

Audited Financial Statements

BAY CLIFF HEALTH CAMP, INC.

Years Ended December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 July 7, 2020, 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.

July 7, 2020

STATEMENTS OF FINANCIAL POSITION

BAY CLIFF HEALTH CAMP, INC.

	December 31	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 692,316	\$ 440,752
Accounts receivable	870	
Pledges receivable, net		100
Prepaid expenses	24,456	4,425
Investments	2,572,719	2,372,276
Other assets held for sale	7,000	7,000
Land, buildings, and equipment, net	<u>7,274,046</u>	<u>6,681,185</u>
TOTAL ASSETS	<u>\$10,571,407</u>	<u>\$ 9,505,738</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 247,066	\$ 11,029
Accrued payroll tax liabilities	1,605	1,514
Accrued interest payable	8,723	7,358
Line of credit	100,000	100,000
Mortgage note payable	<u>2,698,027</u>	<u>2,766,488</u>
TOTAL LIABILITIES	<u>3,055,421</u>	<u>2,886,389</u>
NET ASSETS		
Without donor restrictions:		
Designated	1,044,689	965,018
Undesignated	<u>4,784,513</u>	<u>4,184,771</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	5,829,202	5,149,789
With donor restrictions	<u>1,686,784</u>	<u>1,469,560</u>
TOTAL NET ASSETS	<u>7,515,986</u>	<u>6,619,349</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$10,571,407</u>	<u>\$ 9,505,738</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 1,254,953	\$ 951,074	\$ 2,206,027
Program income	98,455		98,455
Federal grants	47,270		47,270
Memorials and bequests	288,331		288,331
Rents	111,363		111,363
Miscellaneous	5,090		5,090
Net assets released due to satisfaction of restrictions	941,247	(941,247)	0
TOTAL SUPPORT AND REVENUE	2,746,709	9,827	2,756,536
EXPENSES			
Program Services	1,852,393		1,852,393
Supporting Services:			
Management and general	170,624		170,624
Fundraising	140,568		140,568
TOTAL SUPPORTING SERVICES	311,192	0	311,192
TOTAL EXPENSES	2,163,585	0	2,163,585
Change in net assets before other gains (losses)	583,124	9,827	592,951
Net investment return	153,267	207,397	360,664
Loss on disposal of fixed assets	(56,978)		(56,978)
TOTAL OTHER GAINS (LOSSES)	96,289	207,397	303,686
CHANGE IN NET ASSETS	679,413	217,224	896,637
Net assets at beginning of year	5,149,789	1,469,560	6,619,349
NET ASSETS AT END OF YEAR	\$ 5,829,202	\$ 1,686,784	\$ 7,515,986

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)
Loss 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 FUNCTIONAL EXPENSES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2019				
	Program	Supporting			Total
	Services	Management	Fundraising	Expenses	
Education and Therapy	and General				
Salaries and wages	\$ 750,653	\$ 69,640	\$ 68,627	\$ 138,267	\$ 888,920
Payroll taxes	56,410	5,233	5,157	10,390	66,800
Employee benefits and retirement	108,672	10,082	9,935	20,017	128,689
TOTAL SALARIES AND RELATED EXPENSES	915,735	84,955	83,719	168,674	1,084,409
Food and food supplies	143,460				143,460
Auto and travel	25,385		2,382	2,382	27,767
Education and program supplies	25,275				25,275
Insurance	54,982	2,894		2,894	57,876
Maintenance	41,633	135	270	405	42,038
Postage	15,407	906	1,813	2,719	18,126
Printing	30,180	3,773	3,772	7,545	37,725
Supplies	5,791	724	724	1,448	7,239
Rent	2,828	1,697	1,131	2,828	5,656
Telephone	6,948	770	456	1,226	8,174
Bank and investment management fees		8,503		8,503	8,503
Utilities	126,859	6,677		6,677	133,536
Professional fees		24,114		24,114	24,114
Clothing and pictures	20,851				20,851
Medical and dental	15,241				15,241
Recruiting	5,814				5,814
Raffle prizes and fundraising events			41,222	41,222	41,222
Scholarships	35,000				35,000
Bad debt expense		7,710		7,710	7,710
Miscellaneous	8,113	1,354	5,079	6,433	14,546
Interest expense	116,042	12,894		12,894	128,936
TOTAL EXPENSES	1,595,544	157,106	140,568	297,674	1,893,218
LESS DEPRECIATION					
Depreciation of buildings and equipment	256,849	13,518		13,518	270,367
TOTAL EXPENSES	\$ 1,852,393	\$ 170,624	\$ 140,568	\$ 311,192	\$ 2,163,585

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2018				
	Program	Supporting			Total
	Services	Management	Fundraising	Total	
Education and Therapy	and General			Expenses	
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	1,535,350	145,278	123,392	268,670	1,804,020
LESS DEPRECIATION					
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.

STATEMENTS OF CASH FLOWS

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31	
	2019	2018
CASH FLOWS PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Change in net assets	\$ 896,637	\$ (600,690)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	270,367	273,033
Loss on disposal of fixed assets	56,978	17,305
Net realized and unrealized (gains) losses on investments	(293,740)	278,668
Non-cash contributions	(55,973)	(4,444)
Contributions restricted for long-term purposes	(878,915)	(106,425)
(Increase) Decrease in:		
Accounts receivable	(870)	152,710
Pledges receivable	100	2,430
Prepaid expenses	(20,031)	384
Increase (Decrease) in:		
Accounts payable and other liabilities	24,277	(11,668)
Accrued interest	1,365	377
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>195</u>	<u>1,680</u>
INVESTING ACTIVITIES		
Purchase of investments	(448,877)	(900,822)
Sales and maturities of investments	580,642	1,042,901
Capital expenditures for building improvements and equipment	(690,850)	(171,184)
NET CASH USED BY INVESTING ACTIVITIES	<u>(559,085)</u>	<u>(29,105)</u>
FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	878,915	106,425
Net draws on line of credit		100,000
Payments on long-term debt	(68,461)	(64,523)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>810,454</u>	<u>141,902</u>
NET INCREASE IN CASH	<u>251,564</u>	<u>114,477</u>
Cash and cash equivalents at beginning of year	<u>440,752</u>	<u>326,275</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 692,316</u></u>	<u><u>\$ 440,752</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 127,571</u>	<u>\$ 127,730</u>
Fixed asset additions in accounts payable	<u>\$ 211,851</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 and cash equivalents: Cash and cash equivalents includes cash on hand and cash in checking and savings accounts.

Accounts Receivable: Revenues earned but not received as of December 31 are recorded as accounts receivable. Allowances for uncollectible accounts are established based on management's specific assessment of open account balances, historical collection experience and current economic conditions. As of December 31, 2019, management has determined no allowance for uncollectible accounts is deemed necessary.

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. Donated investments are recorded at fair value at the date of donation and are thereafter carried in conformity with the stated policy. Investment return is reported in the statement of activities net of external and direct internal investment expenses and consists of interest and dividend income and realized and unrealized gains or losses.

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.

Revenue Recognition: Revenue is recognized when earned. Revenue from fee-for-services and exchange transactions are recognized as the services are performed. Revenue from contributions is recognized at the time an unconditional promise to give or transfer of assets is made. Revenue from cost-reimbursable contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses, are recognized when the Corporation has incurred expenditures in compliance with specific contract or grant provisions.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

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

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.

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.

Fair Values of Financial Instruments: Investment securities are the Corporation's only assets measured at fair value on a recurring basis.

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, 2018, have been reclassified to conform with the current year's presentation.

Subsequent Events: Subsequent events were evaluated through July 7, 2020, which is the date the financial statements were available to be issued.

Recently Adopted Accounting Standard Updates: During the year ended December 31, 2019, the Corporation adopted Accounting Standards Update (ASU) 2018-08, *Not-For-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update was issued to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The update establishes standards for characterizing grants and similar contracts with resource providers, including 91) evaluating whether these transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional.

The update has been implemented on a modified prospective basis. The 2018 financial statements have not been restated and there was no cumulative-effect adjustment to net assets at January 1, 2019.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

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

Pending Accounting Standard Updates: In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, as well as other disclosures. The guidance was to be effective for the Corporation's year ended December 31, 2019.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This guidance requires lessees to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. This guidance was to be effective for the Corporation' year ended December 31, 2021.

In June 2020, FASB issued Accounting Standards Update 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*, which delayed the effective date of the new revenue recognition guidance for not-for-profit entities that had not yet issued their financial statements reflecting its adoption. This update allows entities to elect to delay adopting the *Topic 606* guidance until annual reporting periods beginning after December 15, 2019. The Corporation has elected to delay adopting the *Topic 606* guidance until 2020. This update also delayed the effective date of *Topic 842* until annual reporting periods beginning after December 15, 2021

NOTE B--CASH AND EQUIVALENTS

The composition of the Corporation's cash and equivalents at December 31 is as follows:

	December 31	
	2019	2018
Operating	\$ 533,562	\$ 378,450
Restricted for donor-specific purposes	158,754	62,302
TOTAL	<u>\$ 692,316</u>	<u>\$ 440,752</u>

The Corporation had cash deposits in excess of federally-insured limits. Uninsured deposits approximated \$351,400 and \$-0- at December 31, 2019 and 2018, respectively. The deposits in excess of federally-insured limits are based on the Corporation's bank balances as of December 31, 2019 and 2018.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE C--LIQUIDITY

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 692,316	\$ 440,752
Accounts receivable	870	
Pledges receivable, current portion		100
Investments	<u>2,572,719</u>	<u>2,372,276</u>
	3,265,905	2,813,128
Less amounts restricted for purposes other than operations:		
USDA reserve requirement	(190,225)	(190,225)
Donor purpose restricted	(300,358)	(224,142)
Endowments	(1,386,426)	(1,245,418)
Plus anticipated endowment distributions	<u>65,000</u>	<u>65,000</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR EXPENDITURES WITHIN ONE YEAR	<u>\$ 1,453,896</u>	<u>\$ 1,218,343</u>

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

At December 31, 2019, the Corporation had two \$100,000 lines of credit which could be drawn upon in the event of an anticipated liquidity need.

NOTE D--INVESTMENTS

Investments are held for the following purposes at December 31:

	December 31	
	<u>2019</u>	<u>2018</u>
Board designated	\$ 854,464	\$ 774,793
Donor purpose restricted	141,604	161,840
USDA reserve requirement	190,225	190,225
Endowments	<u>1,386,426</u>	<u>1,245,418</u>
TOTAL	<u>\$ 2,572,719</u>	<u>\$ 2,372,276</u>

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE D--INVESTMENTS--Continued

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

	December 31, 2019		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 249,463	\$ 249,463	\$ 0
Mutual funds:			
Equity funds	1,269,999	1,562,404	292,405
Fixed income funds	758,695	760,852	2,157
TOTAL MUTUAL FUNDS	<u>2,028,694</u>	<u>2,323,256</u>	<u>294,562</u>
TOTAL INVESTMENTS	<u>\$ 2,278,157</u>	<u>\$ 2,572,719</u>	<u>\$ 294,562</u>
	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>

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.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE D--INVESTMENTS--Continued

	<u>Fair Value</u>	<u>Level 1</u>
<u>December 31, 2019:</u>		
Short-term investments	\$ 249,463	\$ 249,463
Mutual funds:		
Equity funds	1,562,404	1,562,404
Fixed income funds	<u>760,852</u>	<u>760,852</u>
TOTAL INVESTMENTS	<u>\$ 2,572,719</u>	<u>\$ 2,572,719</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>

NOTE E--LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following:

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 384,656	\$ 765,254
Buildings and improvements	9,280,593	9,637,371
Equipment, furniture, and fixtures	328,749	577,508
Construction in progress	<u>895,251</u>	<u>57,463</u>
	10,889,249	11,037,596
Less accumulated depreciation	<u>(3,615,203)</u>	<u>(4,356,411)</u>
LAND, BUILDINGS, AND EQUIPMENT, NET	<u>\$ 7,274,046</u>	<u>\$ 6,681,185</u>

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE F--LINES OF CREDIT

At December 31, 2019, the Corporation had two unsecured lines of credit with local financial institutions. The first line has a limit of \$100,000, bearing interest at the prime rate (minimum rate of 5 percent) and a maturity date of January 16, 2021. This line was fully drawn as of December 31, 2019. The second line had a limit of \$100,000, bearing interest at the prime rate plus 0.5 percent (minimum rate of 5 percent) and a maturity date of November 22, 2020. There were no draws outstanding on this line of credit as of December 31, 2019.

At December 31, 2018, the Corporation had two unsecured lines of credit with local financial institutions. The first line had a limit of \$100,000, bearing interest at the prime rate (minimum rate of 5 percent), and a maturity date of December 18, 2019. This line was fully drawn as of December 31, 2018. The second line had a limit of \$100,000, bearing interest at the prime rate plus 0.5 percent (minimum rate of 5 percent) and a maturity date of May 22, 2019. There were no draws outstanding on this line of credit as of December 31, 2018.

NOTE G--LONG-TERM DEBT

The following is a summary of the mortgage note payable:

	December 31	
	2019	2018
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>\$ 2,698,027</u>	<u>\$ 2,766,488</u>

Future maturities of the mortgage note payable are as follows:

Year Ending December 31	Amount
2020	\$ 70,387
2021	73,621
2022	77,003
2023	80,541
2024	84,241
Thereafter	<u>2,312,234</u>
TOTAL	<u>\$ 2,698,027</u>

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE H--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.

Net assets at December 31 consist of the following:

	<u>2019</u>	<u>2018</u>
Net Assets Without Donor Restrictions		
Designated:		
Evelyn T. Cohodas Memorial Center	\$ 138,892	\$ 124,212
Development Fund	715,572	650,581
USDA required reserve account	190,225	190,225
TOTAL DESIGNATED	<u>1,044,689</u>	<u>965,018</u>
Undesignated	4,784,513	4,184,771
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>5,829,202</u>	<u>5,149,789</u>
Net Assets With Donor Restrictions		
Subject to Expenditure for Specified Purpose:		
Program support and equipment	49,283	56,302
Capital projects	251,075	167,840
TOTAL SUBJECT TO EXPENDITURE FOR SPECIFIED PURPOSE	<u>300,358</u>	<u>224,142</u>
ENDOWMENT FUNDS SUBJECT TO SPENDING POLICY	1,386,426	1,245,418
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>1,686,784</u>	<u>1,469,560</u>
TOTAL NET ASSETS	<u>\$ 7,515,986</u>	<u>\$ 6,619,349</u>

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE I--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 as 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.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE I--ENDOWMENT FUNDS--Continued

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.

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

	December 31, 2019		
	Original Gift	Accumulated Earnings	Total
Brule Endowment	\$ 1,000,000	\$ 306,814	\$ 1,306,814
Other Endowment	66,451	13,161	79,612
TOTAL ENDOWMENT FUNDS	\$ 1,066,451	\$ 319,975	\$ 1,386,426
	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

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE I--ENDOWMENT FUNDS--Continued

The following represents the changes in endowment fund net assets for the years ended December 31, 2019 and 2018:

	<u>Brule Endowment</u>	<u>Other Endowment</u>	<u>Total</u>
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
Appropriation of endowment assets for expenditure	<u>(66,627)</u>	<u>(3,410)</u>	<u>(70,037)</u>
Endowment net assets as of December 31, 2018	1,178,701	66,717	1,245,418
Net investment return	191,315	11,082	202,397
Contributions		5,000	5,000
Appropriation of endowment assets for expenditure	<u>(63,202)</u>	<u>(3,187)</u>	<u>(66,389)</u>
Endowment net assets as of December 31, 2019	<u>\$ 1,306,814</u>	<u>\$ 79,612</u>	<u>\$ 1,386,426</u>

NOTE J--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 \$40,262 and \$36,764 for the years ended December 31, 2019 and 2018, respectively.

NOTE K--OPERATING LEASE COMMITMENTS

The Corporation leases an office facility in Marquette, Michigan, under a non-cancelable operating lease that expired April 30, 2020. Rental expense totaled \$5,656 and \$5,606 for the years ended December 31, 2019 and 2018, respectively. Future minimum payments due under this lease for the year ending December 31, 2020, total \$1,891.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE L--SUMMARY OF EXPENSES

A summary of expenses for the Corporation is as follows:

	Year Ended December 31			
	2019		2018	
Program Services:				
Education and therapy	\$ 1,852,393	85.6%	\$ 1,794,731	86.4%
Supporting Services:				
Management and general	170,624	7.9%	158,930	7.7%
Fundraising	140,568	6.5%	123,392	5.9%
TOTAL SUPPORTING SERVICES	<u>311,192</u>	<u>14.4%</u>	<u>282,322</u>	<u>13.6%</u>
TOTAL EXPENSES	<u>\$ 2,163,585</u>	<u>100.0%</u>	<u>\$ 2,077,053</u>	<u>100.0%</u>

NOTE M--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.

NOTE N--RELATED-PARTY TRANSACTIONS

The Corporation purchased windows from a business that is owned by a member of the Corporation's Board totaling \$22,567 and \$7,400 for the years ended December 31, 2019 and 2018, respectively.

NOTE O--SUBSEQUENT EVENT

In March 2020, the COVID-19 virus was declared a global pandemic, as it continued to spread rapidly. In response to the COVID-19 pandemic, the Governor of Michigan had enacted "Stay Home, Stay Safe" Executive Order(s) directing all Michigan businesses and operations to temporarily suspend in-person operations that were not necessary to sustain or protect life.

As a result of the pandemic, Corporation management made the decision to suspend programming through September 30, 2020, including cancellation of the 2020 Summer Camp. Management continues to monitor the situation, and potential impacts to the Corporation may include decreases in support and revenue and declines in the market value of the investment securities. No adjustments have been made to these financial statements as a result of this uncertainty.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE O--SUBSEQUENT EVENT--Continued

Subsequent to December 31, 2019, the Corporation applied for, and was approved for, a \$203,500 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the U.S. Small Business Administration. The loan accrues interest at one percent, but payments are not required to begin for six months after the funding of the loan. The Corporation is eligible for forgiveness of up to 100 percent of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the federal government.

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, 2019, 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 July 7, 2020.

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, Tautant, Hill, Nardi & Katona, P.C.

July 7, 2020