

Audited Financial Statements

BAY CLIFF HEALTH CAMP, INC.

Years Ended December 31, 2016 and 2015

Audited Financial Statements

BAY CLIFF HEALTH CAMP, INC.

|   |    |
|---|----|
| Independent Auditor's Report .....  | 1  |
| 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<br>Compliance and Other Matters Based on an Audit of Financial Statements<br>Performed in Accordance with <i>Government Auditing Standards</i> ..... | 21 |



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Bay Cliff Health Camp, Inc.  
Big Bay, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Bay Cliff Health Camp, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, 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.

Board of Directors  
Bay Cliff Health Camp, Inc.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bay Cliff Health Camp, Inc., as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2017, on our consideration of Bay Cliff Health Camp, 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 Bay Cliff Health Camp, Inc.'s internal control over financial reporting and compliance.

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

Marquette, Michigan

May 16, 2017

STATEMENTS OF FINANCIAL POSITION

BAY CLIFF HEALTH CAMP, INC.

|                                     | December 31          |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | 2016                 | 2015                 |
| <b>ASSETS</b>                       |                      |                      |
| Cash                                | \$ 289,202           | \$ 486,524           |
| Accounts and other receivables      | 165,893              | 417,467              |
| Pledges receivable, net             | 31,889               | 96,383               |
| Prepaid expenses                    | 5,535                | 5,212                |
| Investments                         | 2,544,410            | 2,394,406            |
| Other assets held for sale          | 7,000                | 22,000               |
| Land, buildings, and equipment, net | <u>7,048,391</u>     | <u>6,732,600</u>     |
| TOTAL ASSETS                        | <u>\$ 10,092,320</u> | <u>\$ 10,154,592</u> |
| <b>LIABILITIES AND NET ASSETS</b>   |                      |                      |
| <b>LIABILITIES</b>                  |                      |                      |
| Accounts payable                    | \$ 16,831            | \$ 164,563           |
| Accrued payroll tax liabilities     | 5,986                | 4,880                |
| Accrued interest payable            | 5,708                | 7,639                |
| Lines of credit                     |                      | 100,000              |
| Mortgage note payable               | <u>2,893,786</u>     | <u>2,950,591</u>     |
| TOTAL LIABILITIES                   | <u>2,922,311</u>     | <u>3,227,673</u>     |
| <b>NET ASSETS</b>                   |                      |                      |
| Unrestricted:                       |                      |                      |
| Designated                          | 1,116,627            | 1,113,296            |
| Undesignated                        | <u>4,491,564</u>     | <u>4,174,828</u>     |
| TOTAL UNRESTRICTED NET ASSETS       | 5,608,191            | 5,288,124            |
| Temporarily restricted              | 300,689              | 521,364              |
| Permanently restricted              | <u>1,261,129</u>     | <u>1,117,431</u>     |
| TOTAL NET ASSETS                    | <u>7,170,009</u>     | <u>6,926,919</u>     |
| TOTAL LIABILITIES AND NET ASSETS    | <u>\$ 10,092,320</u> | <u>\$ 10,154,592</u> |

See notes to financial statements.

STATEMENT OF ACTIVITIES

BAY CLIFF HEALTH CAMP, INC.

|   | Year Ended December 31, 2016 |                        |                        | Total               |
|---|------------------------------|------------------------|------------------------|---------------------|
|   | Unrestricted                 | Temporarily Restricted | Permanently Restricted |                     |
| <b>SUPPORT AND REVENUE</b>  |                              |                        |                        |                     |
| Contributions   | \$ 1,424,222                 | \$ 126,331             |                        | \$ 1,550,553        |
| Program income  | 138,993                      |                        |                        | 138,993             |
| Federal grants  | 39,843                       |                        |                        | 39,843              |
| Memorials and bequests  | 249,696                      |                        |                        | 249,696             |
| Rents   | 113,839                      |                        |                        | 113,839             |
| Interest and dividends  | 74,395                       | 332                    |                        | 74,727              |
| Miscellaneous   | 3,146                        |                        |                        | 3,146               |
| Net assets released due to satisfaction of restrictions                               | 347,780                      | (347,780)              |                        | 0                   |
| <b>TOTAL SUPPORT AND REVENUE</b>  | <b>2,391,914</b>             | <b>(221,117)</b>       | <b>\$ 0</b>            | <b>2,170,797</b>    |
| <b>EXPENSES</b>   |                              |                        |                        |                     |
| Program Services  | 1,784,913                    |                        |                        | 1,784,913           |
| Supporting Services:  |                              |                        |                        |                     |
| Management and general  | 149,050                      |                        |                        | 149,050             |
| Fundraising   | 101,861                      |                        |                        | 101,861             |
| <b>TOTAL SUPPORTING SERVICES</b>  | <b>250,911</b>               | <b>0</b>               | <b>0</b>               | <b>250,911</b>      |
| <b>TOTAL EXPENSES</b>   | <b>2,035,824</b>             | <b>0</b>               | <b>0</b>               | <b>2,035,824</b>    |
| Change in net assets before net realized and unrealized gains (losses) on investments | 356,090                      | (221,117)              |                        | 134,973             |
| Net realized and unrealized gains (losses) on investments                             | (36,023)                     | 442                    | 143,698                | 108,117             |
| <b>CHANGE IN NET ASSETS</b>   | <b>320,067</b>               | <b>(220,675)</b>       | <b>143,698</b>         | <b>243,090</b>      |
| Net assets at beginning of year   | 5,288,124                    | 521,364                | 1,117,431              | 6,926,919           |
| <b>NET ASSETS AT END OF YEAR</b>  | <b>\$ 5,608,191</b>          | <b>\$ 300,689</b>      | <b>\$ 1,261,129</b>    | <b>\$ 7,170,009</b> |

See notes to financial statements.

STATEMENT OF ACTIVITIES

BAY CLIFF HEALTH CAMP, INC.

|   | Year Ended December 31, 2015 |                        |                        | Total               |
|---|------------------------------|------------------------|------------------------|---------------------|
|   | Unrestricted                 | Temporarily Restricted | Permanently Restricted |                     |
| <b>SUPPORT AND REVENUE</b>  |                              |                        |                        |                     |
| Contributions   | \$ 1,143,579                 | \$ 417,612             | \$ 13,225              | \$ 1,574,416        |
| Program income  | 129,856                      |                        |                        | 129,856             |
| Federal grants  | 41,298                       |                        |                        | 41,298              |
| Memorials and bequests  | 384,905                      |                        |                        | 384,905             |
| Rents   | 114,218                      |                        |                        | 114,218             |
| Interest and dividends  | 123,471                      | 425                    |                        | 123,896             |
| Miscellaneous   | 11,350                       |                        |                        | 11,350              |
| Net assets released due to satisfaction of restrictions                       | 293,218                      | (293,218)              |                        | 0                   |
| <b>TOTAL SUPPORT AND REVENUE</b>  | <b>2,241,895</b>             | <b>124,819</b>         | <b>13,225</b>          | <b>2,379,939</b>    |
| <b>EXPENSES</b>   |                              |                        |                        |                     |
| Program Services  | 1,760,972                    |                        |                        | 1,760,972           |
| Supporting Services:  |                              |                        |                        |                     |
| Management and general  | 143,837                      |                        |                        | 143,837             |
| Fundraising   | 87,624                       |                        |                        | 87,624              |
| <b>TOTAL SUPPORTING SERVICES</b>  | <b>231,461</b>               | <b>0</b>               | <b>0</b>               | <b>231,461</b>      |
| <b>TOTAL EXPENSES</b>   | <b>1,992,433</b>             | <b>0</b>               | <b>0</b>               | <b>1,992,433</b>    |
| Change in net assets before net realized and unrealized losses on investments | 249,462                      | 124,819                | 13,225                 | 387,506             |
| Net realized and unrealized losses on investments                             | (48,072)                     | (2,957)                | (91,256)               | (142,285)           |
| <b>CHANGE IN NET ASSETS</b>   | <b>201,390</b>               | <b>121,862</b>         | <b>(78,031)</b>        | <b>245,221</b>      |
| Net assets at beginning of year   | 5,086,734                    | 399,502                | 1,195,462              | 6,681,698           |
| <b>NET ASSETS AT END OF YEAR</b>  | <b>\$ 5,288,124</b>          | <b>\$ 521,364</b>      | <b>\$ 1,117,431</b>    | <b>\$ 6,926,919</b> |

See notes to financial statements.

## STATEMENT OF FUNCTIONAL EXPENSES

BAY CLIFF HEALTH CAMP, INC.

|  | Year Ended December 31, 2016 |                           |                   |                   |                     |
|--|------------------------------|---------------------------|-------------------|-------------------|---------------------|
|  | Program<br>Services          | Supporting<br>Services    |                   |                   | Total<br>Expenses   |
|  | Education<br>and Therapy     | Management<br>and General | Fundraising       | Total             |                     |
| Salaries and wages                             | \$ 741,736                   | \$ 52,676                 | \$ 32,919         | \$ 85,595         | \$ 827,331          |
| Payroll taxes                                  | 56,009                       | 3,978                     | 2,486             | 6,464             | 62,473              |
| Employee benefits and retirement               | 113,957                      | 8,093                     | 5,058             | 13,151            | 127,108             |
| <b>TOTAL SALARIES AND<br/>RELATED EXPENSES</b> | <b>911,702</b>               | <b>64,747</b>             | <b>40,463</b>     | <b>105,210</b>    | <b>1,016,912</b>    |
| Food and food supplies                         | 142,159                      |                           |                   |                   | 142,159             |
| Auto and travel                                | 13,201                       |                           | 10,872            | 10,872            | 24,073              |
| Education and program supplies                 | 25,039                       |                           |                   |                   | 25,039              |
| Insurance                                      | 45,929                       | 2,417                     |                   | 2,417             | 48,346              |
| Maintenance                                    | 37,998                       | 244                       | 487               | 731               | 38,729              |
| Postage  | 13,598                       | 800                       | 1,600             | 2,400             | 15,998              |
| Printing                                       | 35,417                       | 4,427                     | 4,427             | 8,854             | 44,271              |
| Supplies                                       | 4,307                        | 538                       | 538               | 1,076             | 5,383               |
| Rent   | 2,751                        | 1,650                     | 1,100             | 2,750             | 5,501               |
| Telephone                                      | 9,776                        | 730                       | 420               | 1,150             | 10,926              |
| Bank and investment management fees            |                              | 18,031                    |                   | 18,031            | 18,031              |
| Utilities                                      | 106,440                      | 5,602                     |                   | 5,602             | 112,042             |
| Professional fees                              |                              | 22,015                    |                   | 22,015            | 22,015              |
| Clothing and pictures                          | 18,633                       |                           |                   |                   | 18,633              |
| Medical and dental                             | 9,652                        |                           |                   |                   | 9,652               |
| Recruiting                                     | 18,961                       |                           |                   |                   | 18,961              |
| Raffle prizes and fundraising events           |                              |                           | 36,171            | 36,171            | 36,171              |
| Scholarships                                   | 14,750                       |                           |                   |                   | 14,750              |
| Miscellaneous                                  | 6,696                        | 1,542                     | 5,783             | 7,325             | 14,021              |
| Interest expense                               | 118,724                      | 13,192                    |                   | 13,192            | 131,916             |
| <b>TOTAL EXPENSES<br/>LESS DEPRECIATION</b>    | <b>1,535,733</b>             | <b>135,935</b>            | <b>101,861</b>    | <b>237,796</b>    | <b>1,773,529</b>    |
| Depreciation of buildings and equipment        | 249,180                      | 13,115                    |                   | 13,115            | 262,295             |
| <b>TOTAL EXPENSES</b>                          | <b>\$ 1,784,913</b>          | <b>\$ 149,050</b>         | <b>\$ 101,861</b> | <b>\$ 250,911</b> | <b>\$ 2,035,824</b> |

See notes to financial statements.



## STATEMENT OF FUNCTIONAL EXPENSES

BAY CLIFF HEALTH CAMP, INC.

|  | Year Ended December 31, 2015 |                        |                  |                   |                     |
|--|------------------------------|------------------------|------------------|-------------------|---------------------|
|  | Program Services             | Supporting Services    |                  |                   | Total Expenses      |
|  | Education and Therapy        | Management and General | Fundraising      | Total             |                     |
| Salaries and wages                         | \$ 723,781                   | \$ 52,092              | \$ 31,683        | \$ 83,775         | \$ 807,556          |
| Payroll taxes                              | 54,754                       | 3,941                  | 2,397            | 6,338             | 61,092              |
| Employee benefits and retirement           | 103,577                      | 7,455                  | 4,534            | 11,989            | 115,566             |
| <b>TOTAL SALARIES AND RELATED EXPENSES</b> | <b>882,112</b>               | <b>63,488</b>          | <b>38,614</b>    | <b>102,102</b>    | <b>984,214</b>      |
| Food and food supplies                     | 142,303                      |                        |                  |                   | 142,303             |
| Auto and travel                            | 24,884                       |                        | 1,871            | 1,871             | 26,755              |
| Education and program supplies             | 16,927                       |                        |                  |                   | 16,927              |
| Insurance                                  | 44,701                       | 2,353                  |                  | 2,353             | 47,054              |
| Maintenance                                | 22,632                       | 185                    | 369              | 554               | 23,186              |
| Postage                                    | 10,311                       | 607                    | 1,213            | 1,820             | 12,131              |
| Printing                                   | 30,508                       | 3,814                  | 3,814            | 7,628             | 38,136              |
| Supplies                                   | 3,960                        | 495                    | 495              | 990               | 4,950               |
| Rent                                       | 2,712                        | 1,627                  | 1,085            | 2,712             | 5,424               |
| Telephone                                  | 9,558                        | 704                    | 408              | 1,112             | 10,670              |
| Bank and investment management fees        |                              | 18,418                 |                  | 18,418            | 18,418              |
| Utilities                                  | 114,305                      | 6,016                  |                  | 6,016             | 120,321             |
| Professional fees                          |                              | 17,641                 |                  | 17,641            | 17,641              |
| Clothing and pictures                      | 22,192                       |                        |                  |                   | 22,192              |
| Medical and dental                         | 10,622                       |                        |                  |                   | 10,622              |
| Recruiting                                 | 21,527                       |                        |                  |                   | 21,527              |
| Raffle prizes and fundraising events       |                              |                        | 34,082           | 34,082            | 34,082              |
| Miscellaneous                              | 25,142                       | 1,513                  | 5,673            | 7,186             | 32,328              |
| Interest expense                           | 122,361                      | 13,596                 |                  | 13,596            | 135,957             |
| <b>TOTAL EXPENSES LESS DEPRECIATION</b>    | <b>1,506,757</b>             | <b>130,457</b>         | <b>87,624</b>    | <b>218,081</b>    | <b>1,724,838</b>    |
| Depreciation of buildings and equipment    | 254,215                      | 13,380                 |                  | 13,380            | 267,595             |
| <b>TOTAL EXPENSES</b>                      | <b>\$ 1,760,972</b>          | <b>\$ 143,837</b>      | <b>\$ 87,624</b> | <b>\$ 231,461</b> | <b>\$ 1,992,433</b> |

See notes to financial statements.

## STATEMENTS OF CASH FLOWS

BAY CLIFF HEALTH CAMP, INC.

|   | Year Ended December 31     |                            |
|---|----------------------------|----------------------------|
|   | 2016                       | 2015                       |
| <b>CASH FLOWS PROVIDED (USED) BY</b>  |                            |                            |
| <b>OPERATING ACTIVITIES</b>   |                            |                            |
| Change in net assets  | \$ 243,090                 | \$ 245,221                 |
| Adjustments to reconcile change in net assets<br>to net cash from operating activities: |                            |                            |
| Depreciation  | 262,295                    | 267,595                    |
| Net realized and unrealized (gains) losses on investments                               | (108,117)                  | 142,285                    |
| Non-cash contributions  | (72,474)                   | (208,144)                  |
| Contributions restricted for long-term purposes   | (12,300)                   | (13,225)                   |
| Amortization of discount on pledges receivable  | (4,000)                    | (3,000)                    |
| (Increase) Decrease in:   |                            |                            |
| Accounts and other receivables  | 251,574                    | (224,683)                  |
| Pledges receivable  | 53,896                     | 69,765                     |
| Bequests receivable   |                            | 40,000                     |
| Prepaid expenses  | (323)                      | 1,059                      |
| Other assets  | 15,000                     | (1,000)                    |
| Increase (Decrease) in:   |                            |                            |
| Accounts payable and other liabilities  | (146,626)                  | 161,478                    |
| Accrued interest  | (1,931)                    | (885)                      |
| 401(k) contribution payable   |                            | (11,086)                   |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <b>480,084</b>             | <b>465,380</b>             |
| <b>INVESTING ACTIVITIES</b>   |                            |                            |
| Purchase of investments   | (1,117,377)                | (599,253)                  |
| Sales and maturities of investments   | 1,115,547                  | 635,808                    |
| Capital expenditures for building improvements and equipment                            | (531,071)                  | (259,877)                  |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>  | <b>(532,901)</b>           | <b>(223,322)</b>           |
| <b>FINANCING ACTIVITIES</b>   |                            |                            |
| Contributions restricted for long-term purposes   | 12,300                     | 13,225                     |
| Net draws (payments) on line of credit  | (100,000)                  | 100,000                    |
| Payments on long-term debt  | (56,805)                   | (55,283)                   |
| <b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>                                 | <b>(144,505)</b>           | <b>57,942</b>              |
| <b>NET INCREASE (DECREASE) IN CASH</b>  | <b>(197,322)</b>           | <b>300,000</b>             |
| Cash at beginning of year   | 486,524                    | 186,524                    |
|   | <b>CASH AT END OF YEAR</b> | <b>CASH AT END OF YEAR</b> |
|   | <b>\$ 289,202</b>          | <b>\$ 486,524</b>          |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>                                      |                            |                            |
| Stock donations as pledge payments  | \$ 14,598                  | \$ 13,279                  |

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

BAY CLIFF HEALTH CAMP, INC.

December 31, 2016

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

Bay Cliff Health Camp, Inc. (Corporation), is a private nonprofit organization with the primary mission of serving children and adults with disabilities. The Corporation's main program is a seven-week summer session of therapy and camp activities for children with orthopedic, hearing, vision, and speech disabilities. The Corporation also seeks cooperative relationships with other nonprofit organizations to provide programs for children and adults with many different kinds of disabilities and health challenges, helping them live a better life. The Corporation is governed by a fifteen-member Board of Directors and is funded primarily by charitable contributions.

The financial statements of the Corporation have been prepared on the accrual basis of accounting.

The Corporation reports information regarding its financial position and activities according to three classes of net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) based on the existence or nature of any donor-imposed restrictions. The Corporation has the following asset classes:

Unrestricted Net Assets--Unrestricted net assets are those currently available for use in the activities of the Corporation, under direction of the Board and those invested in land, buildings, and equipment. Board-designated or appropriated amounts are reported as part of the unrestricted class. All funds not classified as temporarily or permanently restricted are recorded as unrestricted net assets.

Temporarily Restricted Net Assets--Temporarily restricted net assets are those assets accepted by the Corporation subject to a stipulation, such as a specific operating purpose, the acquisition of property and equipment, or a time limitation, which causes the assets to be unavailable for current use until those commitments have been fulfilled or time restrictions have been met.

Permanently Restricted Net Assets--Permanently restricted net assets are those funds that are to be invested in perpetuity in accordance with the donor's stipulation.

#### Cash

Cash includes cash on hand and cash in checking and savings accounts.

#### Receivables

Revenues earned, but not received, as of December 31, are recorded as accounts receivable on the balance sheet. Interest earned on investments at December 31, but not received, is recorded as accrued interest receivable. In the opinion of management, a provision for doubtful accounts is not necessary because all significant amounts are generally collected within two months of the balance sheet date.

## NOTES TO FINANCIAL STATEMENTS--Continued

### BAY CLIFF HEALTH CAMP, INC.

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

##### Prepaid Expenses

Advance payments for products or services which are expected to be used in operations within the next twelve months are included as prepaid expenses.

##### Pledges Receivable

Contributions are recognized when the donor makes an unconditional promise to give. When donor restrictions expire (i.e., when a stipulated time restriction ends or other restrictions are met), temporarily restricted net assets are reclassified to unrestricted net assets as "net assets released due to satisfaction of restrictions" in the statement of activities. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The Corporation uses the allowance method to estimate uncollectible pledges receivable based on management's analysis of the pledges receivable outstanding.

##### Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost, except for property received as a gift, which is stated at the fair value at the date of the gift.

Depreciation on properties is computed on a straight-line basis over the estimated useful lives of the assets.

Capital items costing in excess of \$1,000 are capitalized. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets as follows:

|                                    |             |
|------------------------------------|-------------|
| Land improvements                  | 10-40 years |
| Buildings                          | 20-40 years |
| Building improvements              | 5-20 years  |
| Equipment, furniture, and fixtures | 5-10 years  |

##### Investments

Investments are carried at fair value based on quoted prices in active markets. Both realized and unrealized gains and losses are reflected in the statements of activities. Investments acquired by gift or bequest are recorded at the market value on the date of donation, and thereafter carried in accordance with the above provision.

## NOTES TO FINANCIAL STATEMENTS--Continued

### BAY CLIFF HEALTH CAMP, INC.

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

##### Accounts Payable and Accrued Expenses

Amounts due for expenses incurred, but not paid, and estimates of obligations for expenses incurred as of December 31, are recorded as accounts payable and accrued expenses.

##### Donated Services and Materials (Gifts-in-Kind)

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.

Additionally, the Corporation receives 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 costs of providing program services and other activities have been summarized on a functional basis in the statement of functional expenses. Based on estimates made by the Corporation's management, certain costs have been allocated among the program and supporting services benefited.

##### Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management must make estimates based on future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates.

##### Reclassifications

Certain amounts as of and for the year ended December 31, 2015, have been reclassified to conform to the current year's presentation.

##### Subsequent Events

Subsequent events were evaluated through May 16, 2017, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE B--CONCENTRATION OF CREDIT RISK

The Corporation had cash deposits in excess of federally-insured limits. Uninsured deposits approximated \$47,000 and \$260,000 at December 31, 2016 and 2015, respectively. The deposits in excess of federally-insured limits are based on the Corporation's bank balances as of December 31, 2016 and 2015.

NOTE C--INVESTMENTS

Market value and unrealized appreciation (depreciation) on investments are as follows:

|                        | December 31, 2016   |                     |  |
|------------------------|---------------------|---------------------|--|
|                        | Cost                | Fair Value          | Unrealized<br>Appreciation<br>(Depreciation) |
| Short-term investments | \$ 124,046          | \$ 124,046          | \$ 0   |
| Mutual funds:          |                     |                     |  |
| Equity funds           | 1,543,746           | 1,673,775           | 130,029                                      |
| Fixed income funds     | 755,056             | 746,589             | (8,467)                                      |
| TOTAL MUTUAL FUNDS     | <u>2,298,802</u>    | <u>2,420,364</u>    | <u>121,562</u>                               |
| TOTAL INVESTMENTS      | <u>\$ 2,422,848</u> | <u>\$ 2,544,410</u> | <u>\$ 121,562</u>                            |
|                        |                     |                     |  |
|                        | December 31, 2015   |                     |  |
|                        | Cost                | Fair Value          | Unrealized<br>Appreciation<br>(Depreciation) |
| Short-term investments | \$ 155,305          | \$ 155,305          | \$ 0   |
| Mutual funds:          |                     |                     |  |
| Equity funds           | 1,526,852           | 1,448,217           | (78,635)                                     |
| Fixed income funds     | 860,851             | 790,884             | (69,967)                                     |
| TOTAL MUTUAL FUNDS     | <u>2,387,703</u>    | <u>2,239,101</u>    | <u>(148,602)</u>                             |
| TOTAL INVESTMENTS      | <u>\$ 2,543,008</u> | <u>\$ 2,394,406</u> | <u>\$ (148,602)</u>                          |

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE C--INVESTMENTS--Continued

The following table presents information about the Corporation's investments measured at fair value on a recurring basis at December 31 and the valuation techniques used by the Corporation to determine those fair values. The Corporation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. The FASB ASC 820 Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to 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.

|                           | Fair<br>Value               | Level 1                     |
|---------------------------|-----------------------------|-----------------------------|
|                           | <u>                    </u> | <u>                    </u> |
| <u>December 31, 2016:</u> |                             |                             |
| Short-term investments    | \$ 124,046                  | \$ 124,046                  |
| Mutual funds:             |                             |                             |
| Equity funds              | 1,673,775                   | 1,673,775                   |
| Fixed income funds        | <u>746,589</u>              | <u>746,589</u>              |
| TOTAL INVESTMENTS         | <u>\$ 2,544,410</u>         | <u>\$ 2,544,410</u>         |
| <u>December 31, 2015:</u> |                             |                             |
| Short-term investments    | \$ 155,305                  | \$ 155,305                  |
| Mutual funds:             |                             |                             |
| Equity funds              | 1,448,217                   | 1,448,217                   |
| Fixed income funds        | <u>790,884</u>              | <u>790,884</u>              |
| TOTAL INVESTMENTS         | <u>\$ 2,394,406</u>         | <u>\$ 2,394,406</u>         |

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE D--LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following:

|                                     | December 31         |                     |
|-------------------------------------|---------------------|---------------------|
|                                     | 2016                | 2015                |
| Land and land improvements          | \$ 771,729          | \$ 763,237          |
| Buildings and improvements          | 8,890,841           | 8,899,286           |
| Equipment, furniture, and fixtures  | 805,831             | 813,385             |
| Construction in progress            | 975,146             | 414,691             |
|                                     | <u>11,443,547</u>   | <u>10,890,599</u>   |
| Less accumulated depreciation       | <u>(4,395,156)</u>  | <u>(4,157,999)</u>  |
| LAND, BUILDINGS, AND EQUIPMENT, NET | <u>\$ 7,048,391</u> | <u>\$ 6,732,600</u> |

NOTE E--PLEDGES RECEIVABLE

Gross pledges receivable totaling \$33,589 and \$105,383 as of December 31, 2016 and 2015, respectively, are from the Securing the Future Campership Appeal:

|   | December 31      |                  |
|---|------------------|------------------|
|   | 2016             | 2015             |
| Receivable in less than one year                      | \$ 33,589        | \$ 66,028        |
| Receivable in one to five years                       |                  | 39,355           |
| TOTAL UNCONDITIONAL PLEDGES RECEIVABLE                | <u>33,589</u>    | <u>105,383</u>   |
| Less discount to net present value (discounted at 3%) |                  | (4,000)          |
| Less allowance for uncollectible pledges              | <u>(1,700)</u>   | <u>(5,000)</u>   |
| NET UNCONDITIONAL PLEDGES RECEIVABLE                  | <u>\$ 31,889</u> | <u>\$ 96,383</u> |

NOTE F--RETIREMENT PLAN

The Corporation has a contributory defined contribution retirement plan for its permanent, full-time employees who meet the requirement of working more than 1,000 hours annually. The plan is being funded through the purchase of individual annuities. The Corporation contributes five percent of employees' gross salaries for qualifying participants. Contributions to the plan were \$42,309 and \$35,131 for the years ended December 31, 2016 and 2015, respectively.



NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE G--SUMMARY OF EXPENSES

A summary of expenses for services performed by the Corporation is as follows:

|                           | Year Ended December 31 |               |                     |               |
|---------------------------|------------------------|---------------|---------------------|---------------|
|                           | 2016                   |               | 2015                |               |
| Program Services:         |                        |               |                     |               |
| Education and therapy     | \$ 1,784,913           | 87.7%         | \$ 1,760,972        | 88.4%         |
| Supporting Services:      |                        |               |                     |               |
| Management and general    | 149,050                | 7.3%          | 143,837             | 7.2%          |
| Fundraising               | 101,861                | 5.0%          | 87,624              | 4.4%          |
| TOTAL SUPPORTING SERVICES | <u>250,911</u>         | <u>12.3%</u>  | <u>231,461</u>      | <u>11.6%</u>  |
| TOTAL EXPENSES            | <u>\$ 2,035,824</u>    | <u>100.0%</u> | <u>\$ 1,992,433</u> | <u>100.0%</u> |

NOTE H--OPERATING LEASE COMMITMENTS

The Corporation leases an office facility in Marquette, Michigan, under a non-cancelable operating lease that expires April 30, 2018. Rental expense totaled \$5,501 and \$5,423 for the years ended December 31, 2016 and 2015, respectively. Future minimum payments due under this lease for the years ending December 31, 2017 and 2018, total \$5,576 and \$1,868, respectively.

NOTE I--FEDERAL INCOME TAXES

The Corporation is a nonprofit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization other than a private foundation.

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 condition, results of operations, or cash flows.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE J--LONG-TERM DEBT

The following is a summary of the mortgage note payable:

|  | December 31        |                     |
|--|--------------------|---------------------|
|  | 2016               | 2015                |
|  | <hr/>              |                     |
| Mortgage note payable to the United States Department of Agriculture, bearing a fixed interest rate of 4.5%. The note is payable in monthly installments of \$15,853, including interest, for the remainder of the note maturing in December 2044. The note is secured by a mortgage on the Bay Cliff property and a UCC filing on all furniture, equipment, personal property, accounts receivable, supplies, contract rights, and intangibles. | <u>\$2,893,786</u> | <u>\$ 2,950,591</u> |

Future maturities of the mortgage note payable are as follows:

| Year Ending<br>December 31 | Amount              |
|----------------------------|---------------------|
| <hr/>                      | <hr/>               |
| 2017                       | \$ 61,514           |
| 2018                       | 64,340              |
| 2019                       | 67,296              |
| 2020                       | 70,387              |
| 2021                       | 73,621              |
| Thereafter                 | <u>2,556,628</u>    |
|                            | <u>\$ 2,893,786</u> |

The Corporation paid interest of \$133,847 and \$136,842 during the years ended December 31, 2016 and 2015, respectively.

NOTE K--LINES OF CREDIT

The Corporation has two lines of credit with local financial institutions. One line matures on December 17, 2017, has a limit of \$100,000, and had \$0 and \$100,000 outstanding as of December 31, 2016 and 2015, respectively. This line bears interest at the prime rate, with a minimum of 5 percent and is unsecured. The other line matures on March 11, 2018, has a limit of \$100,000, and had \$0 outstanding as of December 31, 2016 and 2015. This line bears interest at the prime rate plus 1.75 percent, with a minimum of 5 percent and is secured by a portion of the Corporation's equipment, furniture, and fixtures.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE L--BOARD DESIGNATIONS AND NET ASSETS

Designated net assets represent the following:

Evelyn T. Cohodas Memorial Center

All contributions received in memory of Evelyn T. Cohodas are placed in trust with the income designated for operating expenses of the Corporation.

Development Fund for Staff Salary, Program Improvements, and Facility Renovations

The Board has established the Bay Cliff Development Fund, which is a planned giving program that better equips the Corporation to invest and utilize substantial gifts from donors. Contributions not restricted by the donor may be used at the Board's discretion. The Board has designated the use of income from these funds for staff salary, program improvements, and facility renovations.

Board-Designated USDA Required Reserve Account

Funds are required to be set aside into a reserve account to meet the requirements set forth in the USDA security agreement. The USDA has permitted the Corporation to designate a portion of its investment portfolio to meet this reserve requirement.

Total net assets consist of the following:

|   | December 31         |                     |
|---|---------------------|---------------------|
|   | 2016                | 2015                |
| Unrestricted  |                     |                     |
| Designated  |                     |                     |
| Evelyn T. Cohodas Memorial Center   | \$ 126,402          | \$ 123,071          |
| Development Fund for staff salary, program improvements, and facility renovations | 800,000             | 800,000             |
| USDA required reserve account   | 190,225             | 190,225             |
|   | <u>1,116,627</u>    | <u>1,113,296</u>    |
| TOTAL DESIGNATED  |                     |                     |
| Undesignated  | 4,491,564           | 4,174,828           |
|   | <u>5,608,191</u>    | <u>5,288,124</u>    |
| TOTAL UNRESTRICTED  |                     |                     |
| Temporarily Restricted  |                     |                     |
| Program support and equipment   | 92,169              | 136,911             |
| Capital projects  | 208,520             | 384,453             |
|   | <u>300,689</u>      | <u>521,364</u>      |
| TOTAL TEMPORARILY RESTRICTED  |                     |                     |
| Permanently Restricted--Endowment Funds   | 1,261,129           | 1,117,431           |
|   | <u>1,261,129</u>    | <u>1,117,431</u>    |
|   |                     |                     |
| TOTAL NET ASSETS  | <u>\$ 7,170,009</u> | <u>\$ 6,926,919</u> |

## NOTES TO FINANCIAL STATEMENTS--Continued

### BAY CLIFF HEALTH CAMP, INC.

#### NOTE M--ENDOWMENT FUNDS

The Corporation's endowment funds consist of two individual funds (Brule and Other). As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions, considering the laws of the state for endowment management.

On September 15, 2009, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was signed into law in the State of Michigan. The Corporation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund, that is not classified in permanently restricted net assets, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the Corporation and the endowment fund
- General economic factors
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of investments
- Other resources of the Corporation
- The investment policy of the Corporation

#### Brule Endowment

The majority of the Corporation's endowment fund net assets are subject to a donor restriction that is more limiting than state law. On December 31, 2008, the Corporation received a donation in the amount of \$1,000,000 to establish the David and Elsa Brule Family Endowment (Brule Endowment). The Corporation and the donors have entered into a formal endowment fund agreement (Agreement). This Agreement cites that the historic dollar value of the Brule Endowment shall not be expended. The Corporation may expend realized income (interest and dividends) and net realized appreciation as deemed appropriate. The Agreement prohibits the Corporation from expending unrealized appreciation.

The Agreement allows that the Corporation, at its discretion, may reinvest any net income or net realized appreciation for spending in subsequent periods or the Corporation may elect to allocate any spendable amount to the historic dollar value of the Brule Endowment.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE M--ENDOWMENT FUNDS--Continued

The Corporation has adopted a Statement of Investment Policy (Policy) for the Brule Endowment assets. The investment objectives are to preserve the purchasing power of the historic dollar value of the Brule Endowment through an appropriate allocation to growth investments while generating operating revenues through current investment returns. The Policy sets forth an overall asset allocation guideline, limits concentrations of investments, and prohibits certain types of investments.

The Corporation uses the services of a third-party investment manager. The Policy cites specific investment benchmarks for evaluating the performance of the Brule Endowment and the investment manager.

Other Endowment

The Corporation has established an endowment for other permanently endowed gifts. This endowment includes funds where the donor(s) has included a specific purpose restriction for the physical therapy program and funds for which the donor(s) has not included any purpose restriction.

The Corporation's endowment fund net assets consist of the following:

|                              | December 31, 2016 |                           |                           |                     |
|------------------------------|-------------------|---------------------------|---------------------------|---------------------|
|                              | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
| Brule Endowment              | \$ 22,235         |                           | \$ 1,195,678              | \$ 1,217,913        |
| Other Endowment              | 1,292             | \$ 262                    | 65,451                    | 67,005              |
| <b>TOTAL ENDOWMENT FUNDS</b> | <b>\$ 23,527</b>  | <b>\$ 262</b>             | <b>\$ 1,261,129</b>       | <b>\$ 1,284,918</b> |
|                              | December 31, 2015 |                           |                           |                     |
|                              | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
| Brule Endowment              | \$ 138,733        |                           | \$ 1,051,980              | \$ 1,190,713        |
| Other Endowment              | (160)             |                           | 65,451                    | 65,291              |
| <b>TOTAL ENDOWMENT FUNDS</b> | <b>\$ 138,573</b> | <b>\$ 0</b>               | <b>\$ 1,117,431</b>       | <b>\$ 1,256,004</b> |

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE M--ENDOWMENT FUNDS--Continued

The following represents the changes in endowment fund net assets for the years ended December 31, 2016 and 2015:

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets as of December 31, 2014      | \$ 134,432          | \$ 2,998                          | \$ 1,195,462                      | \$ 1,332,892        |
| Investment return:                                |                     |                                   |                                   |                     |
| Investment income, net of fees                    | 60,767              | 383                               |                                   | 61,150              |
| Realized losses                                   | 11,598              | 324                               |                                   | 11,922              |
| Unrealized depreciation                           | <u>(2,003)</u>      | <u>(3,281)</u>                    | <u>(91,256)</u>                   | <u>(96,540)</u>     |
| Total investment return                           | 70,362              | (2,574)                           | (91,256)                          | (23,468)            |
| Contributions                                     | 0                   | 0                                 | 13,225                            | 13,225              |
| Appropriation of endowment assets for expenditure | <u>(66,221)</u>     | <u>(424)</u>                      | <u>0</u>                          | <u>(66,645)</u>     |
| Endowment net assets as of December 31, 2015      | 138,573             | 0                                 | 1,117,431                         | 1,256,004           |
| Investment return:                                |                     |                                   |                                   |                     |
| Investment income, net of fees                    | 33,490              | 278                               |                                   | 33,768              |
| Realized losses                                   | (88,236)            | (503)                             |                                   | (88,739)            |
| Unrealized appreciation                           | <u>5,242</u>        | <u>945</u>                        | <u>143,698</u>                    | <u>149,885</u>      |
| Total investment return                           | (49,504)            | 720                               | 143,698                           | 94,914              |
| Contributions                                     | 0                   | 0                                 | 0                                 | 0                   |
| Appropriation of endowment assets for expenditure | <u>(65,542)</u>     | <u>(458)</u>                      | <u>0</u>                          | <u>(66,000)</u>     |
| Endowment net assets as of December 31, 2016      | <u>\$ 23,527</u>    | <u>\$ 262</u>                     | <u>\$ 1,261,129</u>               | <u>\$ 1,284,918</u> |

NOTE N--RELATED-PARTY TRANSACTIONS

During the year ended December 31, 2016, the Corporation purchased windows totaling \$43,359 from a business that is owned by a member of the Corporation's board of directors. The windows were provided at a discount of \$13,640, which was recorded as a non-monetary donation.

In addition, during the year ended December 31, 2016, the Corporation purchased maintenance services totaling \$1,761 from a business that is owned by a member of the Corporation's board of directors.



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  
Bay Cliff Health Camp, Inc.  
Big Bay, Michigan

We have audited, in accordance with the 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 Bay Cliff Health Camp, Inc. (a nonprofit organization) (Corporation), which comprise the statement of financial position as of December 31, 2016, 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 May 16, 2017.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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  
Bay Cliff Health Camp, Inc.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Marquette, Michigan

May 16, 2017