

Audited Financial Statements
And Supplementary Information

GREAT LAKES RECOVERY CENTERS, INC.

September 30, 2014

Audited Financial Statements and Supplementary Information

GREAT LAKES RECOVERY CENTERS, INC.

September 30, 2014

Audited Financial Statements

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of Great Lakes Recovery Centers, Inc., (a non-profit organization) which comprise the statements of financial position as of September 30, 2014 and 2013, 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.

Our goal is to help you meet yours!

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, 2014 and 2013, 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 expense is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 23, 2015, 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, Toussant, Hill & Nardi, P.C.

Marquette, Michigan

March 23, 2015

STATEMENTS OF FINANCIAL POSITION

GREAT LAKES RECOVERY CENTERS, INC.

	September 30	
	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 277,734	\$ 378,807
Investments	45,750	45,750
Accounts receivable, net of allowance of \$40,190 and \$40,545, respectively	655,987	549,714
Due from USDA	31,000	
Prepays and other assets	12,589	8,237
TOTAL CURRENT ASSETS	1,023,060	982,508
NON-CURRENT ASSETS		
Restricted cash--USDA reserve	15,951	
Land, buildings, and equipment, net	3,004,798	2,298,103
TOTAL NON-CURRENT ASSETS	3,020,749	2,298,103
TOTAL ASSETS	\$ 4,043,809	\$ 3,280,611
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 254,763	\$ 148,441
Contractor retainage payable--construction project	53,714	
Advance payments on grants--current portion	50,000	50,000
Accrued payroll and related liabilities	237,757	276,107
Deferred revenue		27,287
Accrued interest	2,309	5,810
Notes payable--current portion	67,312	7,960
TOTAL CURRENT LIABILITIES	665,855	515,605
LONG-TERM LIABILITIES		
Advance payments on grants--long-term portion	25,000	50,000
Notes payable--long-term portion	2,380,750	1,716,507
TOTAL LONG-TERM LIABILITIES	2,405,750	1,766,507
TOTAL LIABILITIES	3,071,605	2,282,112
NET ASSETS		
Unrestricted		
Designated	182,600	182,600
Undesignated	716,699	805,097
TOTAL UNRESTRICTED NET ASSETS	899,299	987,697
Temporarily restricted	72,905	10,802
TOTAL NET ASSETS	972,204	998,499
TOTAL LIABILITIES AND NET ASSETS	\$ 4,043,809	\$ 3,280,611

See notes to financial statements.

STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2014			
	Unrestricted	Temporarily Restricted	Total
CHANGES IN NET ASSETS			
Support and Revenue			
Northcare/Pathways to Healthy Living	\$ 1,557,480		\$ 1,557,480
Northern Michigan Substance Abuse Services	259,305		259,305
Insurance	879,208		879,208
Tribal funding	311,149		311,149
Federal Bureau of Prisons	165,219		165,219
MDOC--State Corrections	299,316		299,316
Michigan Prisoner Re-entry Initiative (MPRI)	174,491		174,491
OCC--Local Corrections	213,091		213,091
Self pay	185,177		185,177
Western U.P. Substance Abuse Services	224,143		224,143
County/Court funded	74,937		74,937
Emergency crisis support	151,741		151,741
United States Probation Office	36,229		36,229
DHS (child welfare)	31,215		31,215
Veterans contracts	105,595		105,595
Donations	50,465	\$ 65,866	116,331
United Way	7,759	8,667	16,426
Upper Great Lakes Family Health Center	85,215		85,215
Other income	36,230		36,230
Net assets released from restrictions	12,430	(12,430)	
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	307,192		307,192
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	80,324		80,324
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.

STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2013			
	Unrestricted	Temporarily Restricted	Total
CHANGES IN NET ASSETS			
Support and Revenue			
Northcare/Pathways to Healthy Living	\$ 1,733,489		\$ 1,733,489
Northern Michigan Substance Abuse Services	456,286		456,286
Insurance	543,938		543,938
Tribal funding	306,751		306,751
Federal Bureau of Prisons	307,091		307,091
MDOC--State Corrections	348,140		348,140
Michigan Prisoner Re-entry Initiative (MPRI)	183,998		183,998
OCC--Local Corrections	217,263		217,263
Self pay	180,239		180,239
Western U.P. Substance Abuse Services	195,536		195,536
County/Court funded	125,362		125,362
Emergency Crisis Support	164,161		164,161
United States Probation Office	63,458		63,458
DHS (child welfare)	78,163		78,163
Veterans contracts	95,301		95,301
Grants and donations	205,693	\$ 28,295	233,988
United Way	20,502	2,324	22,826
Upper Great Lakes Family Health Center	90,611		90,611
Other income	52,948		52,948
Net assets released from restrictions	25,608	(25,608)	
TOTAL SUPPORT AND REVENUE	5,394,538	5,011	5,399,549
Contractual revenue adjustments	(271,501)		(271,501)
NET SUPPORT AND REVENUE	5,123,037	5,011	5,128,048
EXPENSES			
Salaries	3,094,994		3,094,994
Employee health and welfare	357,411		357,411
Payroll taxes and workers' compensation	286,927		286,927
Michigan Prisoner Re-entry Initiative (MPRI)	115,768		115,768
Program specific costs	177,597		177,597
Rent	142,955		142,955
Professional fees and subcontractors	79,206		79,206
Staff training and travel	103,355		103,355
Utilities	85,850		85,850
Building and facility	67,178		67,178
Equipment and computer maintenance	100,303		100,303
Depreciation	55,204		55,204
Telephone	50,827		50,827
Supplies	46,789		46,789
Vehicles	13,078		13,078
Marketing and advertising	3,329		3,329
Postage and printing	8,558		8,558
Miscellaneous	17,283		17,283
Interest	41,257		41,257
Finance charges	12,065		12,065
TOTAL EXPENSES	4,859,934	0	4,859,934
CHANGE IN NET ASSETS FROM OPERATIONS	263,103	5,011	268,114
Net gain on sale of fixed assets	403		403
TOTAL CHANGE IN NET ASSETS	263,506	5,011	268,517
Net assets at beginning of year	724,191	5,791	729,982
NET ASSETS AT END OF YEAR	\$ 987,697	\$ 10,802	\$ 998,499

See notes to financial statements.

STATEMENTS OF CASH FLOWS

GREAT LAKES RECOVERY CENTERS, INC.

	Year Ended September 30	
	2014	2013
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from grants, contracts, and fees for services	\$ 4,499,507	\$ 5,023,288
Cash paid to suppliers and employees	(4,502,641)	(4,760,148)
Interest paid	(35,862)	(35,447)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(38,996)	227,693
CASH FLOWS USED BY INVESTING ACTIVITIES		
Increase in restricted cash	(15,951)	
Purchase of fixed assets	(713,722)	(1,129,265)
Proceeds from disposal of fixed assets		5,608
NET CASH USED BY INVESTING ACTIVITIES	(729,673)	(1,123,657)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Proceeds from borrowing	703,500	1,710,000
Payment of debt principal	(35,904)	(545,318)
Net payments on line-of-credit		(38,689)
NET CASH PROVIDED BY FINANCING ACTIVITIES	667,596	1,125,993
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(101,073)	230,029
Cash and cash equivalents at beginning of year	378,807	148,778
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 277,734	\$ 378,807
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ (26,295)	\$ 268,517
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	60,740	55,204
Gain on disposal of fixed assets		(403)
Land donation		(182,600)
Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable	(106,273)	68,476
Increase in prepaid expenses	(4,352)	(969)
Increase (Decrease) in accounts payable	106,322	(41,211)
Increase (Decrease) in accrued payroll and related liabilities	(38,350)	45,907
Increase (Decrease) in other liabilities	(30,788)	14,772
NET ADJUSTMENTS	(12,701)	(40,824)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (38,996)	\$ 227,693

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GREAT LAKES RECOVERY CENTERS, INC.

September 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Great Lakes Recovery Centers, Inc., a Michigan non-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, and 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 as well as client security deposits advanced for treatment services.

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 the past two years. 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 consist 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. The Corporation is generally no longer subject to examination by the Internal Revenue Service for the years before 2011.

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

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE B--PUBLIC SUPPORT AND REVENUE

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

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events: Subsequent events were evaluated through March 23, 2015, which is the date the financial statements were available to be issued.

NOTE C--ACCOUNTS RECEIVABLE

A summary of accounts receivable is as follows:

	September 30	
	2014	2013
Contracts	\$ 602,770	\$ 542,075
Insurance	93,037	47,984
Other	370	200
	<u>696,177</u>	<u>590,259</u>
Less allowance for uncollectible accounts	<u>(40,190)</u>	<u>(40,545)</u>
ACCOUNTS RECEIVABLE, NET OF ALLOWANCE	<u>\$ 655,987</u>	<u>\$ 549,714</u>

NOTE D--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, 2014, which indicated a fair value of \$18.95 per share. In addition, the company reported recent trades at per share prices ranging between \$15.00 to \$16.50 per share. However, the Corporation has elected not to adjust their current carrying value of this investment (\$45,750) 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 E--LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following:

	September 30	
	2014	2013
Land and improvements	\$ 279,100	\$ 279,100
Machinery and equipment	112,344	66,776
Buildings and improvements	2,723,409	1,479,315
Buildings and improvements in progress	482,358	1,035,599
Furniture and fixtures	75,698	44,684
Vehicles	23,568	23,568
	<u>3,696,477</u>	<u>2,929,042</u>
Less accumulated depreciation	<u>(691,679)</u>	<u>(630,939)</u>
NET LAND, BUILDING, AND EQUIPMENT	<u>\$ 3,004,798</u>	<u>\$ 2,298,103</u>

NOTE F--ACCRUED PAYROLL AND RELATED LIABILITIES

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

	September 30	
	2014	2013
Accrued payroll	\$ 178,126	\$ 217,025
Accrued payroll liabilities	<u>59,631</u>	<u>59,082</u>
ACCRUED PAYROLL AND RELATED LIABILITIES	<u>\$ 237,757</u>	<u>\$ 276,107</u>

NOTE G--ADVANCE PAYMENTS ON GRANTS

NorthCare, formerly Eastern Upper Peninsula Substance Abuse Services (EUPSAS), advanced monies to increase the Corporation's cash flow in the amount of \$100,000 for the year ended September 30, 2003. These funds have not been drawn back by NorthCare, but instead were re-authorized for the years ended September 30, 2014 and 2013. The Corporation signed a repayment plan during the year ended September 30, 2013, where re-payment will be made in increments of \$25,000 annually, at zero interest cost, beginning in the year ended September 30, 2014. Subsequent to September 30, 2014, the second installment of \$25,000 was paid by the Corporation to NorthCare.

NOTE H--DEFERRED REVENUE

Deferred revenue represents funds received as an advance for expenses for the Michigan Prisoner Re-entry Program (MPRI) in the amount \$27,287 as of September 30, 2013. These amounts were recognized as revenue as services performed during the year ended September 30, 2014.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE I--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 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 are being used to refinance existing debt; purchase real estate for program development and relocation of administrative services from leased property; renovation of properties for residential programs, outpatient programs, and administrative services. The loan is to be repaid in monthly installments of \$12,267, including interest, beginning September 2014. 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	
	2014	2013
USDA loan--payable in maximum monthly installments of \$12,267, including interest at 3.5%, due August 20, 2048.	\$ 2,439,408	\$ 1,710,000
Vehicle Loan--payable in monthly installments of \$373, including interest at 6.75%, due February 18, 2014.		1,832
Capital Lease, Copier--payable in monthly installments of \$439, including interest at 12.50%, due July 15, 2016.	8,654	12,635
	2,448,062	1,724,467
Less current maturities	(67,312)	(7,960)
TOTAL LONG-TERM DEBT	\$ 2,380,750	\$ 1,716,507

Long-term debt matures as follows:

Year Ending September 30	Principal	Interest	Total
2015	\$ 67,312	\$ 85,167	\$ 152,479
2016	69,232	82,374	151,606
2017	67,375	79,829	147,204
2018	69,772	77,432	147,204
2019	72,253	74,951	147,204
Thereafter	2,102,118	815,779	2,917,897
	<u>\$ 2,448,062</u>	<u>\$ 1,215,532</u>	<u>\$ 3,663,594</u>

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE I--LONG-TERM DEBT--Continued

The Corporation also paid and capitalized interest in the amounts of \$37,937 and \$4,047 for the years ended September 30, 2014 and 2013, respectively.

Subsequent to September 30, 2014, the Corporation drew additional USDA loan proceeds of \$135,000 and anticipates additional draws of \$90,000 to finalize the capital projects under way during the year ended September 30, 2015.

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

Designated Net Assets

The Corporation received a land donation in the City of Ishpeming for future development. The appraised value of the land donation is \$182,600 and is included in unrestricted designated net assets as of September 30, 2014.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent the following:

	September 30	
	2014	2013
Adult residential program services	\$ 1,620	
Youth residential program services	60,581	\$ 4,217
Marquette outpatient program services	10,704	3,300
Compassionate care fund		3,285
TOTAL	<u>\$ 72,905</u>	<u>\$ 10,802</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, 2014 and 2013.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE L--LEASES

During the year ended September 30, 2014, the Corporation leased several office spaces throughout the Upper Peninsula, Michigan, for its various programs. The expiration dates of the leases range from December 31, 2014 through May 31, 2016. Some leases allow for cancellation with a 30-day written notice.

Future minimum payments under these operating leases are summarized below:

<u>Years Ending September 30</u>	
2015	\$ 56,077
2016	<u>33,522</u>
	<u>\$ 89,599</u>

NOTE M--FUNCTIONAL EXPENSES

The functional presentation of Corporation expenses is as follows:

	<u>September 30</u>	
	<u>2014</u>	<u>2013</u>
Program services	\$ 3,765,670	\$ 3,969,612
Management and general	824,170	850,085
Fundraising	<u>69,522</u>	<u>40,237</u>
TOTAL EXPENSES	<u>\$ 4,659,362</u>	<u>\$ 4,859,934</u>

SUPPLEMENTARY INFORMATION

STATEMENT OF FUNCTIONAL EXPENSES

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2014

	Program Services											
	ARS	DHS Parent Aide	Emergency Crisis Support	Escanaba	Iron Mountain	Ironwood	Ishpeming	Manistique	Marquette	Menominee	MPRI	Munising
EXPENSES												
EMPLOYEE COMPENSATION												
Salaries	\$ 546,062	\$ 8,222	\$ 85,762	\$ 27,570	\$ 116,976	\$ 9,975	\$ 132,584	\$ 75,147	\$ 247,089	\$ 17,135	\$ 43,167	\$ 12,030
Insurance	63,153	119	59	3,510	21,032	204	13,573	19,273	5,320	1,419	12,793	67
Payroll taxes and workers compensation	57,344	1,006	8,380	2,719	11,608	1,233	13,673	8,226	27,609	1,926	3,881	1,330
TOTAL EMPLOYEE COMPENSATION	666,559	9,347	94,201	33,799	149,616	11,412	159,830	102,646	280,018	20,480	59,841	13,427
OTHER EXPENSES												
MPRI program											104,316	
Program specific costs	76,243		45		598		4,579	391	8,826			
Rent				6,000	9,180	8,400		5,330	34,808	7,400		4,200
Professional fees and subcontractors	5,140			7,431	650	194	17,937	314	5,097	212	75	193
Staff training and travel	5,567	4,053	1,627	195	3,225	351	399	4,854	1,644	963	5,465	1,073
Utilities	30,886					1,314	4,872					
Building and facility	17,073	158	1,137	687	1,999	340	5,735	1,536	7,754	356		193
Equipment and computer maintenance	10,121			1,480	3,641	1,112	4,298	2,149	9,004	1,119		1,017
Depreciation	11,600				279		1,499	135	112			
Telephone	3,868	258	416	1,136	3,244	1,504	2,386	2,369	3,954	1,453	718	1,372
Supplies	16,539			644	1,024	396	1,189	1,204	2,555	306	175	347
Vehicles	3,470	(80)		41	69	120	10	363	35	50		28
Marketing and advertising	138			88	282		382	334	218	530		154
Postage and printing	250			108	483	67	380	90	658	34	201	59
Miscellaneous	5				550					25	3,700	
Interest	7,209						4,776					
Finance charges	12				1		2			15		
TOTAL OTHER EXPENSES	188,121	4,389	3,225	17,810	25,225	13,798	48,444	19,069	74,665	12,463	114,650	8,636
TOTAL FUNCTIONAL EXPENSES	\$ 854,680	\$ 13,736	\$ 97,426	\$ 51,609	\$ 174,841	\$ 25,210	\$ 208,274	\$ 121,715	\$ 354,683	\$ 32,943	\$ 174,491	\$ 22,063

STATEMENT OF FUNCTIONAL EXPENSES--Continued

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2014

										Total Program Services	Supporting Services Management and General		Fundraising	Total
	Newberry	New Hope Men's	New Hope Women's	Poor Recovery	Prevention	Prison	SSM	St. Ignace	Youth					
EXPENSES														
EMPLOYEE COMPENSATION														
Salaries	\$ 14,862	\$ 171,007	\$ 245,740	\$ 20,465	\$ 32,581	\$ 80,784	\$ 79,017	\$ 18,302	\$ 407,295	\$ 2,391,772	\$ 534,457	\$ 40,702	\$ 2,966,931	
Employee health and welfare	1,937	6,054	28,746	387	9,562	1,546	14,512	2,527	38,632	244,425	62,325	442	307,192	
Payroll taxes and workers compensation	1,574	19,038	26,303	2,323	3,280	7,909	8,455	1,959	44,146	253,922	61,732	4,407	320,061	
TOTAL EMPLOYEE COMPENSATION	18,373	196,099	300,789	23,175	45,423	90,239	101,984	22,788	490,073	2,890,119	658,514	45,551	3,594,184	
OTHER EXPENSES														
MPRI program										104,316			104,316	
Program specific costs		12,085	16,133		3,454		798		36,744	159,896		18,578	178,474	
Rent	600			600	1,647			3,600		81,765	32,068		113,833	
Professional fees and subcontractors	210	1,200	2,997	1	3,422	4	348	213	4,993	50,631	18,254	169	69,054	
Staff training and travel	4,233	1,181	2,251	522	7,239	10,664	2,673	3,533	4,108	65,820	14,037	467	80,324	
Utilities		11,831	20,792	1,984			980		33,187	105,846	13,107		118,953	
Building and facility	251	4,498	8,095	369	1,055	1,280	1,412	306	17,139	71,373	7,942		79,315	
Equipment and computer maintenance	1,393	6,219	7,625		270		6,412	960	7,880	64,700	21,207		85,907	
Depreciation	135	8,968	17,079				2,844		4,988	47,639	13,101		60,740	
Telephone	932	3,427	3,159	915			2,154	1,243	3,360	37,868	9,913		47,781	
Supplies	87	2,565	6,867			384	1,028	169	6,876	42,355	4,502	335	47,192	
Vehicles	60	96	858			93	35		3,534	8,782	1,753		10,535	
Marketing and advertising	154	243	222	122	174				55	3,096	1,789	4,238	9,123	
Postage and printing	31	115	359	27		18	235	27	538	3,680	4,511	121	8,312	
Miscellaneous	25						25	25	175	4,530	8,031	63	12,624	
Interest			7,592				3,550		15	23,142	9,219		32,361	
Finance charges		15	37						30	112	6,222		6,334	
TOTAL OTHER EXPENSES	8,111	52,443	94,066	4,540	17,261	12,443	22,494	10,076	123,622	875,551	165,656	23,971	1,065,178	
TOTAL FUNCTIONAL EXPENSES	\$ 26,484	\$ 248,542	\$ 394,855	\$ 27,715	\$ 62,684	\$ 102,682	\$ 124,478	\$ 32,864	\$ 613,695	\$ 3,765,670	\$ 824,170	\$ 69,522	\$ 4,659,362	



**REPORT OF INDEPENDENT AUDITORS 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.
Marquette, 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., (a non-profit organization) which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Great Lakes Recovery Centers, Inc.'s (Corporation) financial statements, and have issued our report thereon dated March 23, 2015.

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 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, Tontant, Hill & Nardi, P.C.

Marquette, Michigan

March 23, 2015



**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Great Lakes Recovery Centers, Inc.'s (Corporation) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended September 30, 2014. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Corporation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, Great Lakes Recovery Centers, Inc., complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2014.

Our goal is to help you meet yours!

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Board of Directors
Great Lakes Recovery Centers, Inc.

Opinion on Each Major Federal Program

In our opinion, Great Lakes Recovery Centers, Inc., complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2014.

Report on Internal Control over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Marquette, Michigan

March 23, 2015

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2014

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying #	Federal Expenditures
U.S. Department of Agriculture			
Direct:			
Supplemental Nutrition Assistance Program	10.551	N/A	\$ 10,790
Community Facilities Loans and Grants	10.766	N/A	734,500
U.S. Department of Health and Human Services			
Passed-through Pathways:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	OOBIMISAPT01	21,657
Passed-through Western Upper Peninsula Substance Abuse Services:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	OOBIMISAPT01	7,334
Passed-through Florence County, WI:			
Medical Assistance Program	93.778	Unknown	4,808
U.S. Department of Justice			
Passed-through Bureau of Prisons and United States Probation Office			
Residential Substance Abuse Treatment for State Prisoners	16.593	J200C-391	151,086
U.S. Department of Veteran Affairs			
Direct			
Veterans Rehabilitation - Alcohol and Drug Dependence	64.019	N/A	<u>105,595</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,035,770</u></u>

See accompanying notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2014

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of Great Lakes Recovery Centers, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Pass-through entity identifying numbers are presented where available.

NOTE B--COMMUNITY FACILITIES LOANS AND GRANTS (CFDA #10.766)

The amount reported on the Schedule of Expenditures of Federal Awards represents draws during the year ended September 30, 2014. Loan proceeds received and expended in prior years are not considered federal awards expended for the year ended September 30, 2014.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2014

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the Corporation.
2. No significant deficiencies were reported relating to the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Corporation, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies were reported relating to the audit of the major federal award program.
5. The auditor's report on compliance for the major federal award program for the Corporation expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that require disclosure under section 510(a) of OMB Circular A-133.
7. The program tested as major a program was Community Facilities Loans and Grants (CFDA #10.766)
8. The threshold used for distinguishing between Type A and Type B programs was \$300,000.
9. The Corporation did not qualify as a low-risk auditee.

FINDINGS--FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS--MAJOR FEDERAL AWARD PROGRAMS

None