

Audited Financial Statements
and Supplementary Information

GREAT LAKES RECOVERY CENTERS, INC.

Years Ended September 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 22, 2018, 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 & Katona, P.C.

March 22, 2018

STATEMENTS OF FINANCIAL POSITION

GREAT LAKES RECOVERY CENTERS, INC.

	September 30	
	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 512,588	\$ 345,861
Investments	71,806	51,990
Accounts receivable, net	788,511	659,997
Prepays and other assets	31,500	39,489
TOTAL CURRENT ASSETS	<u>1,404,405</u>	<u>1,097,337</u>
NON-CURRENT ASSETS		
Restricted cash--USDA reserve	60,123	45,399
Land, buildings, and equipment, net	3,033,802	3,079,162
TOTAL NON-CURRENT ASSETS	<u>3,093,925</u>	<u>3,124,561</u>
TOTAL ASSETS	<u>\$ 4,498,330</u>	<u>\$ 4,221,898</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 116,703	\$ 88,977
Advance payments on grants		50,000
Accrued payroll and related liabilities	316,068	283,887
Deferred revenue	280	5,440
Accrued interest	2,514	2,570
Line of credit		10,000
Notes payable--current portion	53,603	51,735
TOTAL CURRENT LIABILITIES	<u>489,168</u>	<u>492,609</u>
LONG-TERM LIABILITIES		
Notes payable--long-term portion	2,507,981	2,561,575
TOTAL LONG-TERM LIABILITIES	<u>2,507,981</u>	<u>2,561,575</u>
TOTAL LIABILITIES	2,997,149	3,054,184
NET ASSETS		
Unrestricted		
Designated	182,600	182,600
Undesignated	1,236,813	915,358
TOTAL UNRESTRICTED NET ASSETS	<u>1,419,413</u>	<u>1,097,958</u>
Temporarily restricted	81,768	69,756
TOTAL NET ASSETS	<u>1,501,181</u>	<u>1,167,714</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,498,330</u>	<u>\$ 4,221,898</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC.

	Year Ended September 30, 2017		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Residential services	\$ 3,426,363		\$ 3,426,363
Outpatient services	2,129,915		2,129,915
Prison services	725,139		725,139
Emergency crisis support	231,676		231,676
Grants and donations	83,996	\$ 72,265	156,261
Other income	109,245		109,245
Net assets released from restrictions	60,253	(60,253)	0
TOTAL SUPPORT AND REVENUE	6,766,587	12,012	6,778,599
Contractual revenue adjustments	(393,285)		(393,285)
NET SUPPORT AND REVENUE	6,373,302	12,012	6,385,314
EXPENSES			
Salaries	3,859,056		3,859,056
Employee health and welfare	260,446		260,446
Payroll taxes and workers' compensation	343,261		343,261
Offender Success Program costs	201,401		201,401
Program specific costs	218,180		218,180
Rent	117,161		117,161
Professional fees and subcontractors	89,970		89,970
Staff training and travel	122,073		122,073
Utilities	146,700		146,700
Building and facility	127,209		127,209
Equipment and computer maintenance	147,073		147,073
Depreciation	124,100		124,100
Telephone	60,629		60,629
Supplies	70,905		70,905
Vehicles	17,520		17,520
Marketing and advertising	18,241		18,241
Postage and printing	9,451		9,451
Miscellaneous	26,565		26,565
Interest	89,815		89,815
Finance charges	2,091		2,091
TOTAL EXPENSES	6,051,847	0	6,051,847
CHANGE IN NET ASSETS	321,455	12,012	333,467
Net assets at beginning of year	1,097,958	69,756	1,167,714
NET ASSETS AT END OF YEAR	\$ 1,419,413	\$ 81,768	\$ 1,501,181

See notes to financial statements.

STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC.

	Year Ended September 30, 2016		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
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
TOTAL SUPPORT AND REVENUE	5,956,184	15,414	5,971,598
Contractual revenue adjustments	(530,386)		(530,386)
NET SUPPORT AND REVENUE	5,425,798	15,414	5,441,212
EXPENSES			
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
TOTAL EXPENSES	5,193,648	0	5,193,648
CHANGE IN NET ASSETS	232,150	15,414	247,564
Net assets at beginning of year	865,808	54,342	920,150
NET ASSETS AT END OF YEAR	\$ 1,097,958	\$ 69,756	\$ 1,167,714

See notes to financial statements.

STATEMENTS OF CASH FLOWS

GREAT LAKES RECOVERY CENTERS, INC.

	Year Ended September 30	
	2017	2016
	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants, contracts, fee for services, and donors	\$ 6,231,824	\$ 5,471,261
Cash paid to employees and suppliers	(5,770,036)	(5,099,458)
Interest paid	(89,871)	(90,726)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>371,917</u>	<u>281,077</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash	(14,724)	(14,724)
Purchase of fixed assets	(78,740)	(105,335)
NET CASH USED BY INVESTING ACTIVITIES	<u>(93,464)</u>	<u>(120,059)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowing		126,628
Principal payments on notes payable	(51,726)	(52,444)
Net payments on line of credit	(10,000)	
Repayment of grant advance	(50,000)	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(111,726)</u>	<u>74,184</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	166,727	235,202
Cash and cash equivalents at beginning of year	<u>345,861</u>	<u>110,659</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 512,588</u>	<u>\$ 345,861</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 333,467	\$ 247,564
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	124,100	122,066
Donation of stock	(5,000)	
Unrealized appreciation on investments	(14,816)	(6,240)
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(128,514)	37,737
Decrease in prepaid expenses	7,989	270
Increase (Decrease) in accounts payable	27,726	(161,442)
Increase in accrued payroll and related liabilities	32,181	42,431
Decrease in other liabilities	(5,216)	(1,309)
NET ADJUSTMENTS	<u>38,450</u>	<u>33,513</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 371,917</u>	<u>\$ 281,077</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GREAT LAKES RECOVERY CENTERS, INC.

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. The Corporation also holds daily traded mutual funds, that are valued based on quoted market prices in active markets.

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. Property and equipment is 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.

Subsequent Events: Subsequent events were evaluated through March 22, 2018, 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	
	2017	2016
Contracts	\$ 787,370	\$ 628,386
Insurance	58,664	66,040
Other	6,997	1,440
	<u>853,031</u>	<u>695,866</u>
Less allowance for uncollectible accounts	<u>(64,520)</u>	<u>(35,869)</u>
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE	<u>\$ 788,511</u>	<u>\$ 659,997</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, 2017:</u>			
Common stock	\$ 30,000	\$ 66,600	\$ 36,600
Mutual funds	5,000	5,206	206
INVESTMENTS	<u>\$ 35,000</u>	<u>\$ 71,806</u>	<u>\$ 36,806</u>
<u>September 30, 2016:</u>			
Common stock	\$ 30,000	\$ 51,990	\$ 21,990
INVESTMENTS	<u>\$ 30,000</u>	<u>\$ 51,990</u>	<u>\$ 21,990</u>

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value. The hierarchy consists of three broad levels:

Level 1: Unadjusted quoted prices in active markets for identical assets that are accessible at the measurement date.

Level 2: Quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; or inputs that are observable, either directly or indirectly.

Level 3: Inputs are unobservable, that is, the inputs are supported by little or no market activity.

The following table sets forth, by level within the fair value hierarchy, the Corporation's investments measured at fair value:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
<u>September 30, 2017:</u>			
Common stock	\$ 66,600		\$ 66,600
Mutual funds	5,206	\$ 5,206	
INVESTMENTS	<u>\$ 71,806</u>	<u>\$ 5,206</u>	<u>\$ 66,600</u>
<u>September 30, 2016:</u>			
Common stock	\$ 51,990		\$ 51,990
INVESTMENTS	<u>\$ 51,990</u>	<u>\$ 0</u>	<u>\$ 51,990</u>

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE D--LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consists of the following:

	September 30	
	2017	2016
Land and improvements	\$ 279,100	\$ 279,100
Machinery and equipment	155,555	174,547
Buildings and improvements	3,429,244	3,373,483
Furniture and fixtures	74,557	88,897
Vehicles	57,124	49,637
	<u>3,995,580</u>	<u>3,965,664</u>
Less accumulated depreciation	<u>(961,778)</u>	<u>(886,502)</u>
LAND, BUILDINGS, AND EQUIPMENT, NET	<u>\$ 3,033,802</u>	<u>\$ 3,079,162</u>

NOTE E--ACCRUED PAYROLL AND RELATED LIABILITIES

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

	September 30	
	2017	2016
Accrued payroll	\$ 252,784	\$ 222,585
Accrued payroll liabilities	<u>63,284</u>	<u>61,302</u>
ACCRUED PAYROLL AND RELATED LIABILITIES	<u>\$ 316,068</u>	<u>\$ 283,887</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, 2017 and 2016, was \$0- and \$50,000, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE G--LONG-TERM DEBT

The following is a summary of the Corporation's long-term debt:

	September 30	
	2017	2016
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.	\$ 2,452,048	\$ 2,497,745
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.	96,729	98,463
Vehicle loan--payable in monthly installments of \$412, including interest at 4.25%, due June 13, 2020; secured by the vehicle.	12,807	17,102
	<u>2,561,584</u>	<u>2,613,310</u>
Less current maturities	<u>(53,603)</u>	<u>(51,735)</u>
TOTAL LONG-TERM DEBT	<u>\$ 2,507,981</u>	<u>\$ 2,561,575</u>

Long-term debt matures as follows:

Year Ending September 30	Principal	Interest	Total
2018	\$ 53,603	\$ 88,642	\$ 142,245
2019	55,537	86,703	142,240
2020	56,292	84,698	140,990
2021	54,528	82,764	137,292
2022	56,462	80,830	137,292
Thereafter	<u>2,285,162</u>	<u>1,140,828</u>	<u>3,425,990</u>
	<u>\$ 2,561,584</u>	<u>\$ 1,564,465</u>	<u>\$ 4,126,049</u>

NOTE H--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 2 percent above the Wall Street Journal Prime Rate, with a minimum rate of 7.5 percent, and is payable on a monthly basis. As of September 30, 2017 and 2016, the amount outstanding on the line of credit was \$-0- and \$10,000, respectively. The line of credit is secured by a secondary mortgage on real estate located in Sault Ste. Marie, Michigan, and Marquette, Michigan.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE I--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, 2017 and 2016.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent the following:

	September 30	
	2017	2016
Adult residential program services	\$ 2,666	\$ 15,281
Youth residential program services	36,251	17,642
Hancock outpatient program services	2,816	1,034
Iron Mountain outpatient program services	1,250	2,500
Ishpeming outpatient program services	9,854	
Marquette outpatient program services	1,195	
Munising outpatient program services		892
Sault Ste. Marie outpatient program services		344
AcuDetox program	1,815	
Women's residential program services		136
Mental health first aide training	13,299	25,103
Foundation fund	2,690	2,350
Compassionate care fund	4,444	4,419
Suicide prevention services	5,488	
UPS marketing grant		55
	<u> </u>	<u> </u>
TOTAL	<u>\$ 81,768</u>	<u>\$ 69,756</u>

NOTE J--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, 2017 and 2016.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE K--LEASES

During the years ended September 30, 2017 and 2016, 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, 2018 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>
2018	\$ 99,951
2019	74,568
2020	16,303
2021	13,123
2022	<u>16,698</u>
	<u>\$ 220,643</u>

The Corporation leases office space to a tenant under a non-cancellable operating lease which expired May 31, 2017. Subsequently, the lease is a month-to-month agreement.

NOTE L--FUNCTIONAL EXPENSES

The functional presentation of Corporation expenses is as follows:

	September 30	
	<u>2017</u>	<u>2016</u>
Program services	\$ 5,090,825	\$ 4,359,971
Management and general	808,786	751,552
Fundraising	<u>152,236</u>	<u>82,125</u>
TOTAL EXPENSES	<u>\$ 6,051,847</u>	<u>\$ 5,193,648</u>

SUPPLEMENTARY INFORMATION

STATEMENT OF FUNCTIONAL EXPENSES

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2017

	Program Services												
	Adult Residential Services	Emergency Crisis Support	Escanaba Outpatient	Foundation Agency Programs	Hancock Outpatient	Iron Mountain Outpatient	Iron River Outpatient	Ironwood Outpatient	Ishpeming Outpatient	Manistique Outpatient	Marquette Outpatient	Munising Outpatient	Newberry Outpatient
EXPENSES													
EMPLOYEE COMPENSATION													
Salaries	\$ 721,409	\$ 104,537	\$ 77,862		\$ 56,579	\$ 89,024	\$ 23,586	\$ 16,074	\$ 207,799	\$ 1,516	\$ 274,910	\$ 2,496	\$ 16,149
Employee health and welfare	56,777	384	11,117		4,682	2,141	297	168	12,023	3	15,091	30	1,404
Payroll taxes and workers compensation	64,730	8,802	6,942		5,112	7,779	2,208	1,534	18,109	168	25,088	268	1,542
TOTAL EMPLOYEE COMPENSATION	842,916	113,723	95,921	\$ 0	66,373	98,944	26,091	17,776	237,931	1,687	315,089	2,794	19,095
OTHER EXPENSES													
Offender Success program costs													
Program specific costs	64,905		183	30,170	160	170	83	26	3,359	97	10,655	22	22
Rent			11,015		13,395	6,385	3,875	3,900		219	40,882	3,150	600
Professional fees and subcontractors	5,210		8,357		20,629	2,818	618	212	7,312		6,340		154
Staff training and travel	9,603	38	1,662		2,236	4,195	490	733	383		1,554	821	385
Utilities	51,494							485	5,641				
Building/facility	26,801	1,563	1,176	331		3,067		474	4,401	2,031	6,301	289	374
Equipment and computer maintenance	18,995	515	4,910	1,300	2,517	4,124	1,988	1,626	5,638	2,654	13,269	1,016	1,257
Depreciation	19,289		71			43		86	4,807	381	278	327	78
Telephone	6,758	375	1,749		1,417	1,450	1,754	1,789	1,266	59	2,565	1,000	1,197
Supplies	19,816		1,439		1,022	1,792	477	137	1,549	226	3,592		218
Vehicles	5,017		5		42	20	61	38			49	16	140
Marketing and advertising	414		353		235	372	39	187	1,078		1,218		55
Postage and printing	234		166		295	321	66	40	25	13	415		
Miscellaneous	556		500	200	580	500	500	500	500	500	500	333	500
Interest	10,550								5,994				
Finance charges							5						
TOTAL OTHER EXPENSES	239,642	2,491	31,586	32,001	42,528	25,257	9,956	10,233	41,953	6,180	87,618	6,974	4,980
TOTAL FUNCTIONAL EXPENSES	\$ 1,082,558	\$ 116,214	\$ 127,507	\$ 32,001	\$ 108,901	\$ 124,201	\$ 36,047	\$ 28,009	\$ 279,884	\$ 7,867	\$ 402,707	\$ 9,768	\$ 24,075

STATEMENT OF FUNCTIONAL EXPENSES--Continued

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2017

	Program Services									Supporting Services			
	NH Men's Residential Services	NH Women's Residential Services	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
EXPENSES													
EMPLOYEE COMPENSATION													
Salaries	\$ 218,716	\$ 270,472	\$ 135,618	\$ 55,803	\$ 114,074	\$ 126,893	\$ 110,557	\$ 35,075	\$ 574,427	\$ 3,233,576	\$ 522,591	\$ 102,889	\$ 3,859,056
Employee health and welfare	3,108	18,597	13,421	6,522	9,595	6,421	17,029	1,633	31,979	212,422	31,406	16,618	260,446
Payroll taxes and workers compensation	20,290	24,790	11,942	4,897	10,411	11,078	9,327	3,163	52,333	290,513	43,526	9,222	343,261
TOTAL EMPLOYEE COMPENSATION	242,114	313,859	160,981	67,222	134,080	144,392	136,913	39,871	658,739	3,736,511	597,523	128,729	4,462,763
OTHER EXPENSES													
Offender Success program costs			201,401							201,401			201,401
Program specific costs	22,170	23,277			4,052		3,352	22	55,084	217,809	371		218,180
Rent			13,926	4,186	9,092			2,256		112,881	2,377	1,903	117,161
Professional fees and subcontractors	1,505	1,680	1,052	72	98	50	1,427	202	14,738	72,474	17,325	171	89,970
Staff training and travel	2,827	3,726	22,548	5,090	7,777	19,984	925	392	7,421	92,790	21,852	7,431	122,073
Utilities	15,979	21,965		2,165			1,040		33,624	132,393	14,307		146,700
Building/facility	8,771	17,537		481	1,563	1,989	1,337	452	29,187	108,125	19,084		127,209
Equipment and computer maintenance	8,355	11,276	1,649		1,539	1,066	4,666	2,609	19,928	110,897	33,736	2,440	147,073
Depreciation	10,374	20,393					3,715	111	39,088	99,041	25,059		124,100
Telephone	2,269	2,523	3,266	2,049	4,929		1,339	1,612	2,668	42,034	17,573	1,022	60,629
Supplies	4,862	6,698	5,519		1,019	474	1,789	229	11,670	62,528	8,209	168	70,905
Vehicles	800	833		69	38	150	80	118	6,922	14,398	3,122		17,520
Marketing and advertising	168	168			1,848		168	263	481	7,047	2,366	8,828	18,241
Postage and printing	217	73	437		138		179	140	197	2,956	5,799	696	9,451
Miscellaneous	1,039	967	588					500	1,034	9,797	15,920	848	26,565
Interest	1,222	7,782					3,747		37,725	67,020	22,795		89,815
Finance charges	671								47	723	1,368		2,091
TOTAL OTHER EXPENSES	81,229	118,898	250,386	14,112	32,093	23,713	23,764	8,906	259,814	1,354,314	211,263	23,507	1,589,084
TOTAL FUNCTIONAL EXPENSES	\$ 323,343	\$ 432,757	\$ 411,367	\$ 81,334	\$ 166,173	\$ 168,105	\$ 160,677	\$ 48,777	\$ 918,553	\$ 5,090,825	\$ 808,786	\$ 152,236	\$ 6,051,847

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, 2017, 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 22, 2018.

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 of this section 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 & Katona, P.C.

March 22, 2018