

Audited Financial Statements
and Supplementary Information

GREAT LAKES RECOVERY CENTERS, INC.

September 30, 2015

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Audited Financial Statements

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Great Lakes Recovery Centers, Inc.
Ishpeming, Michigan

We have audited the accompanying financial statements of Great Lakes Recovery Centers, Inc., which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities 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 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 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.

Board of Directors
Great Lakes Recovery Centers, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Great Lakes Recovery Centers, Inc., as of September 30, 2015 and 2014, 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 Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2016, on our consideration of Great Lakes Recovery Centers, Inc.'s internal control over financial reporting and on 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 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 Great Lakes Recovery Centers, Inc.'s internal control over financial reporting and compliance.

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

Marquette, Michigan

March 16, 2016

STATEMENTS OF FINANCIAL POSITION

GREAT LAKES RECOVERY CENTERS, INC.

	September 30	
	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 110,659	\$ 277,734
Investments	45,750	45,750
Accounts receivable, net	697,734	655,987
Due from USDA		31,000
Prepays and other assets	39,759	12,589
TOTAL CURRENT ASSETS	<u>893,902</u>	<u>1,023,060</u>
NON-CURRENT ASSETS		
Restricted cash--USDA reserve	30,675	15,951
Land, buildings, and equipment, net	3,095,893	3,004,798
TOTAL NON-CURRENT ASSETS	<u>3,126,568</u>	<u>3,020,749</u>
TOTAL ASSETS	<u>\$ 4,020,470</u>	<u>\$ 4,043,809</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 250,419	\$ 254,763
Contractor retainage payable--construction project		53,714
Advance payments on grants--current portion	50,000	50,000
Accrued payroll and related liabilities	241,456	237,757
Deferred revenue	6,888	
Accrued interest	2,431	2,309
Line of credit	10,000	
Notes payable--current portion	63,408	67,312
TOTAL CURRENT LIABILITIES	<u>624,602</u>	<u>665,855</u>
LONG-TERM LIABILITIES		
Advance payments on grants--long-term portion		25,000
Notes payable--long-term portion	2,475,718	2,380,750
TOTAL LONG-TERM LIABILITIES	<u>2,475,718</u>	<u>2,405,750</u>
TOTAL LIABILITIES	<u>3,100,320</u>	<u>3,071,605</u>
NET ASSETS		
Unrestricted		
Designated	182,600	182,600
Undesignated	683,208	716,699
TOTAL UNRESTRICTED NET ASSETS	<u>865,808</u>	<u>899,299</u>
Temporarily restricted	54,342	72,905
TOTAL NET ASSETS	<u>920,150</u>	<u>972,204</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,020,470</u>	<u>\$ 4,043,809</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC.

	Year Ended September 30, 2015		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Residential services	\$ 2,756,034		\$ 2,756,034
Outpatient services	1,663,783		1,663,783
Prison services	438,063		438,063
Emergency crisis support	150,328		150,328
Grants and donations	27,505	\$ 63,581	91,086
Other income	1,990		1,990
Net assets released from restrictions	82,144	(82,144)	0
TOTAL SUPPORT AND REVENUE	5,119,847	(18,563)	5,101,284
Contractual revenue adjustments	(363,199)		(363,199)
NET SUPPORT AND REVENUE	4,756,648	(18,563)	4,738,085
EXPENSES			
Salaries	3,060,225		3,060,225
Employee health and welfare	203,714		203,714
Payroll taxes and workers' compensation	289,175		289,175
Michigan Prisoner Re-entry Initiative (MPRI)	119,859		119,859
Program specific costs	186,079		186,079
Rent	88,255		88,255
Professional fees and subcontractors	66,577		66,577
Staff training and travel	84,449		84,449
Utilities	132,404		132,404
Building and facility	115,293		115,293
Equipment and computer maintenance	91,728		91,728
Depreciation	121,393		121,393
Telephone	46,352		46,352
Supplies	50,805		50,805
Vehicles	12,425		12,425
Marketing and advertising	7,456		7,456
Postage and printing	9,529		9,529
Miscellaneous	10,849		10,849
Interest	86,067		86,067
Finance charges	7,505		7,505
TOTAL EXPENSES	4,790,139	0	4,790,139
CHANGE IN NET ASSETS	(33,491)	(18,563)	(52,054)
Net assets at beginning of year	899,299	72,905	972,204
NET ASSETS AT END OF YEAR	\$ 865,808	\$ 54,342	\$ 920,150

See notes to financial statements.

STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC.

	Year Ended September 30, 2014		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Residential services	\$ 2,711,145		\$ 2,711,145
Outpatient services	1,576,176		1,576,176
Prison services	347,320		347,320
Emergency crisis support	151,741		151,741
Grants and donations	58,224	\$ 74,533	132,757
Other income	3,359		3,359
Net assets released from restrictions	12,430	(12,430)	0
TOTAL SUPPORT AND REVENUE	4,860,395	62,103	4,922,498
Contractual revenue adjustments	(289,431)		(289,431)
NET SUPPORT AND REVENUE	4,570,964	62,103	4,633,067
EXPENSES			
Salaries	2,966,931		2,966,931
Employee health and welfare	309,807		309,807
Payroll taxes and workers' compensation	320,061		320,061
Michigan Prisoner Re-entry Initiative (MPRI)	104,316		104,316
Program specific costs	178,474		178,474
Rent	113,833		113,833
Professional fees and subcontractors	69,054		69,054
Staff training and travel	77,709		77,709
Utilities	118,953		118,953
Building and facility	79,315		79,315
Equipment and computer maintenance	85,907		85,907
Depreciation	60,740		60,740
Telephone	47,781		47,781
Supplies	47,192		47,192
Vehicles	10,535		10,535
Marketing and advertising	9,123		9,123
Postage and printing	8,312		8,312
Miscellaneous	12,624		12,624
Interest	32,361		32,361
Finance charges	6,334		6,334
TOTAL EXPENSES	4,659,362	0	4,659,362
CHANGE IN NET ASSETS	(88,398)	62,103	(26,295)
Net assets at beginning of year	987,697	10,802	998,499
NET ASSETS AT END OF YEAR	\$ 899,299	\$ 72,905	\$ 972,204

See notes to financial statements.

STATEMENTS OF CASH FLOWS

GREAT LAKES RECOVERY CENTERS, INC.

	Year Ended September 30	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants, contracts, fee for services, and donors	\$ 4,703,226	\$ 4,499,507
Cash paid to employees and suppliers	(4,610,494)	(4,502,641)
Interest paid	(85,945)	(35,862)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	6,787	(38,996)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash	(14,724)	(15,951)
Purchase of fixed assets	(266,202)	(713,722)
NET CASH USED BY INVESTING ACTIVITIES	(280,926)	(729,673)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowing	185,500	703,500
Net proceeds from line of credit	10,000	
Payment of debt principal	(88,436)	(35,904)
NET CASH PROVIDED BY FINANCING ACTIVITIES	107,064	667,596
NET DECREASE IN CASH AND CASH EQUIVALENTS	(167,075)	(101,073)
Cash and cash equivalents at beginning of year	277,734	378,807
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 110,659	\$ 277,734
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ (52,054)	\$ (26,295)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	121,393	60,740
Changes in assets and liabilities:		
Increase in accounts receivable	(41,747)	(106,273)
Increase in prepaid expenses	(27,170)	(4,352)
Increase (Decrease) in accounts payable	(4,344)	106,322
Increase (Decrease) in accrued payroll and related liabilities	3,699	(38,350)
Increase (Decrease) in other liabilities	7,010	(30,788)
NET ADJUSTMENTS	58,841	(12,701)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 6,787	\$ (38,996)

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GREAT LAKES RECOVERY CENTERS, INC.

September 30, 2015

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Great Lakes Recovery Centers, Inc., a Michigan not-for-profit 501(c)(3) corporation, operates several programs which are designed primarily for the prevention and treatment of substance abuse issues and treatment of behavioral health conditions. These programs offer services and assistance in prevention, diagnostics, treatment and rehabilitation to organizations, adults, adolescents, children, and families throughout Northern Michigan. Our mission is to empower recovery through hope and change with a vision of helping to create healthy communities, one person at a time. Great Lakes Recovery Centers, Inc. (Corporation), operates primarily on contracts with several governmental agencies, including federal and state agencies, as well as insurance funded clients, tribal communities, and local healthcare providers. The Corporation's operations include residential treatment programs in four locations, outpatient services across the Upper Peninsula of Michigan, as well as prison based and correctional prisoner re-entry and re-integration programs.

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

Financial Statement Presentation: The Corporation has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations in the United States of America. Under this guidance, 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 or designated by the Board of Directors for a specific use.

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 bank checking and savings accounts.

Investments: The Corporation holds stock in a closely-held company that is not readily marketable. Due to the limited marketability of this investment, the Corporation has elected not to adjust the carrying value of this investment. Based on the market value indicators that are available, this does not result in a material departure from generally accepted accounting principles.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

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

Accounts Receivable: Accounts receivable consists of contract, insurance, and self-pay amounts for services provided at the Corporation's gross charge amounts or contract amounts, where established. All such amounts are unsecured and non-interest-bearing. The Corporation has established an allowance for uncollectible accounts receivable along with a provision for contractual revenue adjustments, which recognize reductions from gross charges for insurance funded clients and client account write-downs to the expected payments to be received.

Restricted Cash: Represents funds that are required to be set aside into a reserve account to meet the requirements set forth in the USDA security agreement.

Land, Buildings, and Equipment: Property and equipment purchases in excess of \$1,500 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 which range from three to 39 years.

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, the Corporation has no provision for federal income taxes.

The Corporation files Form 990 with the Internal Revenue Service. The Corporation believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Corporation's financial position, results of activities, or cash flows.

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.

Donated Services and Materials: Contributed professional services are recognized if the services received a) create or enhance non-financial assets or b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

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

Additionally, the Corporation received a significant amount of contributed time that does not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not recorded in the accompanying financial statements.

Contributions of tangible assets are recognized at fair market value when received.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP) 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.

Reclassifications: Certain amounts as of and for the year ended September 30, 2014, have been reclassified to conform to the current year's presentation.

Subsequent Events: Subsequent events were evaluated through March 16, 2016, which is the date the financial statements were available to be issued.

NOTE B--ACCOUNTS RECEIVABLE

A summary of accounts receivable is as follows:

	September 30	
	2015	2014
Contracts	\$ 570,556	\$ 602,770
Insurance	168,216	93,037
Other	1,262	370
	<u>740,034</u>	<u>696,177</u>
Less allowance for uncollectible accounts	<u>(42,300)</u>	<u>(40,190)</u>
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE	<u>\$ 697,734</u>	<u>\$ 655,987</u>

NOTE C--INVESTMENTS

The Corporation holds 3,000 shares of common stock of a closely-held company with an original cost of \$30,000. In accordance with GAAP, the Corporation is required to record the investment at fair value. The Corporation was provided with an independent stock valuation as of June 30, 2015, which indicated a fair value of \$19.30 per share. In addition, the company reported recent trades at per share prices ranging from \$15.00 to \$16.50 per share. However, the Corporation has elected not to adjust their current carrying value of this investment due to the limited volume of recent trades. This does not result in a material departure from generally accepted accounting principles. Based on the information available, the Corporation has determined the fair value measurement to be Level 2--Significant Other Observable Inputs.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE D--LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following:

	September 30	
	2015	2014
Land and improvements	\$ 279,100	\$ 279,100
Machinery and equipment	148,722	112,344
Buildings and improvements	3,349,059	2,723,409
Buildings and improvements in progress		482,358
Furniture and fixtures	100,014	75,698
Vehicles	32,070	23,568
	<u>3,908,965</u>	<u>3,696,477</u>
Less accumulated depreciation	<u>(813,072)</u>	<u>(691,679)</u>
NET LAND, BUILDINGS, AND EQUIPMENT	<u>\$ 3,095,893</u>	<u>\$ 3,004,798</u>

NOTE E--ACCRUED PAYROLL AND RELATED LIABILITIES

A summary of accrued payroll and related liabilities is as follows:

	September 30	
	2015	2014
Accrued payroll	\$ 182,112	\$ 178,126
Accrued payroll liabilities	<u>59,344</u>	<u>59,631</u>
ACCRUED PAYROLL AND RELATED LIABILITIES	<u>\$ 241,456</u>	<u>\$ 237,757</u>

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. For several years, these funds have not been drawn back by NorthCare, but instead were re-authorized. The Corporation signed a repayment plan during the year ended September 30, 2013, where repayment will be made in annual increments of \$25,000, at zero interest cost, beginning in the year ended September 30, 2014. The balance of the advance at September 30, 2015, is \$50,000.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE G--DEFERRED REVENUE

Deferred revenue at September 30, 2015, represents funds received as an advance for expenses for the Michigan Prisoner Re-entry Program (MPRI) in the amount \$4,502, and an additional \$2,386 of client payments for services to be performed in the subsequent year. These amounts were recognized as revenue as services were performed during the year ended September 30, 2016.

NOTE H--LONG-TERM DEBT

On August 20, 2013, the Corporation entered into a loan agreement and signed a promissory note with the United States Department of Agriculture Rural Development Program (USDA) in the maximum amount of \$2,900,000. The note includes interest at an annual rate of 3.5 percent, with a scheduled maturity 35 years from the date of the note, with a loan amortization period of 34 years. The proceeds were used to refinance existing debt; purchase real estate for program development and relocation of administrative services from leased property; and renovate properties for residential programs, outpatient programs, and administrative services. The loan is secured by all property and equipment now owned or hereafter acquired for the facilities and all goods now fixtures or to become fixtures to the facilities.

	September 30	
	2015	2014
USDA loan--payable in maximum monthly installments of \$12,267, including interest at 3.5%, due August 20, 2042.	\$ 2,534,909	\$ 2,439,408
Capital lease, copier--payable in monthly installments of \$439, including interest at 12.5%, due July 15, 2016.	4,217	8,654
	2,539,126	2,448,062
Less current maturities	(63,408)	(67,312)
TOTAL LONG-TERM DEBT	<u>\$ 2,475,718</u>	<u>\$ 2,380,750</u>

Long-term debt matures as follows:

Year Ending September 30	Principal	Interest	Total
2016	\$ 63,408	\$ 88,263	\$ 151,671
2017	61,541	85,663	147,204
2018	63,730	83,474	147,204
2019	65,997	81,207	147,204
2020	68,344	78,860	147,204
Thereafter	2,216,106	936,240	3,152,346
	<u>\$ 2,539,126</u>	<u>\$ 1,353,707</u>	<u>\$ 3,892,833</u>

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE H--LONG-TERM DEBT--Continued

Subsequent to September 30, 2015, the Corporation drew additional USDA loan proceeds of \$1,000 to close the initial loan. On October 14, 2015, the Corporation entered into a loan agreement and signed a promissory note with the USDA in the maximum amount of \$100,000. The second note includes interest at an annual rate of 3.25 percent, with a scheduled maturity 34 years from the date of the note. The proceeds were used to finalize the renovation of properties for residential programs, outpatient programs, and administrative services. The loan is to be repaid in monthly installments of \$409, including interest, beginning November 2015. The loan is secured by all property and equipment now owned or hereafter acquired for the facilities and all goods now fixtures or to become fixtures to the facilities.

On February 20, 2016, the Corporation signed a supplementary payment agreement and re-amortization promissory note refinancing the initial USDA loan in the amount of \$2,523,891. The refinanced note includes interest at an annual rate of 3.5 percent, with a scheduled maturity of 32 years and 6 months from the date of the note. The refinanced loan is to be repaid in monthly installments of \$10,942, including interest, beginning March 2016.

The Corporation also paid and capitalized interest in the amounts of \$6,096 and \$37,937 for the years ended September 30, 2015 and 2014, respectively.

NOTE I--LINE OF CREDIT

The Corporation has a line of credit with a local Bank allowing for borrowings up to \$25,000 with a maturity date of February 11, 2017. Interest accrues at a rate of 7.5 percent and is payable on a monthly basis. As of September 30, 2015 and 2014, the amounts outstanding on the line of credit were \$10,000 and \$-0-, respectively. The line of credit is secured by a secondary mortgage on real estate located in Sault Ste. Marie, Michigan.

NOTE J--DESIGNATED NET ASSETS AND TEMPORARILY RESTRICTED NET ASSETS

Designated Net Assets

During the year ended September 30, 2013, the Corporation received a land donation in Ishpeming, Michigan for future development. The appraised value of the land donation was \$182,600 and is included in unrestricted designated net assets as of September 30, 2015.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE J--DESIGNATED NET ASSETS AND TEMPORARILY RESTRICTED NET ASSETS--
Continued

Temporarily Restricted Net Assets

Temporarily restricted net assets represent the following:

	September 30	
	2015	2014
	<u>2015</u>	<u>2014</u>
Agency restricted	\$ 9,665	
Adult residential program services	2,706	\$ 1,620
Youth residential program services	38,829	60,581
Marquette outpatient program services		10,704
Iron Mountain outpatient program services	2,250	
Munising outpatient program services	<u>892</u>	
TOTAL	<u>\$ 54,342</u>	<u>\$ 72,905</u>

NOTE K--POST-RETIREMENT BENEFIT PLAN

The Corporation has a contributory, defined-contribution retirement plan. Employees that meet the following requirements are eligible: (1) employed by the Corporation as of fiscal year end, (2) worked at least 1,000 hours during the previous 12 months, and (3) have been continuously employed by the Corporation for the past 24 months.

Employees are immediately 100 percent vested in their contributions. Investment choices are entirely up to the employee, but the Corporation has engaged an investment advisor to assist employees in their retirement elections. The Corporation may make discretionary contributions as approved by the Board of Directors on an annual basis. The Board of Directors elected not to contribute for the years ended September 30, 2015 and 2014.

NOTE L--LEASES

During the year ended September 30, 2015, the Corporation leased several office spaces throughout the Upper Peninsula of Michigan for its various programs. The expiration dates of the leases range from December 31, 2015 through March 21, 2017. Some leases allow for cancellation with a 30-day written notice.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE L--LEASES--Continued

Future minimum payments under these operating leases are summarized below:

<u>Years Ending September 30</u>	<u>Amount</u>
2016	\$ 75,031
2017	<u>36,780</u>
	<u>\$ 111,811</u>

NOTE M--FUNCTIONAL EXPENSES

The functional presentation of Corporation expenses is as follows:

	<u>September 30</u>	
	<u>2015</u>	<u>2014</u>
Program services	\$ 3,997,725	\$ 3,765,670
Management and general	716,293	824,170
Fundraising	<u>76,121</u>	<u>69,522</u>
TOTAL EXPENSES	<u>\$ 4,790,139</u>	<u>\$ 4,659,362</u>

SUPPLEMENTARY INFORMATION

STATEMENT OF FUNCTIONAL EXPENSES

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2015

	Program Services												
	ARS	DHS Parent Aide	Emergency Crisis Support	Escanaba	Houghton	Iron Mountain	Iron River	Ironwood	Ishpeming	Manistique	Marquette	Menominee	MPRI
EXPENSES													
EMPLOYEE COMPENSATION													
Salaries	\$ 550,735	\$ 1,311	\$ 88,509	\$ 31,206	\$ 1,440	\$ 101,416	\$ 220	\$ 16,047	\$ 167,328	\$ 50,058	\$ 264,201	\$ 10,596	\$ 48,485
Employee health and welfare	57,634	5	85	4,888	8	16,853	14	364	11,268	5,923	5,465	939	8,794
Payroll taxes and workers' compensation	54,050	174	8,023	3,056	133	9,740	18	1,739	15,697	4,919	26,830	1,287	4,257
TOTAL EMPLOYEE COMPENSATION	662,419	1,490	96,617	39,150	1,581	128,009	252	18,150	194,293	60,900	296,496	12,822	61,536
OTHER EXPENSES													
MPRI program													119,859
Program specific costs	62,761			428	100	2,255	39	445	2,795	503	8,817	406	
Rent				6,097	2,000	9,115		8,400		5,123	37,504	7,150	
Professional fees and subcontractors	5,174			5,408	1,265	2,636	3,919	234	7,381	1,391	5,576	12	607
Staff training and travel	5,273	373	898	542	692	3,703	244	2,536	90	1,048	931	2,181	7,177
Utilities	39,926							1,033	5,028				
Building and facility	25,050	145	1,392	981	11	2,713	11	388	4,897	2,053	9,669	491	
Equipment and computer maintenance	14,069			2,908	1,234	5,385	643	1,497	4,692	2,985	9,911	720	
Depreciation	16,662			65		186		79	4,121	484	366	55	
Telephone	5,063	58	375	1,188	634	1,754	682	1,112	1,607	2,152	2,846	884	645
Supplies	17,106	18		477		1,030	4	262	968	800	2,399	183	261
Vehicles	3,808				18	16	172		180			83	
Marketing and advertising	28			110	116	326			28		161	112	
Postage and printing	213			123	13	465	3	95	229	188	513		275
Miscellaneous	130												3,737
Interest	9,720								5,960				
Finance charges						11							
TOTAL OTHER EXPENSES	204,983	594	2,665	18,327	6,083	29,595	5,717	16,081	37,976	16,727	78,693	12,277	132,561
TOTAL FUNCTIONAL EXPENSES	\$ 867,402	\$ 2,084	\$ 99,282	\$ 57,477	\$ 7,664	\$ 157,604	\$ 5,969	\$ 34,231	\$ 232,269	\$ 77,627	\$ 375,189	\$ 25,099	\$ 194,097

STATEMENT OF FUNCTIONAL EXPENSES--Continued

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2015

	Program Services									Supporting Services			Total	
	Munising	Newberry	New Hope Men's	New Hope Women's	Peer Recovery	Prevention	Prison	Sault Ste. Marie	St. Ignace	Youth	Total Program Services	Management and General		Fundraising
EXPENSES														
EMPLOYEE COMPENSATION														
Salaries	\$ 18,065	\$ 12,350	\$ 214,622	\$ 245,555	\$ 26,844	\$ 24,318	\$ 107,520	\$ 71,436	\$ 21,328	\$ 469,272	\$ 2,542,862	\$ 476,625	\$ 40,738	\$ 3,060,225
Employee health and welfare	123	438	7,381	9,645	251	493	1,123	8,634	1,150	32,837	174,315	28,958	441	203,714
Payroll taxes and workers' compensation	1,950	1,218	22,226	25,669	2,524	2,482	10,276	6,437	2,083	47,688	252,476	32,572	4,127	289,175
TOTAL EMPLOYEE COMPENSATION	20,138	14,006	244,229	280,869	29,619	27,293	118,919	86,507	24,561	549,797	2,969,653	538,155	45,306	3,553,114
OTHER EXPENSES														
MPRI program											119,859			119,859
Program specific costs	257	173	18,408	16,637		2,775	36	1,504	191	42,061	160,591	52	25,436	186,079
Rent	3,654	600			600	2,298			3,030		85,571	2,684		88,255
Professional fees and subcontractors	281	185	1,197	3,147	1	104		1,381	247	4,413	44,559	22,018		66,577
Staff training and travel	1,094	4,198	3,213	3,367	70	5,059	17,675	1,343	1,891	2,502	66,100	15,260	3,089	84,449
Utilities			12,432	21,330	2,419			970		34,274	117,412	14,992		132,404
Building and facility	288	324	9,792	10,745	427	1,363	1,588	1,535	452	27,048	101,363	13,930		115,293
Equipment and computer maintenance	1,025	1,182	6,992	9,143		1,396		4,169	1,001	10,785	79,737	11,991		91,728
Depreciation	62	207	10,238	17,816				3,646	102	33,166	87,255	34,138		121,393
Telephone	1,421	1,171	2,269	2,536	1,003	546		1,440	1,072	3,204	33,662	12,508	182	46,352
Supplies	179	38	5,410	5,929		249	244	1,134	144	8,252	45,087	5,718		50,805
Vehicles		42	158	1,356		30	176	8		5,203	11,250	1,175		12,425
Marketing and advertising	352	352	945	329		575		38	394	413	4,279	1,158	2,019	7,456
Postage and printing	111	8	123	85	10	1,221		365	15	264	4,319	5,121	89	9,529
Miscellaneous			14							175	4,056	6,793		10,849
Interest			1,091	7,417				3,569		35,204	62,961	23,106		86,067
Finance charges											11	7,494		7,505
TOTAL OTHER EXPENSES	8,724	8,480	72,282	99,837	4,530	15,616	19,719	21,102	8,539	206,964	1,028,072	178,138	30,815	1,237,025
TOTAL FUNCTIONAL EXPENSES	\$ 28,862	\$ 22,486	\$ 316,511	\$ 380,706	\$ 34,149	\$ 42,909	\$ 138,638	\$ 107,609	\$ 33,100	\$ 756,761	\$ 3,997,725	\$ 716,293	\$ 76,121	\$ 4,790,139



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Great Lakes Recovery Centers, Inc.
Ishpeming, Michigan

We have audited, 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, the financial statements of Great Lakes Recovery Centers, Inc. (Corporation), which comprise the statement of financial position as of September 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Great Lakes Recovery Centers, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Marquette, Michigan

March 16, 2016