

Audited Financial Statements

GREAT LAKES RECOVERY CENTERS, INC.

Years Ended September 30, 2020 and 2019

TABLE OF CONTENTS

GREAT LAKES RECOVERY CENTERS, INC.

Independent Auditor’s Report 1

Financial Statements

 Statements of Financial Position..... 3

 Statements of Activities..... 4

 Statements of Functional Expenses 6

 Statements of Cash Flows 8

 Notes to Financial Statements 9

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*..... 19

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, 2020 and 2019, and the related statements of activities, functional expenses, 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, 2020 and 2019, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2021, 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.

April 20, 2021

STATEMENTS OF FINANCIAL POSITION

GREAT LAKES RECOVERY CENTERS, INC.

September 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,875,385 | \$ 986,612 |
| Investments | 78,853 | 74,915 |
| Accounts receivable, net | 1,065,906 | 1,106,689 |
| Pledges receivable, current portion | 80,000 | |
| Prepaid expenses and other assets | <u>36,379</u> | <u>59,959</u> |
| TOTAL CURRENT ASSETS | 4,136,523 | 2,228,175 |
| NON-CURRENT ASSETS | | |
| Restricted cash--USDA reserve | 104,295 | 89,571 |
| Pledges receivable, net of current portion | 50,000 | |
| Land, buildings, and equipment, net | <u>2,864,514</u> | <u>3,076,328</u> |
| TOTAL NON-CURRENT ASSETS | <u>3,018,809</u> | <u>3,165,899</u> |
| TOTAL ASSETS | <u>\$ 7,155,332</u> | <u>\$ 5,394,074</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 114,176 | \$ 137,414 |
| Accrued payroll and related liabilities | 465,116 | 417,708 |
| Deferred revenue | 283,623 | 182,575 |
| Notes payable, current portion | <u>66,353</u> | <u>72,266</u> |
| TOTAL CURRENT LIABILITIES | 929,268 | 809,963 |
| LONG-TERM LIABILITIES | | |
| Notes payable, net of current portion | 2,352,340 | 2,418,700 |
| Paycheck Protection Program loan | <u>1,105,200</u> | <u>2,418,700</u> |
| TOTAL LONG-TERM LIABILITIES | <u>3,457,540</u> | <u>2,418,700</u> |
| TOTAL LIABILITIES | 4,386,808 | 3,228,663 |
| NET ASSETS | | |
| Net assets without donor restrictions | | |
| Designated | | 182,600 |
| Undesignated | <u>2,515,528</u> | <u>1,919,503</u> |
| TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS | 2,515,528 | 2,102,103 |
| Net assets with donor restrictions | <u>252,996</u> | <u>63,308</u> |
| TOTAL NET ASSETS | <u>2,768,524</u> | <u>2,165,411</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 7,155,332</u> | <u>\$ 5,394,074</u> |

See notes to financial statements.

STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---------------------------------------|---------------------------------------|------------------------------------|---------------------|
| SUPPORT AND REVENUE | | | |
| Residential services | \$ 4,425,266 | | \$ 4,425,266 |
| Outpatient services | 3,529,841 | | 3,529,841 |
| Offender Success | 681,374 | | 681,374 |
| Emergency crisis support | 221,347 | | 221,347 |
| Grants and donations | 51,972 | \$ 537,839 | 589,811 |
| Other income | 19,579 | | 19,579 |
| Net assets released from restrictions | 348,151 | (348,151) | 0 |
| TOTAL SUPPORT AND REVENUE | <u>9,277,530</u> | <u>189,688</u> | <u>9,467,218</u> |
| Contractual revenue adjustments | (464,578) | | (464,578) |
| NET SUPPORT AND REVENUE | <u>8,812,952</u> | <u>189,688</u> | <u>9,002,640</u> |
| EXPENSES | | | |
| Program services | 7,052,327 | | 7,052,327 |
| Supporting services | | | |
| Management and general | 1,218,171 | | 1,218,171 |
| Fundraising | 129,029 | | 129,029 |
| TOTAL SUPPORTING SERVICES | <u>1,347,200</u> | <u>0</u> | <u>1,347,200</u> |
| TOTAL EXPENSES | <u>8,399,527</u> | <u>0</u> | <u>8,399,527</u> |
| CHANGE IN NET ASSETS | 413,425 | 189,688 | 603,113 |
| Net assets at beginning of year | <u>2,102,103</u> | <u>63,308</u> | <u>2,165,411</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 2,515,528</u> | <u>\$ 252,996</u> | <u>\$ 2,768,524</u> |

See notes to financial statements.

STATEMENT OF ACTIVITIES

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---------------------------------------|---------------------------------------|------------------------------------|---------------------|
| SUPPORT AND REVENUE | | | |
| Residential services | \$ 3,963,470 | | \$ 3,963,470 |
| Outpatient services | 3,133,817 | | 3,133,817 |
| Offender Success | 613,564 | | 613,564 |
| Emergency crisis support | 279,837 | | 279,837 |
| Grants and donations | 74,757 | \$ 164,632 | 239,389 |
| Other income | 59,296 | | 59,296 |
| Net assets released from restrictions | 267,260 | (267,260) | 0 |
| TOTAL SUPPORT AND REVENUE | <u>8,392,001</u> | <u>(102,628)</u> | <u>8,289,373</u> |
| Contractual revenue adjustments | (500,706) | | (500,706) |
| NET SUPPORT AND REVENUE | <u>7,891,295</u> | <u>(102,628)</u> | <u>7,788,667</u> |
| EXPENSES | | | |
| Program services | 6,301,129 | | 6,301,129 |
| Supporting services | | | |
| Management and general | 1,137,001 | | 1,137,001 |
| Fundraising | 125,700 | | 125,700 |
| TOTAL SUPPORTING SERVICES | <u>1,262,701</u> | <u>0</u> | <u>1,262,701</u> |
| TOTAL EXPENSES | <u>7,563,830</u> | <u>0</u> | <u>7,563,830</u> |
| CHANGE IN NET ASSETS | 327,465 | (102,628) | 224,837 |
| Net assets at beginning of year | <u>1,774,638</u> | <u>165,936</u> | <u>1,940,574</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 2,102,103</u> | <u>\$ 63,308</u> | <u>\$ 2,165,411</u> |

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2020

| | Program Services | | | | Supporting Services | | | Total |
|---|----------------------|---------------------|-------------------|--------------------------|---------------------|------------------------|-------------------|---------------------|
| | Residential Services | Outpatient Services | Offender Success | Emergency Crisis Support | Total | Management and General | Fundraising | |
| Salaries | \$ 2,336,973 | \$ 1,779,783 | \$ 283,594 | \$ 108,638 | \$ 4,508,988 | \$ 781,536 | \$ 85,279 | \$ 5,375,803 |
| Employee health and welfare | 159,578 | 139,345 | 17,450 | 706 | 317,079 | 63,757 | 9,749 | 390,585 |
| Payroll taxes and workers' compensation | 202,619 | 152,072 | 24,423 | 9,168 | 388,282 | 65,414 | 7,429 | 461,125 |
| Offender Success program costs | | | 275,201 | | 275,201 | | | 275,201 |
| Program specific costs | 356,565 | 54,970 | | 83 | 411,618 | | | 411,618 |
| Rent | 904 | 129,159 | 27,314 | | 157,377 | 5,861 | | 163,238 |
| Professional fees and subcontractors | 16,607 | 91,375 | 1,385 | | 109,367 | 20,045 | 4,209 | 133,621 |
| Staff training and travel | 18,579 | 43,886 | 19,374 | 187 | 82,026 | 28,188 | 1,683 | 111,897 |
| Utilities | 142,595 | 15,960 | | | 158,555 | 13,675 | | 172,230 |
| Building and facility | 103,651 | 29,174 | 24,412 | 1,104 | 158,341 | 15,786 | 1,527 | 175,654 |
| Equipment and computer maintenance | 73,197 | 61,946 | 1,237 | 344 | 136,724 | 71,305 | 418 | 208,447 |
| Depreciation | 117,293 | 9,252 | | | 126,545 | 35,397 | | 161,942 |
| Telephone | 8,774 | 20,697 | 4,893 | 381 | 34,745 | 24,862 | | 59,607 |
| Supplies | 59,562 | 27,399 | 1,434 | | 88,395 | 14,148 | 253 | 102,796 |
| Vehicles | 11,305 | 1,180 | | | 12,485 | 3,311 | | 15,796 |
| Marketing and advertising | 3,246 | 6,340 | | | 9,586 | 19,777 | 17,194 | 46,557 |
| Postage and printing | 572 | 2,864 | 633 | | 4,069 | 9,037 | 415 | 13,521 |
| Miscellaneous | 3,492 | 4,900 | 24 | | 8,416 | 23,957 | 873 | 33,246 |
| Interest | 53,944 | 9,174 | | | 63,118 | 21,514 | | 84,632 |
| Finance charges | 1,400 | 10 | | | 1,410 | 601 | | 2,011 |
| TOTAL EXPENSES | \$ 3,670,856 | \$ 2,579,486 | \$ 681,374 | \$ 120,611 | \$ 7,052,327 | \$ 1,218,171 | \$ 129,029 | \$ 8,399,527 |

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

GREAT LAKES RECOVERY CENTERS, INC.

Year Ended September 30, 2019

| | Program Services | | | | Supporting Services | | | |
|---|-------------------------|------------------------|---------------------|--------------------------------|---------------------|------------------------------|-------------------|---------------------|
| | Residential Services | Outpatient Services | Offender Success | Emergency Crisis Support | Total | Management and General | Fundraising | Total |
| Salaries | \$ 2,065,171 | \$ 1,497,079 | \$ 278,486 | \$ 119,637 | \$ 3,960,373 | \$ 737,968 | \$ 76,147 | \$ 4,774,488 |
| Employee health and welfare | 150,644 | 119,556 | 24,860 | 751 | 295,811 | 69,781 | 11,697 | 377,289 |
| Payroll taxes and workers' compensation | 177,469 | 127,358 | 23,811 | 10,008 | 338,646 | 60,663 | 6,227 | 405,536 |
| Offender Success program costs | | | 191,072 | | 191,072 | | | 191,072 |
| Program specific costs | 229,762 | 119,001 | | | 348,763 | | | 348,763 |
| Rent | 865 | 120,066 | 20,580 | | 141,511 | 5,238 | | 146,749 |
| Professional fees and subcontractors | 23,249 | 92,178 | | | 115,427 | 17,531 | 15,412 | 148,370 |
| Staff training and travel | 19,296 | 56,772 | 40,211 | 76 | 116,355 | 23,866 | 3,254 | 143,475 |
| Utilities | 140,669 | 13,592 | | | 154,261 | 13,910 | | 168,171 |
| Building and facility | 139,879 | 30,479 | 20,210 | 1,675 | 192,243 | 26,389 | | 218,632 |
| Equipment and computer maintenance | 67,731 | 53,878 | | 376 | 121,985 | 50,719 | 6,337 | 179,041 |
| Depreciation | 112,208 | 9,633 | | | 121,841 | 33,733 | | 155,574 |
| Telephone | 7,519 | 12,989 | 5,709 | 378 | 26,595 | 25,019 | 1,203 | 52,817 |
| Supplies | 46,683 | 15,309 | 1,782 | | 63,774 | 11,233 | 711 | 75,718 |
| Vehicles | 14,777 | 2,817 | | | 17,594 | 7,803 | 109 | 25,506 |
| Marketing and advertising | 2,078 | 8,647 | | | 10,725 | 8,625 | 930 | 20,280 |
| Postage and printing | 774 | 2,203 | 383 | | 3,360 | 8,515 | 1,894 | 13,769 |
| Miscellaneous | 2,642 | 3,843 | 6,460 | | 12,945 | 14,575 | 1,779 | 29,299 |
| Interest | 55,144 | 10,177 | | | 65,321 | 20,795 | | 86,116 |
| Finance charges | 2,021 | 506 | | | 2,527 | 638 | | 3,165 |
| TOTAL EXPENSES | \$ 3,258,581 | \$ 2,296,083 | \$ 613,564 | \$ 132,901 | \$ 6,301,129 | \$ 1,137,001 | \$ 125,700 | \$ 7,563,830 |

See notes to financial statements.

STATEMENTS OF CASH FLOWS

GREAT LAKES RECOVERY CENTERS, INC.

Years Ended September 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from grants, contracts, fee for services, and donors | \$ 9,018,196 | \$ 7,710,426 |
| Cash paid to employees and suppliers | (8,105,198) | (7,218,412) |
| Interest paid | (84,632) | (86,434) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>828,366</u> | <u>405,580</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of land, buildings, and equipment | 141,432 | |
| Purchase of land, buildings, and equipment | (132,727) | (185,014) |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>8,705</u> | <u>(185,014)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from Paycheck Protection Program loan | 1,105,200 | |
| Principal payments on notes payable | (72,274) | (70,780) |
| Proceeds from contributions restricted for long-term purposes | 33,500 | |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>1,066,426</u> | <u>(70,780)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | <u>1,903,497</u> | <u>149,786</u> |
| Cash and cash equivalents and restricted cash at beginning of year | <u>1,076,183</u> | <u>926,397</u> |
| CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR | <u>\$ 2,979,680</u> | <u>\$ 1,076,183</u> |
| RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Change in net assets | \$ 603,113 | \$ 224,837 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 161,942 | 155,574 |
| Contributions restricted for long-term purpose | (163,500) | |
| Loss on disposal of land, buildings, and equipment | 41,168 | |
| Donation of stock | (2,936) | (1,484) |
| Unrealized appreciation on investments | (793) | (358) |
| Reinvested dividends | (209) | (417) |
| (Increase) Decrease in: | | |
| Accounts receivable | 40,783 | (233,557) |
| Prepaid expenses and other assets | 23,580 | 9,892 |
| Increase (Decrease) in: | | |
| Accounts payable | (23,238) | 34,251 |
| Payroll and related liabilities | 47,408 | 59,585 |
| Deferred revenue | 101,048 | 157,257 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 828,366</u> | <u>\$ 405,580</u> |
| | September 30 | |
| | <u>2020</u> | <u>2019</u> |
| Cash and cash equivalents and restricted cash consist of: | | |
| Cash and cash equivalents | \$ 2,875,385 | \$ 986,612 |
| Restricted cash--USDA reserve | <u>104,295</u> | <u>89,571</u> |
| | <u>\$ 2,979,680</u> | <u>\$ 1,076,183</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. (Corporation), 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. The Corporation's mission is to empower recovery through hope and change with a vision of helping to create healthy communities, one person at a time. The 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 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 reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Descriptions of the asset classes are as follows:

Net Assets Without Donor Restrictions--Net assets that are not subject to, or are no longer subject to, donor-imposed stipulations. The Board of Directors may designate, from net assets without donor restrictions, funds for specific use.

Net Assets With Donor Restrictions--Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

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

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 and other common stock that are valued based on quoted market prices in active markets.

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 in 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 are 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.

Revenue Recognition: Residential services, outpatient services, and emergency crisis support revenue are recognized when the services are provided and are reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing the services. Offender Success revenue, under the cost-reimbursable contract, is recognized when expenditures are incurred. Grants are recognized as revenue when the Corporation incurs reimbursable program expenditures. Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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.

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: Expenses have been allocated between program services and supporting services (management and general and fundraising). Expenses that can be identified with program or supporting services are charged directly to the program or supporting service benefited. Other expenses which apply to more than one functional category have been allocated 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 April 20, 2021, which is the date the financial statements were available to be issued.

NOTE B--LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of September 30, 2020 and 2019, are comprised of the following:

| | 2020 | 2019 |
|---|--------------|--------------|
| Cash and cash equivalents | \$ 2,875,385 | \$ 986,612 |
| Investments | 78,853 | 74,915 |
| Accounts receivable, net | 1,065,906 | 1,106,689 |
| Pledges receivable | 130,000 | |
| TOTAL FINANCIAL ASSETS | 4,150,144 | 2,168,216 |
| Less amounts unavailable for general expenditure within one year: | | |
| Donor time restrictions - pledges receivable, noncurrent | (50,000) | |
| Donor purpose restrictions | (202,996) | (63,308) |
| | (252,996) | (63,308) |
| FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR | \$ 3,897,148 | \$ 2,104,908 |

In the event of an unanticipated liquidity need, the Corporation has the ability to draw on a \$125,000 line of credit (see Note J).

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE C--CONCENTRATION OF CREDIT RISK

The Corporation maintains cash in financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At various times throughout the year, the Corporation may have cash balances at financial institutions that exceed the insured amount. Management does not believe this concentration of cash results in a high level of risk for the Corporation. At September 30, 2020 and 2019, the Corporation had cash deposits in excess of FDIC limits of \$2,342,020 and \$528,106, respectively.

NOTE D--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, 2020:</u> | | | |
| Common stock | \$ 32,659 | \$ 70,041 | \$ 37,382 |
| Mutual funds | 7,963 | 8,812 | 849 |
| | <u>\$ 40,622</u> | <u>\$ 78,853</u> | <u>\$ 38,231</u> |
| <u>September 30, 2019:</u> | | | |
| Common stock | \$ 31,484 | \$ 68,469 | \$ 36,985 |
| Mutual funds | 5,993 | 6,446 | 453 |
| | <u>\$ 37,477</u> | <u>\$ 74,915</u> | <u>\$ 37,438</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.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE D--INVESTMENTS--Continued

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, 2020:</u> | | | |
| Common stock | \$ 70,041 | \$ 3,441 | \$ 66,600 |
| Mutual funds | 8,812 | 8,812 | |
| | <u>78,853</u> | <u>12,253</u> | <u>66,600</u> |
| TOTAL INVESTMENTS | <u>\$ 78,853</u> | <u>\$ 12,253</u> | <u>\$ 66,600</u> |
| <u>September 30, 2019:</u> | | | |
| Common stock | \$ 68,469 | \$ 1,869 | \$ 66,600 |
| Mutual funds | 6,446 | 6,446 | |
| | <u>74,915</u> | <u>8,315</u> | <u>66,600</u> |
| TOTAL INVESTMENTS | <u>\$ 74,915</u> | <u>\$ 8,315</u> | <u>\$ 66,600</u> |

NOTE E--ACCOUNTS RECEIVABLE

A summary of accounts receivable is as follows:

| | <u>September 30</u> | |
|---|---------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| Contracts | \$ 943,817 | \$ 1,026,897 |
| Insurance | 163,810 | 80,521 |
| Other | 20,497 | 62,712 |
| | <u>1,128,124</u> | <u>1,170,130</u> |
| Less allowance for uncollectible accounts | <u>(62,218)</u> | <u>(63,441)</u> |
| ACCOUNTS RECEIVABLE, NET | <u>\$ 1,065,906</u> | <u>\$ 1,106,689</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE F--PLEDGES RECEIVABLE

Pledges receivable represent amounts due from donors for unconditional pledges. Payments on the pledges receivable are expected to be as follows:

| | September 30 2020 |
|-----------------------------------|----------------------|
| Amounts due in: | |
| Less than one year | \$ 80,000 |
| One to five years | 50,000 |
| PLEDGES RECEIVABLE, NET | <u>130,000</u> |
| Less current portion | <u>(80,000)</u> |
| LONG-TERM PLEDGES RECEIVABLE, NET | <u>\$ 50,000</u> |

The Corporation has determined that an allowance for uncollectible pledges receivable is not warranted. The Corporation has not discounted the pledges receivable to be collected in future years, as the related discount is not considered material to the financial statements.

NOTE G--LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consists of the following:

| | September 30 | |
|-------------------------------------|---------------------|---------------------|
| | 2020 | 2019 |
| Land and improvements | \$ 96,500 | \$ 279,100 |
| Equipment | 212,725 | 161,394 |
| Buildings and improvements | 3,742,674 | 3,661,816 |
| Furniture and fixtures | 85,729 | 85,190 |
| Vehicles | 141,390 | 141,390 |
| | <u>4,279,018</u> | <u>4,328,890</u> |
| Less accumulated depreciation | <u>(1,414,504)</u> | <u>(1,252,562)</u> |
| LAND, BUILDINGS, AND EQUIPMENT, NET | <u>\$ 2,864,514</u> | <u>\$ 3,076,328</u> |

In November 2020, the Corporation entered into an agreement with a general contractor to renovate the Men's New Hope House with a total project cost of \$718,500.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE H--ACCRUED PAYROLL AND RELATED LIABILITIES

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

| | September 30 | |
|--|-------------------|-------------------|
| | 2020 | 2019 |
| Accrued payroll | \$ 389,057 | \$ 309,416 |
| Accrued payroll liabilities | 76,059 | 108,292 |
| ACCRUED PAYROLL AND RELATED LIABILITIES | \$ 465,116 | \$ 417,708 |

NOTE I--LONG-TERM DEBT

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

| | September 30 | |
|---|---------------------|---------------------|
| | 2020 | 2019 |
| 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. | \$ 2,304,970 | \$ 2,355,718 |
| USDA loan--payable in maximum monthly installments of \$12,267, 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. | 91,178 | 93,089 |
| Vehicle loan--payable in monthly installments of \$412, including interest at 4.25%, paid off June 13, 2020; secured by the vehicle. | | 3,640 |
| Vehicle loan--payable in monthly installments of \$536, including interest at 4.50%, due December 20, 2020; secured by the vehicle. | 1,597 | 7,831 |
| Vehicle loan--payable in monthly installments of \$917, including interest at 4.75%, due September 1, 2022; secured by the vehicles. | 20,948 | 30,688 |
| | 2,418,693 | 2,490,966 |
| Less current maturities | (66,353) | (72,266) |
| TOTAL LONG-TERM DEBT | \$ 2,352,340 | \$ 2,418,700 |

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE I--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> |
|-------------------------------------|---------------------|---------------------|---------------------|
| 2021 | \$ 66,353 | \$ 83,555 | \$ 149,908 |
| 2022 | 67,168 | 81,112 | 148,280 |
| 2023 | 58,457 | 78,835 | 137,292 |
| 2024 | 60,532 | 76,760 | 137,292 |
| 2025 | 62,679 | 74,613 | 137,292 |
| Thereafter | <u>2,103,504</u> | <u>910,884</u> | <u>3,014,388</u> |
| | <u>\$ 2,418,693</u> | <u>\$ 1,305,759</u> | <u>\$ 3,724,452</u> |

NOTE J--LINE OF CREDIT

The Corporation has a line of credit with a local bank allowing for borrowings up to \$125,000 with a maturity date of June 11, 2021. 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, 2020 and 2019, the amount outstanding on the line of credit was \$-0-. The line of credit is secured by a demand account and secondary mortgages on real estate located in Sault Ste. Marie, Michigan, and Marquette, Michigan.

NOTE K--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, 2019.

During the year ended September 30, 2020, the land was sold, with a sales price of \$142,500.

Net Assets With Donor Restrictions

Net assets with donor restrictions of \$252,996 and \$63,308, as of September 30, 2020 and 2019, respectively, are available for certain donor-imposed purposes.

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE L--LEASES

Rental Income

The Corporation leases office space to a tenant under an operating lease which allows for cancellation with a 30-day written notice with a lease term extending to September 2022.

Future minimum payments due to the Corporation are as follows:

| <u>Year Ending September 30</u> | <u>Amount</u> |
|-------------------------------------|------------------|
| 2021 | \$ 7,200 |
| 2022 | <u>7,200</u> |
| | <u>\$ 14,400</u> |

Rental Expense

The Corporation leases several office spaces throughout the Upper Peninsula of Michigan for its various programs. The expiration dates of the leases range from March 31, 2021, through May 31, 2023. 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> |
|-------------------------------------|-------------------|
| 2021 | \$ 141,837 |
| 2022 | 86,133 |
| 2023 | <u>49,623</u> |
| | <u>\$ 277,593</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

GREAT LAKES RECOVERY CENTERS, INC.

NOTE M--PAYCHECK PROTECTION PROGRAM LOAN

On April 22, 2020, the Corporation received loan proceeds in the amount of \$1,105,200, pursuant to the Paycheck Protection Program (PPP) established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The PPP provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll and certain other expenses. The loans and accrued interest are forgivable if the borrower uses the loan proceeds for eligible purposes. The note has a scheduled maturity of April 2022 and bears an interest rate of 1 percent. Payments of unpaid principal and interest are deferred until the Small Business Administration remits the amount of forgiveness of the note to the lender or notifies the lender that no loan forgiveness is allowed.

The Corporation has elected to treat the PPP loan as debt, in accordance with ASC 470, *Debt*, and is presented as a financial liability on the statement of financial position as of September 30, 2020. The Corporation has not recorded accrued interest due through September 30, 2020, as the amount is not considered material to the financial statements.

The Corporation intends to use the proceeds for purposes consistent with the PPP. While the Corporation currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, there is no guarantee that the Corporation will not take actions that could cause the Corporation to be ineligible for forgiveness of the loan, in whole or in part.

NOTE N--RISKS AND UNCERTAINTIES

The Corporation may be subject to social and natural catastrophic events that are beyond its control, such as health epidemics, natural disasters, and other catastrophes, which could materially and adversely affect the Corporation's results of operations and financial condition.

In response to the COVID-19 pandemic, the Corporation adjusted business operations in 2020. Should the COVID-19 pandemic continue, or the local and national economies be materially impacted, the Corporation could see a negative impact to its operations. The Corporation is continuing to monitor the situation. Any potential impact to the Corporation's future operations and financial condition is unknown at this time.

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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 20, 2021.

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 a 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 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.

April 20, 2021