

S.A.Y. DETROIT  
(a nonprofit organization)

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2016

S.A.Y. DETROIT  
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December 31, 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
**S.A.Y. DETROIT**  
Southfield, MI 48034

We have audited the accompanying consolidated financial statements of S.A.Y. Detroit (a nonprofit organization) and subsidiary, 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 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 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 consolidated 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 assessment of the risk 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 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.

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## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of S.A.Y. Detroit and subsidiary 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.

*Morgenstern Waxman Ellershaw, LLC*

MORGENSTERN WAXMAN ELLERSHAW, LLC

Certified Public Accountants

November 27, 2017

S.A.Y. DETROIT  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
December 31, 2016

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$	864,816
Pledges receivable, current portion		928,000
Inventory		14,701
Prepaid expenses		13,939
		13,939

**TOTAL CURRENT ASSETS** 1,821,456

**PROPERTY AND EQUIPMENT, NET** 1,943,099

**OTHER ASSETS**

Deferred tax asset, net		86,000
Pledges receivable, net of current portion		4,450,000
		4,450,000

**TOTAL OTHER ASSETS** 4,536,000

**TOTAL ASSETS** \$ 8,300,555

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$	122,127
Accounts payable - related party		737,910
Due to affiliates		134,100
Other current liabilities		2,677
		2,677

**TOTAL CURRENT LIABILITIES** 996,814

**NET ASSETS**

Unrestricted		1,894,174
Temporarily restricted		5,409,567
		5,409,567

**TOTAL NET ASSETS** 7,303,741

**TOTAL LIABILITIES AND NET ASSETS** \$ 8,300,555

S.A.Y. DETROIT  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2016

**UNRESTRICTED NET ASSETS**

Support:	
Contributions	\$ 2,171,219
Total Support	2,171,219
Sales revenue - DWIF	331,644
Less: cost of goods sold - DWIF	<u>(77,207)</u>
Gross profit - DWIF	<u>254,437</u>
	2,425,656
Net assets released from donor restrictions	<u>260,000</u>
	2,685,656
Expenses:	
Program expenses	1,608,195
Fund raising expenses	52,439
General and administrative expenses	<u>314,060</u>
Total expenses	<u>1,974,694</u>
Income taxes:	
Current portion	-
Deferred portion (benefit)	<u>(11,000)</u>
Total provision for income taxes (benefit)	<u>(11,000)</u>
Increase in unrestricted net assets	<u>721,962</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>	
Contributions	4,907,763
Net assets released from donor restrictions	<u>(260,000)</u>
Increase in temporarily restricted net assets	<u>4,647,763</u>
<b>INCREASE IN NET ASSETS</b>	5,369,725
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,934,016</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 7,303,741</u></u>

S.A.Y. DETROIT  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2016

	<u>Program Services</u>		<u>Supporting Services</u>			<u>Totals</u>
	<u>Community</u>	<u>S.A.Y Play Center</u>	<u>Management and General</u>	<u>Detroit Water Ice Factory</u>	<u>Fund Raising</u>	
DRMM - Health clinic costs	\$ 371,153	\$ -	\$ -	\$ -	\$ -	\$ 371,153
A Time To Help expenses	1,171	-	-	-	-	1,171
Working Homes Working Families	126,161	-	-	-	-	126,161
Contributions - other organizations	192,160	-	-	-	-	192,160
Special projects	5,000	-	-	-	-	5,000
Facilities and equipment	-	166,047	-	42,292	-	208,339
Education and programs	-	148,015	-	-	-	148,015
Security	-	166,630	-	-	-	166,630
Supplies	-	14,773	-	-	-	14,773
Travel	-	908	-	10,830	-	11,738
Labor	-	308,733	-	114,858	-	423,591
Professional services	-	-	22,000	3,200	-	25,200
Licenses & permits	-	-	-	2,436	-	2,436
Office expense	-	-	696	9,828	-	10,524
Credit card processing	-	-	10,633	5,063	-	15,696
Depreciation	5,065	78,897	-	52,902	-	136,864
Insurance	-	23,482	1,167	6,181	-	30,830
Advertising	-	-	-	31,974	-	31,974
Radiothon expenses	-	-	-	-	38,338	38,338
Other event expenses	-	-	-	-	2,110	2,110
Fundraising expenses	-	-	-	-	11,991	11,991
<b>Total</b>	<b>\$ 700,710</b>	<b>\$ 907,485</b>	<b>\$ 34,496</b>	<b>\$ 279,564</b>	<b>\$ 52,439</b>	<b>\$ 1,974,694</b>

The accompanying notes are an integral part of this statement

S.A.Y. DETROIT  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2016

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Change in net assets	\$ 5,369,725
Adjustments to reconcile increase (decrease ) in entity capital to net cash provided (used) by operating activities:	
Depreciation	136,864
Deferred income taxes	(11,000)
Change in assets and liabilities:	
Pledges receivable	(4,628,000)
Inventory	(1,351)
Prepaid expenses	(2,550)
Accounts payable - related party	53,987
Accounts payable and accrued expenses	(372,623)
Other current liabilities	(708)
	544,344
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of property and equipment	(483,155)
	(483,155)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	
	61,189
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	
	803,627
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	
	\$ 864,816



S.A.Y. DETROIT  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2016

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

S.A.Y. Detroit (the Organization) is a Michigan not-for-profit organization which is committed to providing relief to the poor, distressed and underprivileged. The Organization runs its operation by promoting those organizations and agencies that conduct services to provide these needs under Section 501(c)(3) purposes. The Organization also helps provide homes for families in need through its Working Homes Working Families program.

Beginning in 2015, the Organization has partnered with the City of Detroit and Matthew Stafford's Score7 Charitable Fund to create the S.A.Y Play Center at Lipke Park in Detroit ("Play Center"). The Play Center opened in October 2015. The goal of the Play Center is to provide recreational programs for Detroit's youth while improving their academic performance. Students meeting entrance standards will be able to participate in the athletic programs/recreational programs and those below the standards will be eligible for on-site tutoring and mentoring. The Organization has entered into an agreement to lease the property from the City of Detroit for 10 years at no cost (with an option to extend for up to 20 more).

The Organization received directed donations to finance the opening of a frozen dessert shop, Detroit Water Ice Factory ("DWIF"), in downtown Detroit in August 2015. The Organization has hired most of its help from a job training program run by another local non-profit. 100% of the profit from the shop will go to the Organization. Management hopes that this will provide an income stream for the Organization into the future.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Date of Management Review

Management has evaluated subsequent events through November 27, 2017, the date the financial statements were available to be issued.

Principles of Consolidation

The consolidated financial statements included the accounts of the Organization and its wholly owned subsidiary, DWIF. All material intra-entity transactions have been eliminated. DWIF has elected to have a fiscal year ending March 31<sup>st</sup>, so the accompanying financial statements include the activity of DWIF for the fiscal year ending March 31, 2017, and balances as of March 31, 2017.

Basis of Accounting and Presentation

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. The Organization reports 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.

S.A.Y. DETROIT  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2016

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. Inventory consists of dessert ingredients and disposables for DWIF.

Property and Equipment

Property and equipment purchases exceeding \$2,500 are recorded at cost. Purchases less than \$2,500 are expensed as incurred. Amortization and depreciation is provided using the straight-line method.

Ranges of estimated useful lives by classes are summarized below:

Office Furniture	5 – 7 years
Equipment and Fixtures	15 years
Leasehold improvements	3 – 39 years

Property and equipment consisted of the following at December 31, 2016:

Office Furniture	\$ 173,365
Equipment and Fixtures	643,053
Leasehold improvements	973,222
Accumulated depreciation	<u>(172,157)</u>
Property and equipment, net	<u>\$ 1,943,099</u>

Depreciation expense for the year ended December 31, 2016 was \$136,864.

Unrestricted Fund Balance

Unrestricted fund balance represents resources over which the Board of Directors has discretionary control and is used to carry out the operations of the Organization in accordance with its by-laws. All charitable contributions are made to organizations with 501(c)(3) purposes.

S.A.Y. DETROIT  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2016

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Functional Allocation of Expenses

The cost of providing various program and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

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

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted contributions whose restrictions are met in the same year are reported as unrestricted.

Public Support and Revenue - Donated Services

A number of people have contributed significant amounts of time to the activities of the Organization without compensation. No amounts have been reflected in the financial statements for donated services, except those which require specialized skills, are provided by entities or persons possessing those skills, and would need to be purchased if they were not donated. The Organization estimates approximately 900 volunteers spend about 4,000 hours. The Organization generally pays for services requiring specific expertise. However, the Organization received discounts on rehabilitation costs from a few vendors related to the its Working Home Working Families Program. For the year ended December 31, 2016, the Organization recognized \$82,050 of in-kind contributions, which were either recorded as program expenses or capitalized as property and equipment, as applicable.

Advertising and Promotional Literature

The Organization's policy is to expense costs related to advertising and promotional literature when the promotion first takes place. Advertising expense for the year end December 31, 2016 was \$31,974.

Presentation of Sales Tax

The State of Michigan imposes a sales tax at 6% on DWIF sales to nonexempt customers. DWIF collects that sales tax from customers and remits the entire amount to the State. DWIF's accounting policy is to exclude the tax collected and remitted to the State from revenue and cost of goods sold.

S.A.Y. DETROIT  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2016

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Income Taxes

The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. They are also classified as a publicly supported organization. Contributions are tax deductible within the limitations prescribed by the Internal Revenue Code.

Deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred income tax expense is the change during period in deferred tax assets and liabilities. Current income tax expense is the tax payable or refundable for the period.

**NOTE 3 – PLEDGES RECEIVABLE**

The Organization raised funds associated with the renovation and operation of the Play Center. The Organization received pledges that will be receivable over future years. All pledge receivables are unconditional. Uncollectible promises are expected to be insignificant. Pledges receivable as of December 31, 2016 are as follows:

Receivable in less than one year	\$ 928,000
Receivable in one to five years	2,200,000
Receivable in more than five years	<u>2,250,000</u>
Total pledges receivable	<u>\$ 5,378,000</u>

**NOTE 4 – INCOME TAXES**

DWIF is a wholly-owned subsidiary of the Organization and is taxed as a C-Corporation. DWIF files income tax returns in the U.S. federal jurisdiction, the State of Michigan jurisdiction, and the City of Detroit jurisdiction.

The Organization has analyzed its tax positions taken for filings with the Internal Revenue Service, and filings made by DWIF. It believes that its tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on its financial condition, results of operations, or cash flows. The federal, state and city income tax returns and information reports are subject to examination by federal, state and local taxing authorities, generally for three years after they are filed.

S.A.Y. DETROIT  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4 – INCOME TAXES (CONTINUED)**

In accordance with ASU 2015-17, the deferred tax assets and/or liabilities are presented as a single noncurrent amount. The deferred tax accounts result from the use of accelerated methods of depreciation for tax purposes but not for financial reporting, and for net operating loss (NOL) carryforwards that will be able to be used to offset future income. Due to the uncertainty involved with deferred taxes, all amounts have been rounded to the nearest thousand. Components of Deferred tax assets and liabilities at December 31, 2016 are as follows:

Deferred tax asset – NOL carryforward	\$	84,000
Deferred tax liability – property and equipment		<u>2,000</u>
Deferred tax asset, net	\$	<u>86,000</u>

DWIF has an NOL for federal, state, and city purposes of approximately \$225,000, \$180,000, and \$225,000, respectively. These NOL's are available to be carried forward up to 20 years, and will begin to expire March 31, 2036.

Income tax expense reported in the financial statements for the year ended December 31, 2016 is comprised of the following:

		<u>State</u>		<u>Federal</u>
Current income tax expense	\$	-	\$	-
Deferred tax expense	\$	(1,000)	\$	(10,000)

**NOTE 5 – RELATED PARTY TRANSACTIONS**

*Detroit Rescue Mission Ministries*

During the year ended December 31, 2016, the organization had transactions with Detroit Rescue Mission Ministries ("DRMM"), another Detroit area non-profit whose President is also the Treasurer for S.A.Y. Detroit. The following is a summary of related party transactions throughout the year ended December 31, 2016 between the Organization and DRMM.

- The Organization was billed by DRMM a total of \$367,808 in 2016 for costs incurred to run a clinic devoted solely to helping homeless children and their mothers by providing maintenance and preventive healthcare for the uninsured and underinsured.
- DRMM processes payroll for employees working at the Play Center. The Organization reimburses DRMM for all payroll and processing costs. Total payroll and benefit expenses processed by DRMM including accrued amounts were \$308,733 in 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5 – RELATED PARTY TRANSACTIONS (CONTINUED)**

- At December 31, 2016, the Organization owed \$737,910 to DRMM; \$635,853 of which relates to the costs of running the clinic, and \$102,057 of which relates to payroll and benefit expenses of the Play Center.

**Due to Affiliate**

Due to affiliate includes an amount payable to an affiliate of the Organization run by the same board of directors and officers. As of December 31, 2016, the balance payable was \$74,100.

Due to affiliate also includes \$60,000 paid to DWIF by an affiliate owned by the director to finance working capital in 2016. This \$60,000 is payable on demand and bears no interest.

**Contributions**

The Organization regularly receives contributions from related parties. In 2016, the Organization received \$60,000 of contributions from a Private Foundation with a trustee who is also a trustee of the Organization.

**NOTE 6 – LEASE COMMITMENTS**

Effective May 26, 2015, the Organization agreed to lease the Lipke Center in Detroit, Michigan from the City of Detroit (“lessor”). The lease is for an initial term of 10 years, expiring May 25, 2025 with options to extend up to an additional 20 years. Due to the renovations and occupancy costs that the Organization is undertaking, no additional monetary consideration will be due the lessor.

Effective July 21, 2015, DWIF agreed to lease space for its retail sales business. The lease expires September 30, 2018 and does not require any direct expense. DWIF is responsible for certain occupancy costs and shared costs of its landlord. DWIF also leases storage space on a month-to-month basis. Total paid for storage space in 2016 was \$3,174.

The Organization leases business equipment and buses under operating leases. In 2016, total rent expense for this equipment was \$2,012. The following is a schedule of the future minimum payments required for the next 5 years under the aforementioned leases:

2017	\$	32,004
2018		30,387
2019		30,240
2020		30,240
2021		30,240
	\$	<u>153,111</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7 – CONCENTRATION OF CREDIT RISK**

The Organization maintains its cash balances at one financial institution. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2016, the Organization's uninsured cash balances were \$561,924.

**NOTE 8 – RESTRICTIONS ON NET ASSETS**

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at year end:

Mother Batie's United Sisters of Charity Soup Kitchen	\$ 1,804
Play Center – Robotics Program	29,763
For subsequent years' activities	<u>5,378,000</u>
	<u>\$ 5,409,567</u>