

Audited Financial Statements

BAY CLIFF HEALTH CAMP, INC.

Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, 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
Bay Cliff Health Camp, Inc.

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, 2018 and 2017, 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 30, 2019, 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 solely 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 the effectiveness of Bay Cliff Health Camp, Inc.'s 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 & Katona, P.C.

April 30, 2019

STATEMENTS OF FINANCIAL POSITION

BAY CLIFF HEALTH CAMP, INC.

	December 31	
	2018	2017
ASSETS		
Cash	\$ 147,273	\$ 326,275
Accounts and other receivables	293,479	152,710
Pledges receivable, net	100	2,530
Prepaid expenses	4,425	4,809
Investments	2,372,276	2,788,579
Other assets held for sale	7,000	7,000
Land, buildings, and equipment, net	<u>6,681,185</u>	<u>6,800,339</u>
TOTAL ASSETS	<u><u>\$ 9,505,738</u></u>	<u><u>\$ 10,082,242</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 11,029	\$ 21,293
Accrued payroll tax liabilities	1,514	2,918
Accrued interest payable	7,358	6,981
Line of credit	100,000	
Mortgage note payable	<u>2,766,488</u>	<u>2,831,011</u>
TOTAL LIABILITIES	<u>2,886,389</u>	<u>2,862,203</u>
NET ASSETS		
Without donor restrictions:		
Designated	1,126,858	1,380,244
Undesignated	<u>4,022,931</u>	<u>4,135,485</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>5,149,789</u>	<u>5,515,729</u>
With donor restrictions	<u>1,469,560</u>	<u>1,704,310</u>
TOTAL NET ASSETS	<u>6,619,349</u>	<u>7,220,039</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 9,505,738</u></u>	<u><u>\$ 10,082,242</u></u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 1,064,804	\$ 137,500	\$ 1,202,304
Program income	117,911		117,911
Federal grants	28,992		28,992
Memorials and bequests	202,904		202,904
Rents	95,975		95,975
Miscellaneous	16,331		16,331
Net assets released due to satisfaction of restrictions	279,370	(279,370)	0
TOTAL SUPPORT AND REVENUE	1,806,287	(141,870)	1,664,417
EXPENSES			
Program Services	1,794,731		1,794,731
Supporting Services:			
Management and general	158,930		158,930
Fundraising	123,392		123,392
TOTAL SUPPORTING SERVICES	282,322	0	282,322
TOTAL EXPENSES	2,077,053	0	2,077,053
Change in net assets before other gains (losses)	(270,766)	(141,870)	(412,636)
Net investment return	(77,869)	(92,880)	(170,749)
Losses on disposal of fixed assets	(17,305)		(17,305)
TOTAL OTHER GAINS (LOSSES)	(95,174)	(92,880)	(188,054)
CHANGE IN NET ASSETS	(365,940)	(234,750)	(600,690)
Net assets at beginning of year	5,515,729	1,704,310	7,220,039
NET ASSETS AT END OF YEAR	\$ 5,149,789	\$ 1,469,560	\$ 6,619,349

See notes to financial statements.

STATEMENT OF ACTIVITIES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 1,086,220	\$ 85,249	\$ 1,171,469
Program income	143,013		143,013
Federal grants	39,625		39,625
Memorials and bequests	324,655		324,655
Rents	106,939		106,939
Miscellaneous	8,416		8,416
Net assets released due to satisfaction of restrictions	152,701	(152,701)	0
TOTAL SUPPORT AND REVENUE	1,861,569	(67,452)	1,794,117
EXPENSES			
Program Services	1,815,242		1,815,242
Supporting Services:			
Management and general	143,184		143,184
Fundraising	104,196		104,196
TOTAL SUPPORTING SERVICES	247,380	0	247,380
TOTAL EXPENSES	2,062,622	0	2,062,622
Change in net assets before other gains (losses)	(201,053)	(67,452)	(268,505)
Net investment return	177,290	186,417	363,707
Losses on disposal of fixed assets	(45,172)		(45,172)
TOTAL OTHER GAINS (LOSSES)	132,118	186,417	318,535
CHANGE IN NET ASSETS	(68,935)	118,965	50,030
Net assets at beginning of year	5,584,664	1,585,345	7,170,009
NET ASSETS AT END OF YEAR	\$ 5,515,729	\$ 1,704,310	\$ 7,220,039

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2018				
	Program Services	Supporting Services			Total Expenses
	Education and Therapy	Management and General	Fundraising	Total	
Salaries and wages	\$ 722,215	\$ 61,767	\$ 47,994	\$ 109,761	\$ 831,976
Payroll taxes	53,454	4,572	3,552	8,124	61,578
Employee benefits and retirement	104,392	8,928	6,937	15,865	120,257
TOTAL SALARIES AND RELATED EXPENSES	880,061	75,267	58,483	133,750	1,013,811
Food and food supplies	127,883				127,883
Auto and travel	19,645		13,429	13,429	33,074
Education and program supplies	30,906				30,906
Insurance	47,756	2,514		2,514	50,270
Maintenance	54,133	144	288	432	54,565
Postage	14,216	836	1,673	2,509	16,725
Printing	23,650	2,956	2,956	5,912	29,562
Supplies	5,785	723	723	1,446	7,231
Rent	2,803	1,682	1,121	2,803	5,606
Telephone	6,593	738	426	1,164	7,757
Bank and investment management fees		5,197		5,197	5,197
Utilities	124,645	6,560		6,560	131,205
Professional fees		21,149		21,149	21,149
Clothing and pictures	21,516				21,516
Medical and dental	4,243				4,243
Recruiting	18,043				18,043
Raffle prizes and fundraising events			39,038	39,038	39,038
Scholarships	29,501				29,501
Bad debt expense		13,300		13,300	13,300
Miscellaneous	8,675	1,401	5,255	6,656	15,331
Interest expense	115,296	12,811		12,811	128,107
TOTAL EXPENSES LESS DEPRECIATION	1,535,350	145,278	123,392	268,670	1,804,020
Depreciation of buildings and equipment	259,381	13,652		13,652	273,033
TOTAL EXPENSES	\$ 1,794,731	\$ 158,930	\$ 123,392	\$ 282,322	\$ 2,077,053

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2017				
	Program	Supporting			Total
	Services	Services			
Education and Therapy	Management and General	Fundraising	Total	Expenses	
Salaries and wages	\$ 737,542	\$ 54,461	\$ 37,229	\$ 91,690	\$ 829,232
Payroll taxes	54,586	4,031	2,755	6,786	61,372
Employee benefits and retirement	103,229	7,623	5,211	12,834	116,063
TOTAL SALARIES AND RELATED EXPENSES	895,357	66,115	45,195	111,310	1,006,667
Food and food supplies	135,962				135,962
Auto and travel	15,577		6,984	6,984	22,561
Education and program supplies	52,176				52,176
Insurance	47,827	2,517		2,517	50,344
Maintenance	48,186	171	341	512	48,698
Postage	12,519	736	1,473	2,209	14,728
Printing	22,273	2,784	2,784	5,568	27,841
Supplies	6,769	846	846	1,692	8,461
Rent	2,793	1,676	1,117	2,793	5,586
Telephone	8,218	837	470	1,307	9,525
Bank and investment management fees		6,106		6,106	6,106
Utilities	117,766	6,198		6,198	123,964
Professional fees		27,427		27,427	27,427
Clothing and pictures	21,257				21,257
Medical and dental	4,697				4,697
Recruiting	26,451				26,451
Raffle prizes and fundraising events			39,030	39,030	39,030
Scholarships	24,350				24,350
Miscellaneous	6,124	1,584	5,956	7,540	13,664
Interest expense	117,547	13,061		13,061	130,608
TOTAL EXPENSES LESS DEPRECIATION	1,565,849	130,058	104,196	234,254	1,800,103
Depreciation of buildings and equipment	249,393	13,126		13,126	262,519
TOTAL EXPENSES	\$ 1,815,242	\$ 143,184	\$ 104,196	\$ 247,380	\$ 2,062,622

See notes to financial statements.

STATEMENTS OF CASH FLOWS

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31	
	2018	2017
CASH FLOWS PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Change in net assets	\$ (600,690)	\$ 50,030
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	273,033	262,519
Loss on disposal of fixed assets	17,305	45,172
Net realized and unrealized (gains) losses on investments	278,668	(293,779)
Non-cash contributions	(4,444)	(3,276)
Contributions restricted for long-term purposes		(850)
(Increase) Decrease in:		
Accounts and other receivables	(140,769)	13,183
Pledges receivable	2,430	29,359
Prepaid expenses	384	726
Increase (Decrease) in:		
Accounts payable and other liabilities	(11,668)	1,394
Accrued interest	377	1,273
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(185,374)</u>	<u>105,751</u>
INVESTING ACTIVITIES		
Purchase of investments	(900,822)	(639,163)
Sales and maturities of investments	1,042,901	692,049
Capital expenditures for building improvements and equipment	(171,184)	(59,639)
NET CASH USED BY INVESTING ACTIVITIES	<u>(29,105)</u>	<u>(6,753)</u>
FINANCING ACTIVITIES		
Contributions restricted for long-term purposes		850
Net draws on line of credit	100,000	
Payments on long-term debt	(64,523)	(62,775)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>35,477</u>	<u>(61,925)</u>
NET INCREASE (DECREASE) IN CASH	<u>(179,002)</u>	<u>37,073</u>
Cash at beginning of year	<u>326,275</u>	<u>289,202</u>
CASH AT END OF YEAR	<u><u>\$ 147,273</u></u>	<u><u>\$ 326,275</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u><u>\$ 127,729</u></u>	<u><u>\$ 129,335</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

BAY CLIFF HEALTH CAMP, INC.

NOTE A--DESCRIPTION OF ORGANIZATION AND 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 15-member Board of Directors (Board) and is funded primarily by charitable contributions.

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

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 but not received at December 31 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.

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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

Prepaid Expenses: Advance payments for products or services which are expected to be used in operations within the next 12 months are included as prepaid expenses.

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--DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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 \$3,000 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

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.

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.

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

Net Assets With Donor Restrictions: Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

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.

Donated Services and Materials (Gifts-in-Kind): Contributed 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.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE A--DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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.

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.

Subsequent Events: Subsequent events were evaluated through April 30, 2019, which is the date the financial statements were available to be issued.

New Accounting Pronouncement: During the year ended December 31, 2018, the Corporation adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Presentation of Financial Statements of Not-for-Profit Entities* (Update). This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities.

A key change required by the Update is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets are now reported as net assets with donor restrictions. In addition, the Corporation has added a footnote on its liquidity.

These changes had the following effect on net assets at December 31, 2016:

	As Previously Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$ 5,608,191	
Temporarily restricted net assets	300,689	
Permanently restricted net assets	1,261,129	
Net assets without donor restrictions		\$ 5,584,664
Net assets with donor restrictions		1,585,345
TOTAL NET ASSETS	\$ 7,170,009	\$ 7,170,009

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE A--DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

In addition, certain reclassifications have been made to the prior year's comparative information to conform to the presentation of the current year's financial statements.

NOTE B--LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2018, comprise the following:

Cash and cash equivalents	\$ 147,273
Accounts receivable	293,479
Pledges receivable, current portion	100
Investments	<u>2,372,276</u>
	2,813,128
Less investments designated for purposes other than operations:	
USDA reserve requirement	(190,225)
Less endowment investments	(1,245,418)
Plus anticipated endowment distributions	<u>65,000</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR EXPENDITURES WITHIN ONE YEAR	<u><u>\$1,442,485</u></u>

As part of the Corporation's liquidity management plan, the Corporation invests cash in excess of anticipated future obligations in savings and investments.

The Corporation has two \$100,000 lines of credit which could be drawn upon in the event of an anticipated liquidity need.

NOTE C--CONCENTRATION OF CREDIT RISK

The Corporation had cash deposits in excess of federally-insured limits. Uninsured deposits approximated \$0 and \$11,000 at December 31, 2018 and 2017, respectively. The deposits in excess of federally-insured limits are based on the Corporation's bank balances as of December 31, 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE D--PLEDGES RECEIVABLE

Gross pledges receivable totaling \$100 and \$4,230 as of December 31, 2018 and 2017, respectively, are from the Securing the Future Campership Appeal:

	December 31	
	2018	2017
Receivable in less than one year	\$ 100	\$ 4,230
Less allowance for uncollectible pledges		(1,700)
PLEDGES RECEIVABLE, NET	<u>\$ 100</u>	<u>\$ 2,530</u>

NOTE E--INVESTMENTS

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

	December 31, 2018		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 188,680	\$ 188,680	\$ 0
Mutual funds:			
Equity funds	1,311,074	1,364,156	53,082
Fixed income funds	832,384	819,440	(12,944)
TOTAL MUTUAL FUNDS	<u>2,143,458</u>	<u>2,183,596</u>	<u>40,138</u>
TOTAL INVESTMENTS	<u>\$ 2,332,138</u>	<u>\$ 2,372,276</u>	<u>\$ 40,138</u>
	December 31, 2017		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 124,388	\$ 124,388	\$ 0
Mutual funds:			
Equity funds	1,424,947	1,801,136	376,189
Fixed income funds	864,202	863,055	(1,147)
TOTAL MUTUAL FUNDS	<u>2,289,149</u>	<u>2,664,191</u>	<u>375,042</u>
TOTAL INVESTMENTS	<u>\$ 2,413,537</u>	<u>\$ 2,788,579</u>	<u>\$ 375,042</u>

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE E--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. Generally accepted accounting principles in the United States of America establish 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 Value	Level 1
	<u> </u>	<u> </u>
<u>December 31, 2018:</u>		
Short-term investments	\$ 188,680	\$ 188,680
Mutual funds:		
Equity funds	1,364,156	1,364,156
Fixed income funds	<u>819,440</u>	<u>819,440</u>
TOTAL INVESTMENTS	<u>\$ 2,372,276</u>	<u>\$ 2,372,276</u>
<u>December 31, 2017:</u>		
Short-term investments	\$ 124,388	\$ 124,388
Mutual funds:		
Equity funds	1,801,136	1,801,136
Fixed income funds	<u>863,055</u>	<u>863,055</u>
TOTAL INVESTMENTS	<u>\$ 2,788,579</u>	<u>\$ 2,788,579</u>

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE F--LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following:

	December 31	
	2018	2017
Land and land improvements	\$ 765,254	\$ 771,729
Buildings and improvements	9,637,371	9,803,767
Equipment, furniture, and fixtures	577,508	799,680
Construction in progress	57,463	66,068
	<u>11,037,596</u>	<u>11,441,244</u>
Less accumulated depreciation	<u>(4,356,411)</u>	<u>(4,640,905)</u>
LAND, BUILDINGS, AND EQUIPMENT, NET	<u>\$ 6,681,185</u>	<u>\$ 6,800,339</u>

NOTE G--LINES OF CREDIT

The Corporation has two lines of credit with local financial institutions. One line matures on December 18, 2019, has a limit of \$100,000, and had \$100,000 and \$0 outstanding as of December 31, 2018 and 2017, respectively. This line bears interest at the prime rate, with a minimum of 5 percent, and is unsecured. The other line matures on May 22, 2019, has a limit of \$100,000, and had \$0 outstanding as of December 31, 2018 and 2017. This line bears interest at the prime rate plus 0.5 percent, with a minimum of 5 percent, and is unsecured.

NOTE H--LONG-TERM DEBT

The following is a summary of the mortgage note payable:

	December 31	
	2018	2017
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>\$ 2,766,488</u>	<u>\$ 2,831,011</u>

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE H--LONG-TERM DEBT--Continued

Future maturities of the mortgage note payable are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2019	\$ 67,296
2020	70,387
2021	73,621
2022	77,003
2023	80,541
Thereafter	<u>2,397,640</u>
	<u><u>\$ 2,766,488</u></u>

NOTE I--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 were placed in a fund, from which the Board annually distributes a percentage to address financial needs of the facility and programs.

Development Fund for Programs and Facilities

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 annually distributes a percentage of the fund to address financial needs of the facility and programs.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE I--BOARD DESIGNATIONS AND NET ASSETS--Continued

Net assets consist of the following:

	December 31	
	2018	2017
Net Assets Without Donor Restrictions		
Designated:		
Evelyn T. Cohodas Memorial Center	\$ 124,212	\$ 141,067
Development Fund	812,421	1,048,952
USDA required reserve account	190,225	190,225
TOTAL DESIGNATED	<u>1,126,858</u>	<u>1,380,244</u>
Undesignated	4,022,931	4,135,485
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>5,149,789</u>	<u>5,515,729</u>
Net Assets With Donor Restrictions		
Subject to Expenditure for Specified Purpose:		
Program support and equipment	56,302	89,815
Capital projects	167,840	206,160
TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIED PURPOSE	<u>224,142</u>	<u>295,975</u>
ENDOWMENT FUNDS SUBJECT TO SPENDING POLICY	1,245,418	1,408,335
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>1,469,560</u>	<u>1,704,310</u>
TOTAL NET ASSETS	<u>\$ 6,619,349</u>	<u>\$ 7,220,039</u>

NOTE J--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,

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE J--ENDOWMENT FUNDS--Continued

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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE J--ENDOWMENT FUNDS--Continued

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

	December 31, 2018		
	Original Gift	Accumulated Earnings	Total
Brule Endowment	\$ 1,000,000	\$ 178,701	\$ 1,178,701
Other Endowment	66,451	266	66,717
TOTAL ENDOWMENT FUNDS	\$ 1,066,451	\$ 178,967	\$ 1,245,418
	December 31, 2017		
	Original Gift	Accumulated Earnings	Total
Brule Endowment	\$ 1,000,000	\$ 332,546	\$ 1,332,546
Other Endowment	66,451	9,338	75,789
TOTAL ENDOWMENT FUNDS	\$ 1,066,451	\$ 341,884	\$ 1,408,335

The following represents the changes in endowment fund net assets for the years ended December 31, 2018 and 2017:

	Brule Endowment	Other Endowment	Total
Endowment net assets as of December 31, 2016	\$ 1,217,913	\$ 67,005	\$ 1,284,918
Net investment return	175,633	10,784	186,417
Contributions	0	1,000	1,000
Appropriation of endowment assets for expenditure	(61,000)	(3,000)	(64,000)
Endowment net assets as of December 31, 2017	1,332,546	75,789	1,408,335
Net investment return	(87,218)	(5,662)	(92,880)
Contributions	0	0	0
Appropriation of endowment assets for expenditure	(66,627)	(3,410)	(70,037)
Endowment net assets as of December 31, 2018	\$ 1,178,701	\$ 66,717	\$ 1,245,418

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE K--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 during a 12-month period. The plan is being funded through the purchase of individual annuities. The Corporation contributes eight percent of employees' gross salaries for qualifying participants. Contributions to the plan were \$36,764 and \$40,407 for the years ended December 31, 2018 and 2017, respectively.

NOTE L--OPERATING LEASE COMMITMENTS

The Corporation leases an office facility in Marquette, Michigan, under a non-cancelable operating lease that expires April 30, 2019. Rental expense totaled \$5,606 and \$5,585 for the years ended December 31, 2018 and 2017, respectively. Future minimum payments due under this lease for the year ending December 31, 2019, total \$1,869.

NOTE M--SUMMARY OF EXPENSES

A summary of expenses for the Corporation is as follows:

	Year Ended December 31			
	2018		2017	
Program Services:				
Education and therapy	\$ 1,794,731	86.4%	\$ 1,815,242	88.0%
Supporting Services:				
Management and general	158,930	7.7%	143,184	6.9%
Fundraising	123,392	5.9%	104,196	5.1%
TOTAL SUPPORTING SERVICES	<u>282,322</u>	<u>13.6%</u>	<u>247,380</u>	<u>12.0%</u>
TOTAL EXPENSES	<u>\$ 2,077,053</u>	<u>100.0%</u>	<u>\$ 2,062,622</u>	<u>100.0%</u>

NOTE N--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 O--RELATED-PARTY TRANSACTIONS

The Corporation purchased windows totaling \$7,400 and \$368 from a business that is owned by a member of the Corporation's Board for the years ended December 31, 2018 and 2017, respectively.

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, 2018, 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 30, 2019.

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 & Katona, P.C.

April 30, 2019