DRAFT

POVERTY AND SOCIAL REFORM INSTITUTE, INC.
d/b/a LEAPS AND BOUNDS FAMILY SERVICES

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016

DRAFT

POVERTY AND SOCIAL REFORM INSTITUTE, INC.
d/b/a LEAPS AND BOUNDS FAMILY SERVICES

TABLE OF CONTENTS

DRAFT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Poverty and Social Reform Institute, Inc.
d/b/a Leaps and Bounds Family Services
Warren, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Poverty and Social Reform Institute, Inc. d/b/a Leaps and Bounds Family Services (a nonprofit organization) which comprise the statements of financial position as of September 30, 2017 and 2016; 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 of 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 judgement, 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.

DRAFT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Poverty and Social Reform Institute, Inc. d/b/a Leaps and Bounds Family Services 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.

Certified Public Accountants

January 17, 2018

DRAFT

POVERTY AND SOCIAL REFORM INSTITUTE, INC. D/B/A
LEAPS AND BOUNDS FAMILY SERVICES

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 356,766	$ 321,923
Contracts and grants receivable	115,975	148,903
Prepaid expenses	15,138	13,498
Investments	472,544	460,545
Property and Equipment (net)	3,122	3,163
Total Assets	$ 963,545	$ 948,032
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 13,865	$ 6,420
Accrued liabilities	19,806	23,744
Total Current Liabilities	33,671	30,164
Net Assets:		
Unrestricted	929,874	917,868
Total Liabilities and Net Assets	$ 963,545	$ 948,032

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

DRAFT

POVERTY AND SOCIAL REFORM INSTITUTE, INC. D/B/A LEAPS AND BOUNDS FAMILY SERVICES

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Revenues, Gains and Other Support:		
Grants and contracts:		
United Way Community Services	$ 496,125	$ 441,133
Macomb Family Services	58,101	74,850
Wayne RESA/Macomb ISD	101,451	94,675
Everybody Ready	60,050	61,800
Other grants	-	6,000
Contributions	17,538	16,994
Special events revenue	18,228	18,754
Fees	7,764	6,242
Investment income	12,102	9,468
Miscellaneous revenue	8,235	870
Total Revenues, Gains and Other Support	779,594	730,786
Expenses:		
Program services	720,617	697,128
Supporting services -		
Management and general	41,100	46,514
Fundraising	5,871	8,107
Total Expenses	767,588	751,749
Change in Net Assets	12,006	(20,963)
Net Assets at beginning of year	917,868	938,831
Net Assets at end of year	$ 929,874	$ 917,868

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

DRAFT

POVERTY AND SOCIAL REFORM INSTITUTE, INC. D/B/A LEAPS AND BOUNDS FAMILY SERVICES

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Services	Supporting Services		
	Program	Management & General	Fundraising	Total
Salaries	$ 404,834	$ 17,455	$ -	$ 422,289
Payroll taxes	33,238	1,335	-	34,573
Employee benefits	98,588	4,958	-	103,546
	536,660	23,748	-	560,408
Program contracts	29,280	-	-	29,280
Contracted services	50,067	10,865	-	60,932
Rent	46,655	2,310	-	48,965
Supplies	17,533	724	-	18,257
Equipment/maintenance	4,094	61	-	4,155
Postage and printing	1,033	41	-	1,074
Telephone	7,945	424	-	8,369
Travel and transportation	11,960	447	-	12,407
Insurance	8,021	555	-	8,576
Staff development	6,702	725	-	7,427
Special events	-	-	5,871	5,871
Miscellaneous	667	260	-	927
	183,957	16,412	5,871	206,240
Depreciation	-	940	-	940
Total Functional Expenses	$ 720,617	$ 41,100	$ 5,871	$ 767,588

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

DRAFT

POVERTY AND SOCIAL REFORM INSTITUTE, INC. D/B/A LEAPS AND BOUNDS FAMILY SERVICES

STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Program Services	Supporting Services		
	Program	Management & General	Fundraising	Total
Salaries	$ 378,042	$ 20,303	$ -	$ 398,345
Payroll taxes	35,093	1,885	-	36,978
Employee benefits	102,309	5,495	-	107,804
	515,444	27,683	-	543,127
Program contracts	31,631	-	-	31,631
Contracted services	58,929	11,688	-	70,617
Rent	41,420	1,415	-	42,835
Supplies	14,325	483	-	14,808
Equipment/maintenance	3,518	146	-	3,664
Postage and printing	1,416	6	-	1,422
Telephone	6,046	522	-	6,568
Travel and transportation	12,217	556	-	12,773
Insurance	8,077	653	-	8,730
Staff development	3,710	584	-	4,294
Special events	-	-	8,107	8,107
Miscellaneous	395	1,059	-	1,454
	181,684	17,112	8,107	206,903
Depreciation	-	1,719	-	1,719
Total Functional Expenses	$ 697,128	$ 46,514	$ 8,107	$ 751,749

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

DRAFT

POVERTY AND SOCIAL REFORM INSTITUTE, INC. D/B/A
LEAPS AND BOUNDS FAMILY SERVICES

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	$ 12,006	$(20,963)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities -		
Depreciation	940	1,719
Unrealized gains on investments	(6,346)	(243)
Change in assets and liabilities -		
Receivables	32,928	(20,593)
Prepaid expenses	(1,640)	(663)
Accounts payable	7,445	5,870
Accrued liabilities	(3,938)	3,438
Net Cash Provided by (Used for) Operating Activities	41,395	(31,435)
Cash Flows from Investing Activities:		
Purchase of investments	(5,653)	(8,760)
Acquisition of fixed assets	(899)	-
Net Cash Used for Investing Activities	(6,552)	(8,760)
Net increase (decrease) in cash and cash equivalents	34,843	(40,195)
Cash and Cash Equivalents at beginning of year	321,923	362,118
Cash and Cash Equivalents at end of year	$ 356,766	$ 321,923

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

DRAFT

POVERTY AND SOCIAL REFORM INSTITUTE, INC.
d/b/a LEAPS AND BOUNDS FAMILY SERVICES

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF ORGANIZATION:

Poverty and Social Reform Institute, Inc. (the "Institute"), doing business as Leaps and Bounds Family Services, is a not-for-profit corporation whose revenue is derived principally from grants (primarily from United Way) and private contributions. The primary purpose of the Institute is to focus on creative and collaborative action on the health, education, social, and economic needs of children and families living in poverty.

The Institute provides support to high-risk children and parents through a variety of services to carry out its mission. These services include parenting seminars, early child development services, literacy events, and home visits. Services are designed for low-income and high-risk families in the metro-Detroit area.

SIGNIFICANT ACCOUNTING POLICIES:

The Institute's accounting policies conform to accounting principles generally accepted in the United States of America. The following is a summary of policies that are considered significant to this organization.

Basis of Accounting - The financial statements of the Institute are reported on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for nonprofit organizations.

Basis of Presentation - Financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) Statement 958. In accordance with ASC 958, 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. As of September 30, 2017 and 2016, the Institute only had unrestricted net assets.

Cash and Cash Equivalents - Cash and cash equivalents consist primarily of checking and money market accounts and cash deposits. Cash and cash equivalents are considered to have original maturities of ninety days or less.

Investments - The Institute reports its investments in accordance with generally accepted accounting principles for not-for-profit organizations, which establish accounting standards for investments in certain equity securities and for all debt securities. The guidance prescribes that covered investments be reported in the statement of financial position at fair value with any realized or unrealized gains or losses reported in the statement of activities. Investments are composed of mutual funds carried at fair value.

Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting period in which they occur.

Fair Value Measurements - ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. The Institute accounts for certain investments at fair value.

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Prepaid Expenses - Prepaid expenses consist of insurance and certain expenses paid for in advance and recorded as an asset before they are used or consumed.

Property and Equipment - Property and equipment consists of leasehold improvements, furniture and equipment, and computer equipment and are recorded at cost at the date of purchase or at estimated fair market value at the date of donation. Major additions are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed currently. Gains or losses from disposals are included in earnings. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of the assets are as follows:

Leasehold improvements	10 years
Furniture and equipment	5 years
Computer equipment	3-5 years

Contributions - Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is 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 nets assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cost Allocation and Functional Expenses - Directly identifiable expenses are charged directly to program and supporting services. Expenses related to more than one function are charged to the program and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Institute.

Income Taxes - The Institute is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code.

Estimates - In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Subsequent Events - In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through January 17, 2018, the date the financial statements were available to be issued.

DRAFT

NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Upcoming Accounting Pronouncements - The Financial Accounting Standards Board (FASB) issued the following standards that could have an impact on future financial statements when adopted. The Institute is currently evaluating the implications of these standards.

In August 2016, FASB issued a new accounting standard, Topic 958, for not-for-profit entities aimed at improving the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Included in the new standard is presenting on the face of the statement of financial position two classes of net assets at the end of the period, *net assets with donor restrictions* and *net assets without donor restrictions*, rather than the currently required three classes. The statement of activities would also present changes in each of the two classes of net assets rather than the currently required three classes. The amendments in this update are effective for the Institute's financial statements for the year ending September 30, 2019.

In February 2016, FASB issued a new accounting standard, Topic 842, intended to improve financial reporting of leasing transactions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will primarily depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet. The standard also requires disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows from leases. The amendments in this standard are effective for the Institute's financial statements for the year ending September 30, 2021. Therefore, for comparative financial statements, this new standard may need to run side-by-side with the existing standard for the year ending September 30, 2020.

NOTE 2 - CONTRACTS AND GRANTS RECEIVABLE:

Contracts and grants receivable consist of the following at September 30:

	2017	2016
United Way	$ 70,730	$ 88,166
Macomb Intermediate School District	-	42,762
Wayne Regional Educational Services Agency	13,350	17,975
Macomb Family Services	31,895	-
	$ 115,975	$ 148,903

NOTE 3 - INVESTMENTS:

Investments at September 30 consist of the following:

	2017	2016
Mutual Funds:		
Oppenheimer Limited-Term Government Fund Class C	$ 360,613	$ 362,768
Domini Social Equity Fund	111,931	97,777
	$ 472,544	$ 460,545

Investment return consists of the following:

	2017	2016
Interest, Dividends, and Capital Gains	$ 5,756	$ 9,225
Unrealized Gains on Investments	6,346	243
	$ 12,102	$ 9,468

In accordance with ASC 820, the Institute uses fair value measurements to record adjustments to certain assets and liabilities. The ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The Codification also sets out a fair value hierarchy ranking the levels of the inputs used as assumptions in the valuation techniques used to value an asset or liability. The fair value hierarchy gives the highest priority to quoted prices in an active market for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of hierarchy are described as follows:

Level 1 - Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions of the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted market prices of similar assets or liabilities in active markets, quoted market prices for identical or similar assets or liabilities in markets that are not active, and pricing models developed principally from inputs from or corroborated by observable market data by correlation or other means.

Level 3 - Level 3 inputs are unobservable and allowed in situations where there is little, if any, market activity for the asset or liability at the measurement date. These inputs reflect the reporting entity's own assumptions about assumptions that would be used by market participants.

The Institute's valuation of the investments at September 30, 2017 and 2016 is determined by quoted prices in active markets for identical assets (or Level 1 inputs as defined by ASC 820).

DRAFT

NOTE 4 - CONCENTRATIONS:

Credit Risk -

The Institute is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments, which potentially subject the Institute to concentrations of significant credit risk, consist principally of cash equivalents, and contributions, contracts, and grants receivable. The Institute's cash and cash equivalents are deposited with high-credit-quality financial institutions. The Institute had deposits with a bank balance of $359,265 and $329,603 at September 30, 2017 and 2016, respectively. As of September 30, 2017, $250,000 is insured by depository insurance with the remaining $109,265 uninsured and uncollateralized. At September 30, 2016, the entire balance was insured by federal depository insurance.

Contracts and grant receivables consist principally of amounts due from the United Way and governmental and nonprofit entities. These receivables are considered to be subject to minimal risk. All receivables are typically collected within one year.

Receivables -

At September 30, 2017, approximately 61% and 28% of the Institute's total receivable was due from the United Way and Macomb Family Services, respectively. At September 30, 2016, approximately 59% and 29% of the Institute's total receivable was due from the United Way and Macomb Intermediate School District, respectively.

Revenues -

During the fiscal years ended September 30, 2017 and 2016, approximately 64% and 60% of the Institute's total revenue and support was received from the United Way, respectively.

NOTE 5 - PROPERTY AND EQUIPMENT:

The components of property and equipment at September 30 are as follows:

	2017	2016
Furniture and equipment	$ 16,070	$ 16,070
Computer equipment	29,341	30,114
Leasehold improvements	10,213	10,213
	55,624	56,397
Less: accumulated depreciation	(52,502)	(53,234)
Net property and equipment	$ 3,122	$ 3,163

Depreciation expense for the years ended September 30, 2017 and 2016 was $940 and $1,719, respectively.

DRAFT

NOTE 6 - LEASES:

The Institute leases office and program space under two operating lease agreements. The minimum required lease payment is $14,850, as the Institute can cancel the lease with a six-month written notice. The lease agreement was renewed and extends to September 30, 2020.

Rent expense for the years ended September 30, 2017 and 2016 was $48,965 and $42,835, respectively.

NOTE 7 - RETIREMENT PLAN:

The Institute has a 401(k) Plan for the benefit of substantially all employees. The Institute will match 75% of employee contributions up to 6% of employee compensation. The Institute's contributions were $8,314 and $10,254 for the years ended September 30, 2017 and 2016, respectively.

NOTE 8 - CONTINGENT LIABILITY:

In the normal course of operation, the Institute participates in various federal, state, and/or local grant/contract programs from year to year. The grant/contract programs are often subject to additional audits by agents of the granting or contracting agency, the purpose of which is to ensure compliance with the specific conditions of the grant/contract programs. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although management believes that amount, if any, would not be material.