

Audited Consolidated Financial Statements
And Other Financial Information

**GREAT LAKES RECOVERY CENTERS, INC.,
AND SUBSIDIARY**

September 30, 2010

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Audited Financial Statements

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Great Lakes Recovery Centers, Inc., and Subsidiary
Marquette, Michigan

We have audited the accompanying consolidated statements of financial position of Great Lakes Recovery Centers, Inc., and Subsidiary (Corporation) (a non-profit organization) as of September 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Great Lakes Recovery Centers, Inc., and Subsidiary as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Makela, Toutant, Hill & Nardi, P.C.

August 31, 2011

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

GREAT LAKES RECOVERY CENTERS, INC., AND SUBSIDIARY

	September 30	
	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 52,801	\$ 114,217
Investments	45,750	45,750
Accounts receivable, net of allowance of \$294,338 and \$102,741, respectively	576,989	636,574
Prepays and other assets	18,462	23,476
TOTAL CURRENT ASSETS	<u>694,002</u>	<u>820,017</u>
NON-CURRENT ASSETS		
Land and improvements	15,000	15,000
Machinery and equipment	54,302	46,584
Buildings and improvements	1,455,654	1,334,239
Furniture and fixtures	44,684	44,684
Vehicles	8,393	19,003
	<u>1,578,033</u>	<u>1,459,510</u>
Less accumulated depreciation	(481,041)	(449,900)
TOTAL NON-CURRENT ASSETS	<u>1,096,992</u>	<u>1,009,610</u>
TOTAL ASSETS	<u>\$ 1,790,994</u>	<u>\$ 1,829,627</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 159,487	\$ 102,907
Advance payments on grants	100,000	100,000
Accrued payroll and related liabilities	127,604	112,913
Accrued penalties and interest	1,482	80,000
Notes payable--current portion	39,521	30,254
Line-of-credit	40,728	
TOTAL CURRENT LIABILITIES	<u>468,822</u>	<u>426,074</u>
LONG-TERM LIABILITIES		
Notes payable--long-term portion	575,042	501,958
TOTAL LONG-TERM LIABILITIES	<u>575,042</u>	<u>501,958</u>
TOTAL LIABILITIES	<u>1,043,864</u>	<u>928,032</u>
NET ASSETS		
Unrestricted	746,330	900,795
Temporarily restricted	800	800
TOTAL NET ASSETS	<u>747,130</u>	<u>901,595</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,790,994</u>	<u>\$ 1,829,627</u>

See notes to financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC., AND SUBSIDIARY

	Year Ended September 30, 2009		
	Unrestricted	Temporarily Restricted	Total
CHANGES IN NET ASSETS			
Support and Revenue			
Northcare/Pathways to Healthy Living	\$ 1,055,350		\$ 1,055,350
Michigan Prisoner Re-entry Initiative	249,034		249,034
MDOC-State Corrections	216,971		216,971
Northern Michigan Substance Abuse	379,007		379,007
Self pay	181,063		181,063
Insurance	190,219		190,219
Child Welfare (DHS)	93,872		93,872
Federal Bureau of Prisons	178,189		178,189
Tribes	362,903		362,903
Western U.P. Substance Abuse	170,985		170,985
County/Court Funded	132,013		132,013
OCC-Local Corrections	121,632		121,632
United States Probation Office	79,242		79,242
Veterans contracts	24,583		24,583
Other program revenue	102,927		102,927
United Way	37,716		37,716
MARESA	(9,215)		(9,215)
Donations	14,035		14,035
Other income	17,832		17,832
TOTAL SUPPORT AND REVENUE	3,598,358	\$ 0	3,598,358
EXPENSES			
Salaries	2,124,352		2,124,352
Insurance	225,576		225,576
Payroll taxes and workers compensation	294,441		294,441
MPRI expenditures	116,697		116,697
Program specific costs	142,506		142,506
Rent	131,533		131,533
Professional fees and subcontractors	75,369		75,369
Staff and travel	87,853		87,853
Utilities	79,294		79,294
Building/facility	93,216		93,216
Equipment and computer maintenance	50,625		50,625
Depreciation	45,245		45,245
Telephone	33,526		33,526
Supplies	47,922		47,922
Vehicles	18,198		18,198
Marketing and advertising	21,203		21,203
Postage and printing	11,561		11,561
Miscellaneous	42,806		42,806
Interest	35,376		35,376
Bad debt	85,729		85,729
TOTAL EXPENSES	3,763,028	0	3,763,028
CHANGE IN NET ASSETS FROM OPERATIONS	(164,670)	0	(164,670)
Net loss on sale of fixed assets	(1,931)		(1,931)
Investment loss	(19,050)		(19,050)
TOTAL CHANGE IN NET ASSETS	(185,651)	0	(185,651)
Net assets at beginning of year	1,086,446	800	1,087,246
NET ASSETS AT END OF YEAR	\$ 900,795	\$ 800	\$ 901,595

See notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

GREAT LAKES RECOVERY CENTERS, INC., AND SUBSIDIARY

	Year Ended September 30	
	2010	2009
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from grants, contracts, and fees for services	\$ 4,047,106	\$ 3,392,610
Cash paid to suppliers and employees	(4,050,617)	(3,549,355)
Interest paid	(44,609)	(35,376)
NET CASH USED BY OPERATING ACTIVITIES	<u>(48,120)</u>	<u>(192,121)</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Purchase of fixed assets	(138,398)	(17,587)
Proceeds from disposal of fixed assets	2,023	
Cash received from subsidiary		9,749
NET CASH USED BY INVESTING ACTIVITIES	<u>(136,375)</u>	<u>(7,838)</u>
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES		
Proceeds from borrowing	117,000	
Payment of debt principal	(34,649)	(28,545)
Advance on line-of-credit	40,728	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>123,079</u>	<u>(28,545)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(61,416)	(228,504)
Cash and cash equivalents at beginning of year	114,217	342,721
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 52,801</u>	<u>\$ 114,217</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ (154,465)	\$ (185,651)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	48,121	45,245
Provision for bad-debt expense	298,200	85,729
(Appreciation) Depreciation of investments	(671)	19,050
Loss on disposal of fixed assets	1,543	1,931
Investment in subsidiary		(6,717)
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(238,615)	(199,031)
(Increase) Decrease in prepaid expenses	5,014	5,897
Increase (Decrease) in accounts payable	56,580	47,538
Increase (Decrease) in accrued payroll and related liabilities	14,691	16,507
Increase (Decrease) in other liabilities	(78,518)	(22,619)
NET ADJUSTMENTS	<u>106,345</u>	<u>(6,470)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (48,120)</u>	<u>\$ (192,121)</u>

See notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GREAT LAKES RECOVERY CENTERS, INC., AND SUBSIDIARY

September 30, 2010

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Great Lakes Recovery Centers, Inc., a non-profit 501(c)(3) Corporation, operates several programs which are designed primarily for the prevention and treatment of substance abuse. These programs offer services and assistance in prevention, diagnostics, treatment and rehabilitation to organizations, adults, adolescents, and children and families throughout Michigan and Northern Wisconsin. Great Lakes Recovery Centers, Inc., (Corporation) operates primarily on contracts with several governmental agencies.

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting.

Financial Statement Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958-310, *Not-for-Profit Organizations' Receivables*, and FASB ASC 958, *Financial Statements of Not-for-Profit Organizations*. In accordance with FASB ASC 958, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets--unrestricted, temporarily restricted, and permanently restricted--based on the existence or nature of any donor-imposed restrictions.

Descriptions of the asset classes are as follows:

Unrestricted Net Assets: Represent funds available for support of current Corporation operations.

Temporarily Restricted Net Assets: Represents funds whose use is limited by donor-imposed stipulations that expire either by passage of time or fulfillment of the stipulations. The funds are reported as temporarily restricted revenues upon receipt and are transferred to unrestricted net assets when the time or purpose restrictions have been met.

Permanently Restricted Net Assets: Represent funds subject to donor-imposed stipulations requiring that the principal be permanently invested.

Cash and Cash Equivalents: Cash and cash equivalents include checking and savings accounts.

Investments: The Corporation holds stock in a closely-held company that is not readily marketable. Net unrealized gains and losses on investments are reflected in the statement of activities.

GREAT LAKES RECOVERY CENTERS, INC., AND SUBSIDIARY

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Land, Buildings, and Equipment: Property and equipment purchases in excess of \$500 are capitalized and reported at cost, if purchased, or fair value if contributed. Depreciation is computed using the straight-line method, which depreciates assets evenly over their estimated useful lives. Property and equipment includes assets purchased with governmental grants which could, subject to the specific contract terms, revert to the grantor.

Contributions: All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor. Amounts received, that are designated for future periods or restricted by the donor for specific purposes, are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received, with donor-imposed restrictions that are met in the same year in which the contributions are received, are classified as unrestricted contributions.

Income Taxes: The Corporation qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code; therefore, has no provision for federal income taxes.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect 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.

Reclassifications: Certain amounts as of and for the year ended September 30, 2009, have been reclassified to conform to the current year's presentation.

Subsequent Events: Subsequent events were evaluated through August 31, 2011, which is the date the financial statements were available to be issued.

Principles of Consolidation: The financial statements include the accounts of its wholly owned for-profit subsidiary, Aspen Breeze, Inc. All significant inter-entity transactions and balances have been eliminated in consolidation.

Accounts Receivable: Accounts receivable consist mainly of contract, insurance and self-pay for services provided. All such amounts are unsecured and non-interest bearing. The Corporation has established an allowance for uncollectible accounts receivable through a provision for bad debt expense. The allowance was based on management's assessment of the individual account balances outstanding at year-end. Past due receivables will be written-off when internal collection efforts have been unsuccessful in collecting the amount due.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC., AND SUBSIDIARY

NOTE B--PUBLIC SUPPORT AND REVENUE

Donated Services and Material: Agencies, business firms, and others contribute materials and services toward the fulfillment of projects initiated by the Corporation. Contributions of material and services that are objectively measurable and represent program or support expenditures, which would otherwise be incurred by the Corporation, are reflected in both public support and program expense in the accompanying financial statements.

A number of volunteers have donated substantial amounts of their time to program services; however, no volunteer services have been recorded in the financial statements because there is no objective basis available to measure the value of such services.

Governmental Grants - Adult Residential Services: One criminal justice governmental funding source for residents in the adult residential program requires these individuals to pay a portion of their income, if any, for their support while in the program. Amounts due from residents are deducted by the funding source from what would otherwise be due to the Corporation. The amounts due from residents are treated as program service fees in the financial statements.

NOTE C--ACCOUNTS RECEIVABLE

A summary of accounts receivable is as follows:

	September 30	
	2010	2009
Contracts	\$ 795,092	\$ 566,488
Insurance	53,902	129,433
Self-Pay	18,315	5,769
Other	4,018	37,625
	<u>871,327</u>	<u>739,315</u>
Allowance for uncollectible accounts	<u>294,338</u>	<u>102,741</u>
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE	<u>\$ 576,989</u>	<u>\$ 636,574</u>

NOTED D--ACCRUED PAYROLL LIABILITIES

A summary of accrued payroll liabilities is as follows:

	September 30	
	2010	2009
Accrued wages	\$ 93,296	\$ 73,972
Other accrued payroll liabilities	34,308	38,941
	<u>127,604</u>	<u>112,913</u>
ACCRUED PAYROLL AND RELATED LIABILITIES	<u>\$ 127,604</u>	<u>\$ 112,913</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC., AND SUBSIDIARY

NOTE E--INVESTMENTS--Continued

Following is a description of the valuation methodologies used for assets measured at fair value:

Level 2 - Common stock is valued using multiple inputs including the most recent transaction and an independent valuation.

NOTE F--ADVANCE PAYMENTS ON GRANTS

Northcare, formerly Eastern Upper Peninsula Substance Abuse Services (EUPSAS), advanced monies to increase the Corporation's cash flow in the amount of \$100,000 for the year ended September 30, 2003. These funds have not been drawn back by EUPSAS, but instead were re-authorized for the years ended September 30, 2010 and 2009.

NOTE G--TEMPORARILY RESTRICTED ASSETS

The Corporation received a \$30,000 check from an anonymous donor in June 2007 with the stipulation the gift be spent on the youth program at the discretion of the youth program director. This revenue was being held as a temporarily restricted asset as of September 30, 2007; however, the \$30,000 was released from restriction during fiscal year 2009 as the restriction was satisfied.

In fiscal year 2009, the Corporation received advanced donations of \$800 to the capital campaign the organization is planning in order to raise funding for a new facility.

The Corporation did not receive any temporarily restricted assets for the year ended September 30, 2010.

NOTE H--LONG-TERM DEBT

	September 30	
	2010	2009
Mortgage--New Hope--Women's House--payable in semi-annual installments of \$15,347, including interest at 5.29%, due September 15, 2021.	\$ 254,261	\$ 270,132
Mortgage--241 Wright St. Marquette--payable in monthly installments of \$2,769, including interest at 7.50%, due October 5, 2021.	246,913	262,080
Mortgage--301 E. Spruce St. Sault St. Marie--payable in monthly installments of \$1,092, including interest at 7.50%, due October 26, 2014.	113,389	
TOTAL LONG-TERM DEBT	\$ 614,563	\$ 532,212

STATEMENT OF FUNCTIONAL EXPENSES--Continued

GREAT LAKES RECOVERY CENTERS, INC., AND SUBSIDIARY

Year Ended September 30, 2010

	Program Services					Supporting Services		Total
	Newberry	New Hope Outpatient	St. Ignace	Prevention	Prison	MPRI	Management and General	
EXPENSES								
EMPLOYEE COMPENSATION								
Salaries	\$ 22,254	\$ 50,653	\$ 11,562	\$ 26,025	\$ 89,503	\$ 78,642	\$ 283,298	2,391,627
Insurance	1,358	9,506	597	14,098	9,132	16,652	32,971	346,854
Payroll taxes and workers compensation	2,895	5,126	1,574	2,339	9,077	8,002	26,760	241,306
TOTAL EMPLOYEE COMPENSATION	26,507	65,285	13,733	42,462	107,712	103,296	343,029	\$ 0
OTHER EXPENSES								
MPRI expenditures						300,038	211	300,249
Program specific costs	38	838	38	2,374			143	154,682
Rent	4,750		4,800			2,100	27,854	113,270
Professional fees and subcontractors	283	1,453	277	8,584	7,843	2,216	14,952	96,450
Staff and travel	1,877	1,379	4,758	9,736	10,529	7,457	17,935	91,428
Utilities		680						81,064
Building/facility	1,687	1,936	1,705		1,678		6,989	67,592
Equipment and computer maintenance	1,862	2,825	2,111				7,178	53,658
Depreciation	135	2,275					4,611	48,121
Telephone	1,669	1,912	1,699		482	905	9,751	42,862
Supplies	271	1,997	101	413	667	56	1,943	38,959
Vehicles					268		4,720	19,808
Marketing and advertising		11					12,818	12,986
Postage and printing	149	297	149		1,427	69	4,634	11,767
Miscellaneous	345	1,400	345	100	345		13,865	25,671
Interest		8,041					3,208	44,609
Penalty recovery							(41,906)	(41,849)
Bad debt							298,200	298,200
TOTAL OTHER EXPENSES	13,066	25,044	15,983	21,207	23,239	312,841	387,106	1,459,527
TOTAL FUNCTIONAL EXPENSES	\$ 39,573	\$ 90,329	\$ 29,716	\$ 63,669	\$ 130,951	\$ 416,137	\$ 730,135	\$ 0