

THE DETROIT INSTITUTE FOR CHILDREN

AUDITED FINANCIAL STATEMENTS

Year ended June 30, 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, which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2015 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The image shows a handwritten signature in dark ink. The letters 'UHY' are written in a large, cursive style, and 'LLP' is written in a smaller, more upright cursive style to the right of 'UHY'.

Farmington Hills, Michigan
October 21, 2015

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENT OF FINANCIAL POSITION
June 30, 2015

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 440,409
Marketable securities	3,271
Contract accounts receivable, net	264,628
Other receivables	3,867
Prepaid expenses and deposits	<u>16,552</u>

TOTAL ASSETS \$ 728,727

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 48,550
Current portion of long-term debt	77,000
Accrued expenses	<u>46,370</u>

Total current liabilities 171,920

LONG-TERM DEBT 160,468

Total liabilities 332,388

NET ASSETS

Unrestricted net assets	373,774
Temporarily restricted	<u>22,565</u>

Total net assets 396,339

TOTAL LIABILITIES AND NET ASSETS \$ 728,727

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support			
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)
Forgiveness of debt	3,574	-	3,574
Net assets released from restrictions	84,782	(84,782)	-
Total revenue and support	<u>2,771,098</u>	<u>(71,552)</u>	<u>2,699,546</u>
Expenses			
Program services:			
Contractual services	1,898,533	-	1,898,533
Supporting services:			
Management and general	175,715	-	175,715
Fundraising	78,775	-	78,775
Total expenses	<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>
Net assets, end of year	<u><u>\$ 373,774</u></u>	<u><u>\$ 22,565</u></u>	<u><u>\$ 396,339</u></u>

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2015

	<u>Contractual Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Functional Expenses</u>
Salaries and wages	\$ 1,085,551	\$ 66,656	\$ 24,086	\$ 1,176,293
Taxes - payroll	111,381	7,379	1,837	120,597
Employee benefits	49,183	2,547	849	52,579
Employee parking	11,994	721	240	12,955
Professional fees	591,046	59,901	33,095	684,042
Supplies	17,761	7,102	2,367	27,230
Purchased services	875	7,115	2,372	10,362
Utilities	361	361	122	844
Insurance	15,282	10,802	3,601	29,685
Printing	-	1,914	4,859	6,773
Rent	7,613	7,613	2,175	17,401
Other expense	7,471	3,589	3,162	14,222
Depreciation and amortization	<u>15</u>	<u>15</u>	<u>10</u>	<u>40</u>
	<u>\$ 1,898,533</u>	<u>\$ 175,715</u>	<u>\$ 78,775</u>	<u>\$ 2,153,023</u>

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENT OF CASH FLOWS
Year ended June 30, 2015

OPERATING ACTIVITIES	
Change in net assets	\$ 546,523
Adjustments to reconcile change in net assets to net change in cash from operating activities:	
Depreciation and amortization	40
Change in contractual allowances	(123,879)
Net realized and unrealized gain on investments	139
Changes in current assets and liabilities:	
Contract accounts receivable	231,421
Other receivables	60,899
Prepaid expenses	3,009
Accounts payable and accrued expenses	<u>(317,915)</u>
Net cash provided by operating activities	<u>400,237</u>
FINANCING ACTIVITY	
Payments of long-term debt	<u>(45,958)</u>
NET CHANGE IN CASH	354,279
CASH, Beginning of year	<u>86,130</u>
CASH, End of year	<u><u>\$ 440,409</u></u>

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Institute and Nature of Activities

The Detroit Institute for Children ("the Institute") provides comprehensive diagnostic care and treatment for children and young adults of southeastern Michigan with various multiple physical and neurological disorders.

The mission of the Institute is to care for children with physical or developmental disabilities, neurological or behavioral special needs in a way that is positive, passionate, integrated and family-centered so that the children can maximize their potential within their families and the community.

The Institute provides therapeutic and mental health services including occupational and physical therapy, speech and language pathology, social work and psychological evaluations and consultations in schools across the metro Detroit Area. 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
June 30, 2015

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

During the year ended June 30, 2014, patient services were discontinued. Previously, the Institute had recorded net patient service revenue from fee for service arrangements for services provided at the estimated net realizable amounts from patients, third party payors, and others for services rendered. The provision for uncollectible and contractual allowances was based on management's assessment of historical and expected net collections. Periodically throughout the year, management had assessed the adequacy of the allowance for uncollectible accounts based upon historical write off experience by payor category. The organization did not require collateral for its receivables. Patient accounts receivable are recorded net of contractual and uncollectible allowances of \$169,015 at June 30, 2015.

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, 2015.

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, 2015, there were no uncertain tax positions that require accrual.

The Institute believes that it has been operating within its tax exempt status and has no unrelated business income. Further, it is not currently under examination by the Internal Revenue Service or state authorities, however, fiscal year 2012 and later remain subject to examination.

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

Interest Expense

No interest expense was incurred for the year ended June 30, 2015.

Subsequent Events

The Institute has performed a review of events subsequent to the balance sheet date through October 21, 2015, 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, 2015 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Common stocks	<u>\$ 1,597</u>	<u>\$ 3,271</u>	<u>\$ 1,674</u>

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

Interest and dividend income	\$ 73
Realized and unrealized loss	<u>(139)</u>
Total investment loss	<u>\$ (66)</u>

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;

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

- 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, 2015.

NOTE 4 – PROPERTY AND EQUIPMENT

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

Equipment	\$ 2,994
Less accumulated depreciation and amortization	<u>2,994</u>
Property and equipment, net	<u><u>\$ -</u></u>

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 5 – LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2015:

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. Currently, the Institute is in arrears on this note by \$5,000. \$ 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. 207,468

237,468

Less portion due within one year 77,000

\$ 160,468

Maturities of long-term debt are as follows:

<u>Year ended June 30,</u>	<u>Total</u>
2016	\$ 77,000
2017	90,000
2018	60,468
2019	5,000
2020	5,000
	<u>\$ 237,468</u>

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

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

iPads	\$ 7,993
Strategic planning	5,937
Rehabilitation equipment	<u>8,635</u>
Total temporarily restricted net assets	<u><u>\$ 22,565</u></u>

NOTE 8 – OPERATING LEASES

The Institute leases office space for \$1,450 per month through August 2015. Lease expense for the year ended June 30, 2015 was \$17,400. Subsequent to year end, this lease was extended to August 2016.

The Institute leases various office equipment for payments totaling \$666 per month expiring at various dates through November 2018. Lease expense for the year ended June 30, 2015 was \$5,552.

Total lease expense for the year ended June 30, 2015 was \$22,952.

Minimum future rental payments under non-cancelable operating leases having initial or remaining terms in excess of one year as of June 30, 2015 for each of the next three years are:

<u>Years ending June 30,</u>	<u>Amount</u>
2016	\$ 5,975
2017	5,975
2018	<u>3,716</u>
	<u><u>\$ 15,666</u></u>

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 9 – 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 year ended June 30, 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 year ended June 30, 2015.

NOTE 10 – CONTINGENCY

During the year ended June 30, 2013, the Institute filed for a distressed termination with the Pension Benefit Guarantee Corporation ("PBGC") requesting a termination date as of October 8, 2012 for their defined benefit pension plan (Plan). The distressed termination was accepted by the PBGC on July 3, 2013, effective as of October 8, 2012. After the distress termination was accepted, the Institute received a letter from the PBGC regarding the terminated Plan. Based on the letter received, the PBGC noted that under section 4062(b) of ERISA, the Institute owed the unfunded liability of the Plan and the PBGC requested information to establish a payment plan or a compromise amount. The Institute submitted a letter to the PBGC with a settlement offer of \$-0-.

During the year ended June 30, 2015, the PBGC accepted that settlement offer. However, 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.