

Disability Network Northern Michigan

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

September 30, 2018 and 2017

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DENNIS, GARTLAND & NIERGARTH

Celebrating 45 Years of Service

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Disability Network Northern Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of *Disability Network Northern Michigan* (the "Organization") (a non profit organization), which comprise the statements of financial position as of September 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 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 audits 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 Organization'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 Organization'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 Disability Network Northern Michigan as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2019 on our consideration of the Organization's internal control over financial reporting and 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 the 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 Disability Network Northern Michigan's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

February 25, 2019

Disability Network Northern Michigan

STATEMENTS OF FINANCIAL POSITION

September 30,

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 568,293	\$ 605,059
Accounts receivable	2,244	8,802
Due from governments	41,280	15,788
Prepaid expenses	1,470	1,830
Security deposit	<u>1,891</u>	<u>1,891</u>
Total current assets	615,178	633,370
PROPERTY AND EQUIPMENT, net	<u>55,326</u>	<u>69,487</u>
Total assets	<u><u>\$ 670,504</u></u>	<u><u>\$ 702,857</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,995	\$ 5,212
Accrued payroll and taxes	8,484	10,923
Refundable advance	7,375	-
Current portion of lease payable	<u>3,656</u>	<u>3,456</u>
Total current liabilities	23,510	19,591
LONG-TERM LIABILITIES		
Accrued benefits	19,175	13,373
Capital lease payable, net of current portion	<u>668</u>	<u>4,324</u>
Total liabilities	<u>43,353</u>	<u>37,288</u>
NET ASSETS		
Unrestricted	598,542	639,928
Temporarily restricted	<u>28,609</u>	<u>25,641</u>
Total net assets	<u>627,151</u>	<u>665,569</u>
Total liabilities and net assets	<u><u>\$ 670,504</u></u>	<u><u>\$ 702,857</u></u>

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

Disability Network Northern Michigan

STATEMENTS OF ACTIVITIES

Years Ended September 30,

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Federal grants	\$ 480,582	\$ -	\$ 480,582	\$ 478,978	\$ -	\$ 478,978
Contributions	21,156	5,000	26,156	2,826	24,549	27,375
Interest income	359	-	359	335	-	335
Program service fees	584,130	-	584,130	479,927	-	479,927
Net assets released due to satisfaction of restrictions	<u>2,032</u>	<u>(2,032)</u>	<u>-</u>	<u>9,067</u>	<u>(9,067)</u>	<u>-</u>
Total support and revenue	<u>1,088,259</u>	<u>2,968</u>	<u>1,091,227</u>	<u>971,133</u>	<u>15,482</u>	<u>986,615</u>
EXPENSES						
Independent living program services	918,691	-	918,691	714,090	-	714,090
Management and general	147,667	-	147,667	116,307	-	116,307
Fundraising	<u>63,287</u>	<u>-</u>	<u>63,287</u>	<u>68,871</u>	<u>-</u>	<u>68,871</u>
Total expenses	<u>1,129,645</u>	<u>-</u>	<u>1,129,645</u>	<u>899,268</u>	<u>-</u>	<u>899,268</u>
CHANGE IN NET ASSETS	(41,386)	2,968	(38,418)	71,865	15,482	87,347
Net assets, beginning of year	<u>639,928</u>	<u>25,641</u>	<u>665,569</u>	<u>568,063</u>	<u>10,159</u>	<u>578,222</u>
Net assets, end of year	<u>\$ 598,542</u>	<u>\$ 28,609</u>	<u>\$ 627,151</u>	<u>\$ 639,928</u>	<u>\$ 25,641</u>	<u>\$ 665,569</u>

Disability Network Northern Michigan

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2018

	<u>Independent Living Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 495,606	\$ 86,731	\$ 37,170	\$ 619,507
Employee benefits	56,806	9,941	4,260	71,007
Payroll taxes	<u>40,407</u>	<u>7,071</u>	<u>3,031</u>	<u>50,509</u>
Total payroll expenses	592,819	103,743	44,461	741,023
Contractual fees	10,400	1,820	780	13,000
Client services	74,884	-	-	74,884
Occupancy	40,318	7,056	3,024	50,398
Dues	18,163	3,178	1,362	22,703
Travel and transportation	66,157	11,578	4,962	82,697
Supplies	25,049	4,384	1,879	31,312
Conferences and meetings	11,178	1,956	838	13,972
LIFE conference	15,688	2,746	1,177	19,611
Equipment maintenance	3,809	667	286	4,762
Depreciation	11,328	1,983	850	14,161
Communications	9,624	1,684	722	12,030
Accounting and audit	7,221	1,263	542	9,026
Insurance	8,933	1,563	670	11,166
Consulting fees	12,171	2,130	913	15,214
Advertising and promotion	1,126	197	84	1,407
Postage	1,953	341	146	2,440
Printing	1,569	275	118	1,962
Donated supplies	2,847	498	214	3,559
Website technology	3,043	533	228	3,804
Interest	<u>411</u>	<u>72</u>	<u>31</u>	<u>514</u>
Total expenses	<u>\$ 918,691</u>	<u>\$ 147,667</u>	<u>\$ 63,287</u>	<u>\$ 1,129,645</u>

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

Disability Network Northern Michigan

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2017

	<u>Independent Living Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 388,803	\$ 66,922	\$ 39,628	\$ 495,353
Employee benefits	54,408	9,365	5,545	69,318
Payroll taxes	<u>34,213</u>	<u>5,889</u>	<u>3,487</u>	<u>43,589</u>
Total payroll expenses	477,424	82,176	48,660	608,260
Contractual fees	3,924	676	400	5,000
Client services	38,382	-	-	38,382
Occupancy	29,095	5,008	2,966	37,069
Dues	16,868	2,903	1,719	21,490
Travel and transportation	49,140	8,458	5,009	62,607
Supplies	16,774	2,887	1,710	21,371
Conferences and meetings	9,946	1,712	1,014	12,672
LIFE conference	13,822	2,379	1,409	17,610
Equipment maintenance	5,137	884	524	6,545
Depreciation	11,385	1,960	1,160	14,505
Communications	8,810	1,516	898	11,224
Accounting and audit	7,339	1,263	748	9,350
Insurance	6,815	1,173	694	8,682
Consulting fees	10,248	1,764	1,044	13,056
Advertising and promotion	2,014	347	205	2,566
Postage	1,767	304	180	2,251
Activities	165	29	17	211
Printing	1,078	186	110	1,374
Donated supplies	167	29	17	213
Website technology	3,128	539	319	3,986
Interest	<u>662</u>	<u>114</u>	<u>68</u>	<u>844</u>
Total expenses	<u>\$ 714,090</u>	<u>\$ 116,307</u>	<u>\$ 68,871</u>	<u>\$ 899,268</u>

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

Disability Network Northern Michigan

STATEMENTS OF CASH FLOWS

Years Ended September 30,

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (38,418)	\$ 87,347
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	14,161	14,505
Changes in operating assets and liabilities which provide (use) cash		
Accounts receivable and due from governments	(18,134)	1,993
Prepaid expenses	360	(1,007)
Refundable advance	7,375	-
Accounts payable	(1,217)	(5,165)
Accrued expenses	<u>3,363</u>	<u>3,828</u>
Net cash flows from operating activities	(32,510)	101,501
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	<u>(3,456)</u>	<u>(3,272)</u>
NET CHANGE IN CASH	(35,966)	98,229
Cash, beginning of year	<u>605,059</u>	<u>506,830</u>
Cash, end of year	<u><u>\$ 568,293</u></u>	<u><u>\$ 605,059</u></u>

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

Disability Network Northern Michigan

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Disability Network Northern Michigan (the "Organization") is a Michigan non-profit corporation run by and for persons with disabilities. Its mission is to promote empowerment and positive social change for persons with disabilities through outreach, education and advocacy services.

Basis of Accounting and Presentation

The financial statements have been prepared on the accrual basis of accounting and otherwise in accordance with generally accepted accounting principles applicable to not-for-profit organizations in the United States of America. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is created. Net assets are classified based on the existence or absence of donor-imposed restrictions.

In accordance with Financial Accounting Standards Board Accounting Standards Codification 958.205 (FASB ASC 958.205), *Not-For-Profit Entities Presentation of Financial Statements*, the Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets represent net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets represent net assets restricted by a donor or other outside party for particular operating purposes or for use in a specified future period. These assets are reported as revenue when the Organization receives the assets and are transferred to unrestricted net assets when the purpose restriction or time restrictions have been met.

Permanently Restricted Net Assets represent assets subject to restrictions of gift and trust instruments requiring that the principal be invested in perpetuity and the income only be used for particular purposes. The Organization has no permanently restricted assets.

Accounts Receivable and Allowance for Uncollectible Accounts

Accounts receivable consists primarily of amounts due from grantors (State and Federal) and other contracting agencies. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Based on management's assessment of the credit history with various funding sources, the Organization has not established reserves for uncollectible accounts.

Property and Equipment

Property and equipment is capitalized at cost or, if donated, at the approximate fair value at the date of donation. Major improvements are capitalized while ordinary repairs are expensed. The Organization capitalizes all items with an acquisition cost greater than \$3,000. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets which range from 3 to 15 years.

Contributions and Grants

Contributions are considered available for unrestricted use unless specifically restricted by the donor. Additionally, temporarily restricted contributions whose restrictions are met in the same fiscal year as received are reported as unrestricted support.

Grant revenue is recognized when grant requirements are met. Unearned grant revenue is recorded as refundable advances.

Program Service Fees

Program services fees are recognized at the time services are provided.

Donated Goods and Services

Donated materials, equipment and facilities are recorded as contributions in the accompanying financial statements at their estimated market value on date of receipt. No amount has been reflected in the financial statements for donated personal services because no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated time to the Organization's program services and fundraising efforts.

Functional Allocation of Expenses

The costs to provide the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the services.

Income Taxes

The Organization is exempt from Federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified as a private foundation. No provision for income taxes has been provided in these financial statements.

The Organization files an information return in the U.S. Federal jurisdiction. With few exceptions, the Organization is no longer subject to U.S. Federal Tax examinations by tax authorities for years before September 30, 2015.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts could differ from those estimates.

Subsequent Events

The Organization has evaluated subsequent events and transactions for potential recognition and disclosure through February 25, 2019, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - CASH

The Organization's cash is on deposit with multiple financial institutions. These accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 for each financial institution. The Organization had uninsured bank balances of \$47,949 and \$87,616 at September 30, 2018 and 2017, respectively.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 32,817	\$ 32,817
Office equipment	21,744	21,744
Computer equipment	44,190	44,190
Leasehold improvements	<u>90,306</u>	<u>90,306</u>
Total	189,057	189,057
Less accumulated depreciation	<u>(133,731)</u>	<u>(119,570)</u>
Total, net of accumulated depreciation	<u>\$ 55,326</u>	<u>\$ 69,487</u>

Total depreciation expense charged to operations was \$14,161 and \$14,505 for the years ended September 30, 2018 and 2017, respectively.

NOTE D - OPERATING LEASES

The Organization entered into a five-year operating lease for office space beginning June 25, 2012 and ending June 25, 2017. The monthly payment was \$1,891. The Organization renewed the lease on June 25, 2017 for an additional five years ending June 25, 2022. The monthly payment is \$3,300. The lease requires the Organization pay utilities and insurance covering personal property. The landlord is obligated for insurance covering the building and real estate taxes on the building. Lease expense for the building was \$39,600 and \$26,921 for the years ended September 30, 2018 and 2017, respectively, which is included in occupancy expense on the Statement of Functional Expenses.

NOTES TO FINANCIAL STATEMENTS - Continued

The Organization entered into a three-year operating lease for a vehicle beginning September 28, 2016 and ending September 28, 2019. The monthly payment is \$570. Vehicle lease expense was \$6,840 and \$0 for the years ended September 30, 2018 and 2017, respectively, which is included in travel and transportation expenses.

Future minimal rentals under the leases are as follows:

<u>Years Ending June 30,</u>	<u>Annual Minimum Lease Payment</u>
2019	\$ 46,440
2020	39,600
2021	39,600
2022	<u>29,700</u>
	<u>\$ 155,340</u>

NOTE E - CAPITAL LEASES

The Organization financed the purchase of a copy machine with a total cost of \$10,478 using a capital lease dated September 30, 2014. The lease requires monthly payments of \$184 for five years with an imputed interest rate of 1.988%. The asset is being depreciated over ten years beginning in fiscal year 2015. Accumulated depreciation was \$4,191 at September 30, 2018.

The Organization also financed the purchase of a new phone system with a total cost of \$6,251 using a capital lease dated February 22, 2015. The lease requires monthly payments of \$137 for five years with an imputed interest rate of 11.5%. The asset is being depreciated over five years beginning in fiscal year 2015. Accumulated depreciation was \$4,480 at September 30, 2018.

The present value of future minimum lease payments under capital leases are as follows:

<u>Years Ending September 30,</u>	
2019	\$ 3,853
2020	<u>687</u>
Total minimum lease payments	4,540
Less amount representing interest	<u>(216)</u>
Present value of minimum lease payments	4,324
Current portion	<u>(3,656)</u>
Long-term obligation	<u>\$ 668</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - ACCRUED BENEFITS

Qualified employees are eligible for paid time off calculated by a formula which recognizes years of service for exempt and non-exempt staff. The total of these accrued benefits was \$12,173 and \$9,156 as of September 30, 2018 and 2017, respectively. In the year ended September 30, 2015, the Organization created an Employee Emergency Crisis Fund that is calculated by applying the amount of an employee's paid time off in excess of the the amount allowed to be carried over to the next fiscal year, multiplied by the employee's hourly wage. The fund is available, at the Board of Directors discretion, to employees requiring additional support in a time of emergency. The liability was \$7,002 and \$4,217 as of September 30, 2018 and 2017, respectively.

NOTE G - FEDERAL GRANTS

Federal grants were received from the following sources as of September 30:

	<u>2018</u>	<u>2017</u>
Passed through		
<i>State of Michigan - Department of Health and Human Services</i>		
Core Funding	\$ 216,718	\$ 216,718
Nursing Facility Transition	<u>125,719</u>	<u>122,875</u>
Total State of Michigan grants	342,437	339,593
<i>U.S. Department of Health and Human Services</i>		
Centers for Independent Living Program	<u>138,145</u>	<u>139,385</u>
Total grants	<u>\$ 480,582</u>	<u>\$ 478,978</u>

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

The Organization has the following temporarily restricted net assets as of September 30:

	<u>2018</u>	<u>2017</u>
Temporarily restricted net assets		
Access for Everyone campaign	\$ 16,503	\$ 17,295
Aging disability projects	1,246	1,246
Mobile app project	7,100	7,100
Motivational interviewing	<u>3,760</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 28,609</u>	<u>\$ 25,641</u>

NOTE I - CONTINGENCIES

Certain contractual funded programs are subject to audit by grantors. Upon audit, some expenditures may be disallowed and, as a result, those amounts may be refundable. Such refunds, if any, are generally payable from the Disability Network Northern Michigan's unrestricted net assets. The Organization believes that any potential disallowances would be immaterial.