

DOWNTOWN BOXING GYM YOUTH PROGRAM

Detroit, Michigan

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2017 and 2016

DOWNTOWN BOXING GYM YOUTH PROGRAM

TABLE OF CONTENTS As of and for the Years Ended September 30, 2017 and 2016

Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6 - 12

INDEPENDENT AUDITORS' REPORT

Board of Directors
Downtown Boxing Gym Youth Program
Detroit, Michigan

We have audited the accompanying financial statements of Downtown Boxing Gym Youth Program (the "Organization"), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities, cash flows and functional expenses 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.

Auditors' 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 auditors' 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 the Organization as of September 30, 2017 and 2016, 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.

Baker Tilly Virchow Krause, LLP

Southfield, Michigan
March 2, 2018

DOWNTOWN BOXING GYM YOUTH PROGRAM

STATEMENTS OF FINANCIAL POSITION As of September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 249,175	\$ 294,471
Restricted cash	230,255	-
Promises to give - net	75,708	119,800
Grant receivable	-	20,000
Other current assets	<u>11,309</u>	<u>3,163</u>
Total Current Assets	566,447	437,434
PROPERTY AND EQUIPMENT, NET	949,617	918,972
OTHER ASSETS		
Promises to give - net of current portion	<u>-</u>	<u>20,715</u>
TOTAL ASSETS	<u>\$ 1,516,064</u>	<u>\$ 1,377,121</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 47,155	\$ 37,773
Current maturities of long-term debt	<u>18,135</u>	<u>17,188</u>
Total Current Liabilities	65,290	54,961
LONG-TERM LIABILITIES		
Long-term debt - net of current maturities	<u>307,810</u>	<u>325,945</u>
Total Liabilities	<u>373,100</u>	<u>380,906</u>
NET ASSETS		
Unrestricted	912,709	901,214
Temporarily restricted	<u>230,255</u>	<u>95,001</u>
Total Net Assets	<u>1,142,964</u>	<u>996,215</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,516,064</u>	<u>\$ 1,377,121</u>

See accompanying notes to financial statements.

DOWNTOWN BOXING GYM YOUTH PROGRAM

STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2017 and 2016

	Unrestricted	Temporarily Restricted	2017 Total	Unrestricted	Temporarily Restricted	2016 Total
SUPPORT AND REVENUE						
Grants	\$ 161,400	122,355	\$ 283,755	\$ 184,663	-	\$ 184,663
Contributions	568,567	302,072	870,639	474,837	20,001	494,838
Special events, net of direct expenses	(1,497)	-	(1,497)	13,654	-	13,654
In-kind donations	126,697	-	126,697	92,785	-	92,785
Other income	16,739	-	16,739	1,274	-	1,274
Net assets released from restriction	<u>289,173</u>	<u>(289,173)</u>	<u>-</u>	<u>237,209</u>	<u>(237,209)</u>	<u>-</u>
Total Support and Revenue	<u>1,161,079</u>	<u>135,254</u>	<u>1,296,333</u>	<u>1,004,422</u>	<u>(217,208)</u>	<u>787,214</u>
EXPENSES						
Program	816,554	-	816,554	441,766	-	441,766
Management and general	155,159	-	155,159	85,510	-	85,510
Fundraising	<u>177,871</u>	<u>-</u>	<u>177,871</u>	<u>99,453</u>	<u>-</u>	<u>99,453</u>
Total Expenses	<u>1,149,584</u>	<u>-</u>	<u>1,149,584</u>	<u>626,729</u>	<u>-</u>	<u>626,729</u>
CHANGE IN NET ASSETS	11,495	135,254	146,749	377,693	(217,208)	160,485
NET ASSETS - Beginning of Year	<u>901,214</u>	<u>95,001</u>	<u>996,215</u>	<u>523,521</u>	<u>312,209</u>	<u>835,730</u>
NET ASSETS - END OF YEAR	<u>\$ 912,709</u>	<u>\$ 230,255</u>	<u>\$ 1,142,964</u>	<u>\$ 901,214</u>	<u>\$ 95,001</u>	<u>\$ 996,215</u>

See accompanying notes to financial statements.

DOWNTOWN BOXING GYM YOUTH PROGRAM

STATEMENTS OF CASH FLOWS For the Years Ended September 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 146,749	\$ 160,485
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	36,317	34,576
Loss on disposal of equipment	-	3,254
Bad debt expense	75,000	-
Donated equipment received	(28,167)	(20,093)
Donations restricted for capital expansion	(176,275)	-
Changes in operating assets and liabilities that provided (used) cash:		
Promises to give and grants receivable	9,807	24,281
Other current assets	(8,146)	229
Accounts payable and accrued expenses	9,382	17,384
Net Cash Flows from Operating Activities	64,667	220,116
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(38,795)	(10,718)
CASH FLOWS FROM FINANCING ACTIVITIES		
Donations received for capital expansion	176,275	-
Payments on related party debt	-	(10,449)
Payments on long-term debt	(17,188)	(16,290)
Net Cash Flows from Financing Activities	159,087	(26,739)
Net Change in Cash and Cash Equivalents	184,959	182,659
CASH AND CASH EQUIVALENTS - Beginning of Year	294,471	111,812
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 479,430	\$ 294,471
Cash is reported on the Statement of Financial Position as follows:		
Cash and cash equivalents	\$ 249,175	\$ 294,471
Temporarily restricted cash	230,255	-
Total Cash and Cash Equivalents	\$ 479,430	\$ 294,471
Supplemental cash flow disclosures		
Cash paid for interest	\$ 18,024	\$ 19,182
Noncash investing and financing activities		
Donated equipment received	\$ 28,167	\$ 20,093

See accompanying notes to financial statements.

DOWNTOWN BOXING GYM YOUTH PROGRAM

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended September 30, 2017 and 2016

	Program	Management and General	Fundraising	2017 Total	Program	Management and General	Fundraising	2016 Total
Salaries expense	\$ 349,329	\$ 73,564	\$ 104,458	\$ 527,351	\$ 158,874	\$ 33,045	\$ 85,321	\$ 277,240
Property tax	111	12	-	123	(2,506)	(279)	-	(2,785)
Printing	-	-	4,714	4,714	-	-	5,344	5,344
Travel and meetings	15,122	-	-	15,122	8,410	-	-	8,410
Awards - participant	945	-	-	945	-	-	-	-
Educational supplies	10,103	-	-	10,103	1,063	-	-	1,063
Website development	-	2,201	2,201	4,402	-	191	-	191
Consulting fees	68,392	55,551	56,290	180,233	21,911	32,681	-	54,592
Telephone and internet	6,620	736	-	7,356	3,181	637	-	3,818
Postage and shipping	-	561	561	1,122	-	7	7	14
Repairs	2,918	2,767	-	5,685	412	367	-	779
Utilities	35,667	3,963	-	39,630	26,225	2,914	-	29,139
Insurance	27,012	3,001	-	30,013	30,941	3,438	-	34,379
Vehicles	111,770	-	-	111,770	68,455	-	-	68,455
Maintenance	15,069	1,674	-	16,743	18,816	2,091	-	20,907
Bank, payroll and filing fees	943	1,297	494	2,734	24,643	4,455	8,781	37,879
USA licensing fees	1,605	-	-	1,605	989	-	-	989
Office supplies	19,186	3,068	-	22,254	16,080	113	-	16,193
Depreciation	32,662	3,655	-	36,317	31,118	3,458	-	34,576
Interest	16,222	1,802	-	18,024	17,264	1,918	-	19,182
In-kind food and snacks	17,836	-	-	17,836	11,026	-	-	11,026
Bad debt	75,000	-	-	75,000	-	-	-	-
Other	10,042	1,307	9,153	20,502	4,864	474	-	5,338
TOTAL EXPENSES	\$ 816,554	\$ 155,159	\$ 177,871	\$ 1,149,584	\$ 441,766	\$ 85,510	\$ 99,453	\$ 626,729

See accompanying notes to financial statements.

DOWNTOWN BOXING GYM YOUTH PROGRAM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

Downtown Boxing Gym Youth Program (the "Organization") is a not-for-profit Michigan corporation founded in 2010. The Organization encourages the youth of Detroit to engage in demanding physical, academic and social programs in which trainers, tutors, counselors and social workers provide daily services directly at the Organization. Through education, athletics, mentoring and intervention, the Organization empowers Detroit youth to be positive and productive members of society.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures 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.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents. The Organization maintains cash balances with a single bank. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Restricted Cash

The Organization has reported restricted cash of \$230,255 on the Statement of Financial Position as of September 30, 2017. This cash is restricted for the expansion of athletic programming, capital expansion, and mentoring efforts across specific neighborhoods.

Promises to Give

Unconditional promises to give that are expected to be collected in future years are recorded on the basis of amounts promised by the contributors less a present value discount and any allowance for doubtful accounts determined to be necessary.

DOWNTOWN BOXING GYM YOUTH PROGRAM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Property and Equipment

Property and equipment are stated at cost net of depreciation which is computed using the straight-line method over the estimated useful life of the asset (building and building improvements - 39 years, gym equipment - 7 years, computers - 5 years, furniture and equipment - 5 years). Additions and betterments of \$500 or more are capitalized; while repairs and maintenance that do not improve or extend the useful lives of the respective assets are expensed. If the asset life is less than 1 year the asset value is also expensed.

Donations of gym equipment are recorded as contributions at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire gym equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Classification of Net Assets

The Organization classifies resources for accounting and reporting purposes into net assets categories according to externally (donor) imposed restrictions. A description of the three categories follows:

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

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. As of September 30, 2017 and 2016, the Organization had no permanently restricted net assets.

Revenue Recognition

The Organization receives donations from corporations, board members and individual donors. The donations received are recognized as revenue in the year received.

DOWNTOWN BOXING GYM YOUTH PROGRAM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Contributions

All are generally recorded as unrestricted revenue, unless specifically restricted by the donor. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities.

The Organization recognizes in-kind contribution revenue and related expenses for items donated to the Organization. Revenue and expense are recorded based on the fair value of the donation at the time it was donated. Donated food is valued at estimated fair value according to a per pound amount, by food category, determined by using the Agreed Upon Procedures report prepared by KPMG LLP for Feeding America, a national food bank network. In-kind revenue for donated food totaled \$17,836 and \$11,026 for the years ended September 30, 2017 and 2016, respectively. Other in-kind contributions consisted of use of vehicles, kitchen equipment and other miscellaneous items for the years ended September 30, 2017 and 2016, respectively.

Contributed Services

A substantial number of volunteers and professionals have donated significant amounts of their time on behalf of the Organization. However, no amounts related to these services have been reflected in these financial statements since they did not meet the criteria for recognition.

Functional Allocation of Expenses

Direct identifiable expenses are charged to programs and supporting services accordingly. Common costs are allocated among program and supporting service activities on the basis of planned resource usage established by management. Certain expenses have been allocated between programs and supporting services on various bases and estimates. Although methods of allocation used are considered appropriate, other methods could be used that would produce different results.

Tax-Exempt Status

The Organization has received notification that it qualifies as a tax-exempt organization under Sections 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, are not subject to federal or state income taxes on related income. Unrelated business income may be subject to taxation.

Subsequent Events

The Organization has evaluated events through March 2, 2018, which is the date the financial statements were approved and available to be issued.

DOWNTOWN BOXING GYM YOUTH PROGRAM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2017 and 2016

NOTE 2 - Promises To Give

The composition of promises to give is as follows at September 30:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 75,708	\$ 119,800
Receivable in greater than one year	-	25,000
Less: Unamortized discount	<u>-</u>	<u>(4,285)</u>
Promises to Give, Net	<u>\$ 75,708</u>	<u>\$ 140,515</u>

The long-term promises to give were discounted to present value using an interest rate of 3.00% for the year ended September 30, 2016. The Organization expects to collect all outstanding promises to give. As such, no allowance for doubtful accounts was recorded by the Organization as of September 30, 2017 and 2016. For the year ended September 30, 2017, \$75,000 of bad debt expense was recorded specific to one donor. At September 30, 2017 and 2016, 99% and 88% of the promises to give balance is due from one and two donors, respectively.

NOTE 3 - Property and Equipment

Property and equipment consist of the following at September 30:

	<u>2017</u>	<u>2016</u>
Building and building improvements	\$ 888,249	\$ 888,249
Gym equipment	31,671	30,071
Computers	47,495	20,928
Furnishings and equipment	24,363	20,093
Construction in process	<u>34,525</u>	<u>-</u>
Total property and equipment	1,026,303	959,341
Less: Accumulated depreciation	<u>(76,686)</u>	<u>(40,369)</u>
Net Property and Equipment	<u>\$ 949,617</u>	<u>\$ 918,972</u>

Depreciation expense totaled \$36,317 and \$34,576 for the years ended September 30, 2017 and 2016, respectively.

DOWNTOWN BOXING GYM YOUTH PROGRAM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2017 and 2016

NOTE 4 - Long-term Debt

Long-term debt consists of the following at September 30:

	<u>2017</u>	<u>2016</u>
Note payable to IFF, due in monthly installments of \$2,934, including interest at 5.375% through July 2030. The note payable is collateralized by the building.	\$ 325,945	\$ 343,133
Less: Current portion	<u>18,135</u>	<u>17,188</u>
Total Long-term Debt, Net of Current Portion	<u>\$ 307,810</u>	<u>\$ 325,945</u>

Principal requirements on long-term debt for years ending September 30:

<u>Year Ending</u>	<u>2017</u>
2018	\$ 18,135
2019	19,134
2020	20,188
2021	21,300
2022	22,474
Thereafter	<u>224,714</u>
	<u>\$ 325,945</u>

The Organization was in compliance with its debt covenants for the years ended September 30, 2017 and 2016.

NOTE 5 - Related Party Transaction

The Organization had a loan from the Executive Director who is also a board member. The loan was non-interest bearing and was repaid in December 2015. As of September 30, 2017 and 2016, the outstanding balance was \$0. For the year ended September 30, 2016, imputed interest that was recorded on the loan was \$261.

DOWNTOWN BOXING GYM YOUTH PROGRAM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2017 and 2016

NOTE 6 - Temporarily Restricted Net Assets

As of September 30, 2017 and September 30, 2016, temporarily restricted net assets were time and purpose restricted by donors to be used to expand athletic programming and mentoring efforts across specific neighborhoods. Temporarily restricted net assets are available for the following purposes or periods as of September 30:

	<u>2017</u>	<u>2016</u>
Student transportation	\$ 40,980	\$ -
Afterschool activities	13,000	-
Expansion and renovation	176,275	-
Restricted for use in future periods	<u>-</u>	<u>95,001</u>
Total	<u>\$ 230,255</u>	<u>\$ 95,001</u>

Releases from temporarily restricted net assets as of September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Student transportation	\$ 81,375	\$ -
Expansion and renovation	44,525	100,000
Academic support and tuition	48,273	-
Restricted for use in future periods	<u>115,000</u>	<u>137,209</u>
Total	<u>\$ 289,173</u>	<u>\$ 237,209</u>

NOTE 7 - New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958): "*Presentation of Financial Statements of Not-for-Profit Entities*." The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

During May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers*". ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. The Organization may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Organization is currently assessing the effect that ASU 2014-09 will have on its results of operations, financial position and cash flows.

DOWNTOWN BOXING GYM YOUTH PROGRAM

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2017 and 2016

NOTE 7 - New Accounting Pronouncements

During February 2016, the FASB issued ASU 2016-02, "Leases". ASU 2016-02 establishes principles that require a lessee to recognize a lease asset and a lease liability for those leases classified as operating leases under previous accounting principles generally accepted in the United States of America. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The Organization is currently assessing the effect that ASU 2016-02 will have on its results of operations, financial position and cash flows.

In the current year the Organization adopted the provisions of ASU 2016-18, "Statement of Cash Flows" (Topic 230): Restricted Cash. This standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and restricted cash. The Organization is required to reconcile such total to amounts on the Statement of Financial Position and to disclose the nature of the restrictions. The Statement of Cash Flows and footnotes have been updated to reflect the new standard.