

Audited Financial Statements  
and Supplementary Information

GREAT LAKES RECOVERY CENTERS, INC.

September 30, 2016

Audited Financial Statements and Supplementary Information

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Audited Financial Statements

Independent Auditor's Report .....	1
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7

Supplementary Information

Statement of Functional Expenses.....	15
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 <i>Government Auditing Standards</i> .....	17



INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of Great Lakes Recovery Centers, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, 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, 2016 and 2015, 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.

## **Report on Supplementary Information**

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 10, 2017, 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 10, 2017

STATEMENTS OF FINANCIAL POSITION

GREAT LAKES RECOVERY CENTERS, INC.

	September 30	
	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 345,861	\$ 110,659
Investments	51,990	45,750
Accounts receivable, net	659,997	697,734
Prepays and other assets	39,489	39,759
TOTAL CURRENT ASSETS	<u>1,097,337</u>	<u>893,902</u>
<b>NON-CURRENT ASSETS</b>		
Restricted cash--USDA reserve	45,399	30,675
Land, buildings, and equipment, net	3,079,162	3,095,893
TOTAL NON-CURRENT ASSETS	<u>3,124,561</u>	<u>3,126,568</u>
TOTAL ASSETS	<u><u>\$ 4,221,898</u></u>	<u><u>\$ 4,020,470</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 88,977	\$ 250,419
Advance payments on grants	50,000	50,000
Accrued payroll and related liabilities	283,887	241,456
Deferred revenue	5,440	6,888
Accrued interest	2,570	2,431
Line of credit	10,000	10,000
Notes payable--current portion	51,735	63,408
TOTAL CURRENT LIABILITIES	<u>492,609</u>	<u>624,602</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable--long-term portion	2,561,575	2,475,718
TOTAL LONG-TERM LIABILITIES	<u>2,561,575</u>	<u>2,475,718</u>
TOTAL LIABILITIES	<u>3,054,184</u>	<u>3,100,320</u>
<b>NET ASSETS</b>		
<b>Unrestricted</b>		
Designated	182,600	182,600
Undesignated	915,358	683,208
TOTAL UNRESTRICTED NET ASSETS	<u>1,097,958</u>	<u>865,808</u>
Temporarily restricted	69,756	54,342
TOTAL NET ASSETS	<u>1,167,714</u>	<u>920,150</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,221,898</u></u>	<u><u>\$ 4,020,470</u></u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC.

	Year Ended September 30, 2016		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Residential services	\$ 2,931,996		\$ 2,931,996
Outpatient services	1,972,245		1,972,245
Prison services	622,289		622,289
Emergency crisis support	205,071		205,071
Grants and donations	62,134	\$ 126,145	188,279
Other income	51,718		51,718
Net assets released from restrictions	110,731	(110,731)	0
<b>TOTAL SUPPORT AND REVENUE</b>	<b>5,956,184</b>	<b>15,414</b>	<b>5,971,598</b>
Contractual revenue adjustments	(530,386)		(530,386)
<b>NET SUPPORT AND REVENUE</b>	<b>5,425,798</b>	<b>15,414</b>	<b>5,441,212</b>
<b>EXPENSES</b>			
Salaries	3,285,367		3,285,367
Employee health and welfare	211,717		211,717
Payroll taxes and workers' compensation	292,151		292,151
Offender Success Program costs	219,114		219,114
Program specific costs	185,437		185,437
Rent	97,328		97,328
Professional fees and subcontractors	83,197		83,197
Staff training and travel	94,171		94,171
Utilities	134,019		134,019
Building and facility	107,363		107,363
Equipment and computer maintenance	110,577		110,577
Depreciation	122,066		122,066
Telephone	50,917		50,917
Supplies	54,074		54,074
Vehicles	13,577		13,577
Marketing and advertising	7,492		7,492
Postage and printing	8,675		8,675
Miscellaneous	16,713		16,713
Interest	90,865		90,865
Finance charges	8,828		8,828
<b>TOTAL EXPENSES</b>	<b>5,193,648</b>	<b>0</b>	<b>5,193,648</b>
<b>CHANGE IN NET ASSETS</b>	<b>232,150</b>	<b>15,414</b>	<b>247,564</b>
Net assets at beginning of year	865,808	54,342	920,150
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,097,958</b>	<b>\$ 69,756</b>	<b>\$ 1,167,714</b>

See notes to financial statements.

STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC.

	Year Ended September 30, 2015		
	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>			
Residential services	\$ 2,742,953		\$ 2,742,953
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	15,071		15,071
Net assets released from restrictions	82,144	(82,144)	0
<b>TOTAL SUPPORT AND REVENUE</b>	<b>5,119,847</b>	<b>(18,563)</b>	<b>5,101,284</b>
Contractual revenue adjustments	(363,199)		(363,199)
<b>NET SUPPORT AND REVENUE</b>	<b>4,756,648</b>	<b>(18,563)</b>	<b>4,738,085</b>
<b>EXPENSES</b>			
Salaries	3,060,225		3,060,225
Employee health and welfare	203,714		203,714
Payroll taxes and workers' compensation	289,175		289,175
Offender Success Program costs	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
<b>TOTAL EXPENSES</b>	<b>4,790,139</b>	<b>0</b>	<b>4,790,139</b>
<b>CHANGE IN NET ASSETS</b>	<b>(33,491)</b>	<b>(18,563)</b>	<b>(52,054)</b>
Net assets at beginning of year	899,299	72,905	972,204
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 865,808</b>	<b>\$ 54,342</b>	<b>\$ 920,150</b>

See notes to financial statements.

## STATEMENTS OF CASH FLOWS

### GREAT LAKES RECOVERY CENTERS, INC.

	Year Ended September 30	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from grants, contracts, fee for services, and donors	\$ 5,471,261	\$ 4,703,226
Cash paid to employees and suppliers	(5,099,458)	(4,610,494)
Interest paid	(90,726)	(85,945)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>281,077</u>	<u>6,787</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in restricted cash	(14,724)	(14,724)
Purchase of fixed assets	(105,335)	(266,202)
NET CASH USED BY INVESTING ACTIVITIES	<u>(120,059)</u>	<u>(280,926)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowing	126,628	185,500
Net proceeds from line of credit		10,000
Payment of debt principal	(52,444)	(88,436)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>74,184</u>	<u>107,064</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	235,202	(167,075)
Cash and cash equivalents at beginning of year	<u>110,659</u>	<u>277,734</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 345,861</u>	<u>\$ 110,659</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in net assets	\$ 247,564	\$ (52,054)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	122,066	121,393
Unrealized appreciation on investments	(6,240)	
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	37,737	(41,747)
(Increase) Decrease in prepaid expenses	270	(27,170)
Decrease in accounts payable	(161,442)	(4,344)
Increase in accrued payroll and related liabilities	42,431	3,699
Increase (Decrease) in other liabilities	(1,309)	7,010
NET ADJUSTMENTS	<u>33,513</u>	<u>58,841</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 281,077</u>	<u>\$ 6,787</u>

See notes to financial statements.



## NOTES TO FINANCIAL STATEMENTS

GREAT LAKES RECOVERY CENTERS, INC.

September 30, 2016

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

Nature of Business: Great Lakes Recovery Centers, Inc., a Michigan nonprofit 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, as well as with insurance funded clients, tribal communities, and local healthcare providers. The Corporation's operations include residential treatment programs in four locations and 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 in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

Financial Statement Presentation: The Corporation has presented its financial statements in accordance with U.S. GAAP for nonprofit 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: Represent 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; however, the Corporation periodically adjusts the market value based on recent stock valuations and sale prices.

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.

Functional Allocation of Expenses: The Corporation's operating costs have been allocated between program services and supporting services. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Other expenses which apply to more than one functional category have been allocated based on various bases as determined by management.

Use of Estimates: The preparation of financial statements in conformity with U.S. 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, 2015, have been reclassified to conform to the current year's presentation.

Subsequent Events: Subsequent events were evaluated through March 10, 2017, 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	
	2016	2015
Contracts	\$ 628,386	\$ 570,556
Insurance	66,040	168,216
Other	1,440	1,262
	<u>695,866</u>	<u>740,034</u>
Less allowance for uncollectible accounts	<u>(35,869)</u>	<u>(42,300)</u>
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE	<u>\$ 659,997</u>	<u>\$ 697,734</u>

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE C--INVESTMENTS

The cost and fair value of investment securities are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
<u>September 30, 2016:</u>			
Investments	\$ 30,000	\$ 51,990	\$ 21,990
<u>September 30, 2015:</u>			
Investments	\$ 30,000	\$ 45,750	\$ 15,750

U.S. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to determine fair value. The hierarchy consists of the three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; Level 3 inputs consist of unobservable inputs and have the lowest priority. The Corporation's investments are valued using Level 2 inputs.

NOTE D--LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consists of the following:

	<u>September 30</u>	
	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 279,100	\$ 279,100
Machinery and equipment	174,547	148,722
Buildings and improvements	3,373,483	3,349,059
Furniture and fixtures	88,897	100,014
Vehicles	49,637	32,070
	<u>3,965,664</u>	<u>3,908,965</u>
Less accumulated depreciation	<u>(886,502)</u>	<u>(813,072)</u>
LAND, BUILDINGS, AND EQUIPMENT, NET	<u>\$ 3,079,162</u>	<u>\$ 3,095,893</u>

NOTE E--ACCRUED PAYROLL AND RELATED LIABILITIES

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

	<u>September 30</u>	
	<u>2016</u>	<u>2015</u>
Accrued payroll	\$ 222,585	\$ 182,112
Accrued payroll liabilities	<u>61,302</u>	<u>59,344</u>
ACCRUED PAYROLL AND RELATED LIABILITIES	<u>\$ 283,887</u>	<u>\$ 241,456</u>

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

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, 2016 and 2015, is \$50,000. Subsequent to September 30, 2016, the remaining balance of \$50,000 was paid to NorthCare.

NOTE G--DEFERRED REVENUE

Deferred revenue at September 30, 2016, consists of client payments for services to be performed in the subsequent year in the amount of \$5,440. This amount was recognized as revenue during the year ending September 30, 2017, as services were performed in 2017. Deferred revenue at September 30, 2015, represents funds received as an advance for expenses for the Offender Success Program 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 during the year ended September 30, 2016, as services were performed in 2016.

NOTE H--LONG-TERM DEBT

The following is a summary of the Corporation's long-term debt at September 30, 2016:

	September 30	
	2016	2015
USDA loan--payable in maximum monthly installments of \$11,032, including interest at 3.5%, due August 20, 2047; 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.	\$ 2,497,745	\$ 2,534,909
USDA loan--payable in maximum monthly installments of \$409, including interest at 3.25%, due April 14, 2049; 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.	98,463	
Vehicle loan--payable in monthly installments of \$412, including interest at 4.25%, due June 13, 2020; secured by the vehicle.	17,102	
Capital lease, copier--payable in monthly installments of \$439, including interest at 12.5%, due July 15, 2016; secured by the copier.		4,217
	<u>2,613,310</u>	<u>2,539,126</u>
Less current maturities	<u>(51,735)</u>	<u>(63,408)</u>
TOTAL LONG-TERM DEBT	<u>\$ 2,561,575</u>	<u>\$ 2,475,718</u>

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE H--LONG-TERM DEBT--Continued

Long-term debt matures as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 51,735	\$ 90,504	\$ 142,239
2018	53,604	88,635	142,239
2019	55,541	86,698	142,239
2020	56,281	84,696	140,977
2021	54,528	82,764	137,292
Thereafter	<u>2,341,621</u>	<u>1,221,850</u>	<u>3,563,471</u>
	<u>\$ 2,613,310</u>	<u>\$ 1,655,147</u>	<u>\$ 4,268,457</u>

The Corporation capitalized interest on the USDA loan in the amount of \$6,096 for the year ended September 30, 2015.

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, 2019. Interest accrues at a rate of 7.5 percent and is payable on a monthly basis. As of September 30, 2016 and 2015, the amount outstanding on the line of credit was \$10,000. 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, 2016 and 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	
	2016	2015
Adult residential program services	\$ 15,281	\$ 2,706
Youth residential program services	17,642	38,829
Hancock outpatient program services	1,034	
Iron Mountain outpatient program services	2,500	2,250
Munising outpatient program services	892	892
Sault Ste. Marie outpatient program services	344	
Women's residential program services	136	
Mental health first aide training	25,103	
Foundation fund	2,350	
Compassionate care fund	4,419	4,419
MDCH health innovation telehealth grant		4,542
UPS marketing grant	55	704
	<u>55</u>	<u>704</u>
TOTAL	<u>\$ 69,756</u>	<u>\$ 54,342</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, 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE L--LEASES

During the years ended September 30, 2016 and 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 March 31, 2017 through February 28, 2022. Some leases allow for cancellation with a 30-day written notice.

Future minimum payments under non-cancellable operating leases are summarized below:

<u>Year Ending September 30</u>	<u>Amount</u>
2017	\$ 73,807
2018	77,098
2019	53,973
2020	11,923
2021	11,923
Thereafter	<u>16,198</u>
	<u><u>\$ 244,922</u></u>

The Corporation leases office space to a tenant under a non-cancellable operating lease which expires May 31, 2017. Future minimum payments under the operating lease are \$4,560 for the year ended September 30, 2107.

NOTE M--FUNCTIONAL EXPENSES

The functional presentation of Corporation expenses is as follows:

	September 30	
	<u>2016</u>	<u>2015</u>
Program services	\$ 4,359,971	\$ 3,997,725
Management and general	751,552	716,293
Fundraising	<u>82,125</u>	<u>76,121</u>
TOTAL EXPENSES	<u><u>\$ 5,193,648</u></u>	<u><u>\$ 4,790,139</u></u>



## SUPPLEMENTARY INFORMATION

STATEMENT OF FUNCTIONAL EXPENSES

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2016

	Program Services												
	Adult Residential Services	Emergency Crisis Support	Escanaba Outpatient	Hancock Outpatient	Iron Mountain Outpatient	Iron River Outpatient	Ironwood Outpatient	Ishpeming Outpatient	Manistique Outpatient	Marquette Outpatient	Menominee Outpatient	Munising Outpatient	Newberry Outpatient
EXPENSES													
EMPLOYEE COMPENSATION													
Salaries	\$ 641,606	\$ 95,772	\$ 70,457	\$ 28,851	\$ 88,374	\$ 20,718	\$ 11,408	\$ 167,247	\$ 30,422	\$ 256,865	\$ 1,244	\$ 15,033	\$ 19,342
Employee health and welfare	60,318	88	7,167	367	11,834	309	165	9,529	67	13,643	12	220	614
Payroll taxes and workers' compensation	58,619	8,228	6,527	2,877	8,238	2,104	1,209	15,140	3,083	23,860	138	1,517	1,705
TOTAL EMPLOYEE COMPENSATION	760,543	104,088	84,151	32,095	108,446	23,131	12,782	191,916	33,572	294,368	1,394	16,770	21,661
OTHER EXPENSES													
Offender Success Program costs													
Program specific costs	60,908		161	135	312	535		674	69	5,645			76
Rent			7,997	11,136	8,937	7,125	700		3,529	34,222	1,180	3,733	600
Professional fees and subcontractors	6,694		4,804	17,505	2,881	2,825	229	7,390	531	4,974		284	340
Staff training and travel	5,174		1,194	2,073	4,459	542	1,494	736	1,112	1,615	434	912	6,648
Utilities	43,074					360	356	5,169					
Building and facility	27,276	1,545	1,201	40	3,043	3	423	4,916	2,388	6,487	361	276	359
Equipment and computer maintenance	12,657		3,299	965	4,346	2,088	1,355	4,151	2,456	10,620	578	1,052	1,145
Depreciation	22,765		71		484		86	4,816	898	278	40	68	595
Telephone	5,108	376	1,266	1,616	1,838	1,137	1,251	1,499	820	2,671	484	1,460	1,369
Supplies	17,962		1,206	614	999	312	150	786	358	2,857		113	191
Vehicles	3,949			146	142	68		3	31	5	120		
Marketing and advertising			656	60	332			841		951	120	44	
Postage and printing	108		109	281	275		53	77	84	274			24
Miscellaneous	364		125	149	125	125	125	125	125	125		345	301
Interest	10,722							6,092					
Finance charges	227						1	28					
TOTAL OTHER EXPENSES	216,988	1,921	22,089	34,720	28,173	15,120	6,223	37,303	12,401	70,724	3,317	8,287	11,648
TOTAL FUNCTIONAL EXPENSES	\$ 977,531	\$ 106,009	\$ 106,240	\$ 66,815	\$ 136,619	\$ 38,251	\$ 19,005	\$ 229,219	\$ 45,973	\$ 365,092	\$ 4,711	\$ 25,057	\$ 33,309

STATEMENT OF FUNCTIONAL EXPENSES--Continued

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2016

	Program Services									Supporting Services			
	New Hope Men's Residential	New Hope Women's Residential	Offender Success Program	Peer Recovery Services	Prevention Services	Prison Services	Sault Ste. Marie Outpatient	St. Ignace Outpatient	Youth Adolescent Services	Total Program Services	Management and General	Fundraising	Total
<b>EXPENSES</b>													
<b>EMPLOYEE COMPENSATION</b>													
Salaries	\$ 213,092	\$ 250,897	\$ 66,267	\$ 55,712	\$ 48,231	\$ 126,768	\$ 62,551	\$ 24,702	\$ 453,440	\$ 2,748,999	\$ 492,562	\$ 43,806	\$ 3,285,367
Employee health and welfare	7,195	13,744	10,773	2,984	4,558	1,453	8,964	724	17,363	172,091	35,169	4,457	211,717
Payroll taxes and workers' compensation	20,794	23,873	5,868	5,020	4,429	11,252	5,556	2,224	41,951	254,212	33,731	4,208	292,151
<b>TOTAL EMPLOYEE COMPENSATION</b>	<b>241,081</b>	<b>288,514</b>	<b>82,908</b>	<b>63,716</b>	<b>57,218</b>	<b>139,473</b>	<b>77,071</b>	<b>27,650</b>	<b>512,754</b>	<b>3,175,302</b>	<b>561,462</b>	<b>52,471</b>	<b>3,789,235</b>
<b>OTHER EXPENSES</b>													
Offender Success Program costs			219,114							219,114			219,114
Program specific costs	16,383	23,400			11,581		693	74	40,992	161,638		23,799	185,437
Rent			4,424	4,404	4,637			2,319		94,943	2,385		97,328
Professional fees and subcontractors	1,574	1,634	1,038	26	34		1,744	291	5,450	60,248	22,906	43	83,197
Staff training and travel	2,417	2,460	13,627	1,357	7,428	17,600	806	496	4,887	77,471	15,705	995	94,171
Utilities	10,843	20,393		2,388			994		34,941	118,518	15,501		134,019
Building and facility	9,998	12,993		473	1,530	1,758	1,137	559	21,537	98,303	8,503	557	107,363
Equipment and computer maintenance	8,498	9,958	1,623		3,263	662	3,985	1,951	9,937	84,589	25,144	844	110,577
Depreciation	10,161	18,579					3,664	238	34,730	97,473	24,593		122,066
Telephone	1,788	2,163	1,355	1,217	1,607		1,383	894	2,699	34,001	16,604	312	50,917
Supplies	5,249	6,516	464		19	65	1,229	58	7,939	47,087	6,969	18	54,074
Vehicles	362	1,769			248		104		5,158	12,105	1,457	15	13,577
Marketing and advertising	300	300			496		300			4,400	892	2,200	7,492
Postage and printing	74	17	282		56	126	156	15	263	2,274	6,307	94	8,675
Miscellaneous	472	125	200					125	125	3,081	12,855	777	16,713
Interest	1,242	7,909					3,808		38,340	68,113	22,752		90,865
Finance charges	227	112					50		666	1,311	7,517		8,828
<b>TOTAL OTHER EXPENSES</b>	<b>69,588</b>	<b>108,328</b>	<b>242,127</b>	<b>9,865</b>	<b>30,899</b>	<b>20,211</b>	<b>20,053</b>	<b>7,020</b>	<b>207,664</b>	<b>1,184,669</b>	<b>190,090</b>	<b>29,654</b>	<b>1,404,413</b>
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 310,669</b>	<b>\$ 396,842</b>	<b>\$ 325,035</b>	<b>\$ 73,581</b>	<b>\$ 88,117</b>	<b>\$ 159,684</b>	<b>\$ 97,124</b>	<b>\$ 34,670</b>	<b>\$ 720,418</b>	<b>\$ 4,359,971</b>	<b>\$ 751,552</b>	<b>\$ 82,125</b>	<b>\$ 5,193,648</b>



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) (a nonprofit organization), which comprise the statement of financial position as of September 30, 2016, 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 10, 2017.

**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 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 10, 2017