10,362
Utilities	3,112	2,340	1,682	7,134	361	361	122	844
Insurance	12,962	7,542	5,419	25,923	15,282	10,802	3,601	29,685
Printing	25	974	700	1,699	-	1,914	4,859	6,773
Rent	8,700	5,062	3,638	17,400	7,613	7,613	2,175	17,401
Bad Debt	10,725	-	-	10,725	-	-	-	-
Other expense	20,300	9,645	11,256	41,201	7,471	3,589	3,162	14,222
Depreciation and amortization	1,280	496	207	1,983	15	15	10	40
	<u>\$ 2,503,802</u>	<u>\$ 143,224</u>	<u>\$ 104,299</u>	<u>\$ 2,751,325</u>	<u>\$ 1,898,533</u>	<u>\$ 175,715</u>	<u>\$ 78,775</u>	<u>\$ 2,153,023</u>



**THE DETROIT INSTITUTE FOR CHILDREN**  
**STATEMENTS OF CASH FLOWS**

	<u>Year ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 289,337	\$ 546,523
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation and amortization	1,983	40
Change in contractual allowances	(158,290)	(123,879)
Net realized and unrealized gain on investments	(389)	139
Changes in current assets and liabilities:		
Contract accounts receivable	(108,607)	231,421
Other receivables	(67,885)	60,899
Prepaid expenses	(4,457)	3,009
Accounts payable and accrued expenses	(41,123)	(317,915)
	<u>(89,431)</u>	<u>400,237</u>
Net cash provided by (used in) operating activities		
<b>INVESTING ACTIVITY</b>		
Expenditures for property and equipment	(26,577)	-
<b>FINANCING ACTIVITY</b>		
Payments of long-term debt	(77,000)	(45,958)
<b>NET CHANGE IN CASH</b>	<b>(193,008)</b>	<b>354,279</b>
<b>CASH, Beginning of year</b>	<b>440,409</b>	<b>86,130</b>
<b>CASH, End of year</b>	<b>\$ 247,401</b>	<b>\$ 440,409</b>

**THE DETROIT INSTITUTE FOR CHILDREN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended June 30, 2016**

**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.

**THE DETROIT INSTITUTE FOR CHILDREN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended June 30, 2016**

**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 \$10,725 and \$169,015 at June 30, 2016 and 2015, respectively.

**Pledges and Grants Receivable**

The pledges receivable consist of unconditional promises to give with no specific payment terms, but are expected to be received within the next fiscal year, and are carried at their net realizable value. There were no pledge receivables at June 30, 2016 and 2015.

**THE DETROIT INSTITUTE FOR CHILDREN**  
**NOTES TO FINANCIAL STATEMENTS**  
Years ended June 30, 2016

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

**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.

**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, 2016, there were no uncertain tax positions that require accrual.

**THE DETROIT INSTITUTE FOR CHILDREN**  
**NOTES TO FINANCIAL STATEMENTS**  
Years ended June 30, 2016

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

**Interest Expense**

No interest expense was incurred for the years ended June 30, 2016 and 2015.

**Subsequent Events**

The Institute has performed a review of events subsequent to the balance sheet date through October 17, 2016, the date the financials were available to be issued.

**NOTE 2 – MARKETABLE SECURITIES**

The cost and fair value of the Institute's investments at June 30, 2016 and 2015 are as follows:

	<u>June 30, 2016</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Common stock	<u>\$ 1,597</u>	<u>\$ 3,661</u>	<u>\$ 2,064</u>
	<u>June 30, 2015</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Common stock	<u>\$ 1,597</u>	<u>\$ 3,271</u>	<u>\$ 1,674</u>

The composition of investment income for the years ended June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 86	\$ 73
Realized and unrealized gain/(loss)	<u>389</u>	<u>(139)</u>
Total investment gain/(loss)	<u>\$ 475</u>	<u>\$ (66)</u>

**THE DETROIT INSTITUTE FOR CHILDREN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended June 30, 2016**

**NOTE 3 – FAIR VALUE MEASUREMENTS**

ASC topic *Fair Value Measurements*, establishes a framework for measuring fair value. That 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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC topic *Fair Value Measurements* 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 abilities 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.

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

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 one assets on the fair value hierarchy as of June 30, 2016 and 2015.

**THE DETROIT INSTITUTE FOR CHILDREN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended June 30, 2016**

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Software	\$ 6,327	\$ -
Other depreciable property	20,250	-
Equipment	-	2,994
Less accumulated depreciation and amortization	<u>1,983</u>	<u>2,994</u>
Property and equipment, net	<u>\$ 24,594</u>	<u>\$ -</u>

**NOTE 5 – LONG-TERM DEBT**

Long-term debt consists of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Note payable to the previous members of Pediatric Potential, LLC in annual payments of \$5,000 including interest at 2.69%. The note is due March 2020 and is unsecured.	\$ 20,000	\$ 30,000
The Institute received an advance from the State of Michigan to supplement untimely Medicaid payments that were due to the Institute. The advance is non-interest bearing and is payable in varying monthly amounts through March 2018.	<u>140,468</u>	<u>207,468</u>
	160,468	237,468
Less portion due within one year	<u>90,000</u>	<u>77,000</u>
	<u>\$ 70,468</u>	<u>\$ 160,468</u>

**THE DETROIT INSTITUTE FOR CHILDREN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended June 30, 2016**

**NOTE 5 – LONG-TERM DEBT** (Continued)

Maturities of long-term debt are as follows:

<u>Year ended June 30,</u>	<u>Total</u>
2017	\$ 90,000
2018	60,468
2019	5,000
2020	<u>5,000</u>
	<u>\$ 160,468</u>

**NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following purpose or time restrictions at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
iPad applications	\$ 6,288	\$ 7,993
Strategic planning	-	5,937
Rehabilitation equipment	-	<u>8,635</u>
Total temporarily restricted net assets	<u>\$ 6,288</u>	<u>\$ 22,565</u>

**NOTE 7 – OPERATING LEASES**

The Institute leases office space for \$1,450 per month through August 2016. Lease expense for each of the years ended June 30, 2016 and 2015 was \$17,400.

The Institute leases various office equipment for payments totaling approximately \$500 per month expiring at various dates through September 2019. Lease expense for the years ended June 30, 2016 and 2015 was \$6,097 and \$5,552, respectively.

Total lease expense for the years ended June 30, 2016 and 2015 was \$23,497 and \$22,952, respectively.



**THE DETROIT INSTITUTE FOR CHILDREN**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years ended June 30, 2016**

**NOTE 7 – OPERATING LEASES (Continued)**

Minimum future rental payments under non-cancelable operating leases having initial or remaining terms in excess of one year as of June 30, 2016 for each of the next three years are:

<u>Years ending June 30,</u>	<u>Amount</u>
2017	\$ 10,124
2018	4,854
2019	<u>809</u>
	<u>\$ 15,787</u>

**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, 2016 and 2015. 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, 2016 and 2015.

**NOTE 9 – CONTINGENCY**

During the year ended June 30, 2015, the Institute entered into a settlement of \$-0- for the unfunded liability relating to Institute’s terminated plan with the Pension Benefit Guarantee Corporation (“PBGC”). The PBGC will continue to actively monitor the Institute’s financial situation, and the Institute is required to submit quarterly and annual financial statements to the PBGC, and to inform the PBGC of any changes in the financial situation of the Institute. The PBGC has reserved the right to pursue collection of any liabilities if the financial situation of the Institute strengthens.