

Audited Financial Statements

BAY CLIFF HEALTH CAMP, INC.

Years Ended December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 15, 2018, 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.

May 15, 2018

STATEMENTS OF FINANCIAL POSITION

BAY CLIFF HEALTH CAMP, INC.

	December 31	
	2017	2016
ASSETS		
Cash	\$ 326,275	\$ 289,202
Accounts and other receivables	152,710	165,893
Pledges receivable, net	2,530	31,889
Prepaid expenses	4,809	5,535
Investments	2,788,579	2,544,410
Other assets held for sale	7,000	7,000
Land, buildings, and equipment, net	<u>6,800,339</u>	<u>7,048,391</u>
TOTAL ASSETS	<u>\$ 10,082,242</u>	<u>\$ 10,092,320</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 21,293	\$ 16,831
Accrued payroll tax liabilities	2,918	5,986
Accrued interest payable	6,981	5,708
Mortgage note payable	<u>2,831,011</u>	<u>2,893,786</u>
TOTAL LIABILITIES	2,862,203	2,922,311
NET ASSETS		
Unrestricted:		
Designated	1,131,292	1,116,627
Undesignated	<u>4,412,899</u>	<u>4,491,564</u>
TOTAL UNRESTRICTED NET ASSETS	5,544,191	5,608,191
Temporarily restricted	295,975	300,689
Permanently restricted	<u>1,379,873</u>	<u>1,261,129</u>
TOTAL NET ASSETS	<u>7,220,039</u>	<u>7,170,009</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,082,242</u>	<u>\$ 10,092,320</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
Contributions	\$ 1,086,220	\$ 84,249	\$ 1,000	\$ 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
Interest and dividends	82,733	350		83,083
Miscellaneous	8,416			8,416
Net assets released due to satisfaction of restrictions	90,634	(90,634)		0
TOTAL SUPPORT AND REVENUE	1,882,235	(6,035)	1,000	1,877,200
EXPENSES				
Program Services	1,815,242			1,815,242
Supporting Services:				
Management and general	156,339			156,339
Fundraising	104,196			104,196
TOTAL SUPPORTING SERVICES	260,535	0	0	260,535
TOTAL EXPENSES	2,075,777	0	0	2,075,777
Change in net assets before other gains (losses)	(193,542)	(6,035)	1,000	(198,577)
Net realized and unrealized gains on investments	174,714	1,321	117,744	293,779
Losses on disposal of fixed assets	(45,172)			(45,172)
TOTAL OTHER GAINS (LOSSES)	129,542	1,321	117,744	248,607
CHANGE IN NET ASSETS	(64,000)	(4,714)	118,744	50,030
Net assets at beginning of year	5,608,191	300,689	1,261,129	7,170,009
NET ASSETS AT END OF YEAR	\$ 5,544,191	\$ 295,975	\$ 1,379,873	\$ 7,220,039

See notes to financial statements.

STATEMENT OF ACTIVITIES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE				
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
TOTAL SUPPORT AND REVENUE	2,391,914	(221,117)	\$ 0	2,170,797
EXPENSES				
Program Services	1,784,913			1,784,913
Supporting Services:				
Management and general	149,050			149,050
Fundraising	101,861			101,861
TOTAL SUPPORTING SERVICES	250,911	0	0	250,911
TOTAL EXPENSES	2,035,824	0	0	2,035,824
Change in net assets before net realized and unrealized gains (losses) on investments	356,090	(221,117)	0	134,973
Net realized and unrealized gains (losses) on investments	(36,023)	442	143,698	108,117
CHANGE IN NET ASSETS	320,067	(220,675)	143,698	243,090
Net assets at beginning of year	5,288,124	521,364	1,117,431	6,926,919
NET ASSETS AT END OF YEAR	\$ 5,608,191	\$ 300,689	\$ 1,261,129	\$ 7,170,009

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2017				
	Program Services		Supporting Services		Total Expenses
	Education and Therapy	Management and General	Fundraising	Total	
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		19,261		19,261	19,261
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	1,565,849	143,213	104,196	247,409	1,813,258
Depreciation of buildings and equipment	249,393	13,126		13,126	262,519
TOTAL EXPENSES	\$ 1,815,242	\$ 156,339	\$ 104,196	\$ 260,535	\$ 2,075,777

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2016				
	Program Services	Supporting Services		Total	Total Expenses
	Education and Therapy	Management and General	Fundraising		
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
TOTAL SALARIES AND RELATED EXPENSES	911,702	64,747	40,463	105,210	1,016,912
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
TOTAL EXPENSES	1,535,733	135,935	101,861	237,796	1,773,529
Depreciation of buildings and equipment	249,180	13,115		13,115	262,295
TOTAL EXPENSES	\$ 1,784,913	\$ 149,050	\$ 101,861	\$ 250,911	\$ 2,035,824

See notes to financial statements.

STATEMENTS OF CASH FLOWS

BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31	
	2017	2016
CASH FLOWS PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Change in net assets	\$ 50,030	\$ 243,090
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	262,519	262,295
Loss on disposal of fixed assets	45,172	
Net realized and unrealized gains on investments	(293,779)	(108,117)
Non-cash contributions	(3,276)	(72,474)
Contributions restricted for long-term purposes	(850)	(12,300)
Amortization of discount on pledges receivable		(4,000)
(Increase) Decrease in:		
Accounts and other receivables	13,183	251,574
Pledges receivable	29,359	53,896
Prepaid expenses	726	(323)
Other assets		15,000
Increase (Decrease) in:		
Accounts payable and other liabilities	1,394	(146,626)
Accrued interest	1,273	(1,931)
NET CASH PROVIDED BY OPERATING ACTIVITIES	105,751	480,084
INVESTING ACTIVITIES		
Purchase of investments	(639,163)	(1,117,377)
Sales and maturities of investments	692,049	1,115,547
Capital expenditures for building improvements and equipment	(59,639)	(531,071)
NET CASH USED BY INVESTING ACTIVITIES	(6,753)	(532,901)
FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	850	12,300
Net payments on line of credit		(100,000)
Payments on long-term debt	(62,775)	(56,805)
NET CASH USED BY FINANCING ACTIVITIES	(61,925)	(144,505)
NET INCREASE (DECREASE) IN CASH	37,073	(197,322)
Cash at beginning of year	289,202	486,524
CASH AT END OF YEAR	\$ 326,275	\$ 289,202
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Stock donations as pledge payments	\$ 0	\$ 14,598
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 129,335	\$ 133,847

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.

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 net 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 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.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE A--DESCRIPTION OF ORGANIZATION AND 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 12 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--DESCRIPTION OF ORGANIZATION AND 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 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.

Subsequent Events

Subsequent events were evaluated through May 15, 2018, 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 \$11,000 and \$47,000 at December 31, 2017 and 2016, respectively. The deposits in excess of federally-insured limits are based on the Corporation's bank balances as of December 31, 2017 and 2016.

NOTE C--INVESTMENTS

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

	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>
	December 31, 2016		
	Cost	Fair Value	Unrealized Appreciation (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>

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. 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, 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>
<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>

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	
	2017	2016
Land and land improvements	\$ 771,729	\$ 771,729
Buildings and improvements	9,803,767	8,890,841
Equipment, furniture, and fixtures	799,680	805,831
Construction in progress	66,068	975,146
	<u>11,441,244</u>	<u>11,443,547</u>
Less accumulated depreciation	<u>(4,640,905)</u>	<u>(4,395,156)</u>
LAND, BUILDINGS, AND EQUIPMENT, NET	<u><u>\$ 6,800,339</u></u>	<u><u>\$ 7,048,391</u></u>

NOTE E--PLEDGES RECEIVABLE

Gross pledges receivable totaling \$4,230 and \$33,589 as of December 31, 2017 and 2016, respectively, are from the Securing the Future Campership Appeal:

	December 31	
	2017	2016
Receivable in less than one year	\$ 4,230	\$ 33,589
Less allowance for uncollectible pledges	<u>(1,700)</u>	<u>(1,700)</u>
UNCONDITIONAL PLEDGES RECEIVABLE, NET	<u><u>\$ 2,530</u></u>	<u><u>\$ 31,889</u></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 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 \$40,407 and \$42,309 for the years ended December 31, 2017 and 2016, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE G--SUMMARY OF EXPENSES

A summary of expenses for the Corporation is as follows:

	Year Ended December 31			
	2017		2016	
Program Services:				
Education and therapy	\$ 1,815,242	87.4%	\$ 1,784,913	87.7%
Supporting Services:				
Management and general	156,339	7.6%	149,050	7.3%
Fundraising	104,196	5.0%	101,861	5.0%
TOTAL SUPPORTING SERVICES	<u>260,535</u>	<u>12.6%</u>	<u>250,911</u>	<u>12.3%</u>
TOTAL EXPENSES	<u>\$ 2,075,777</u>	<u>100.0%</u>	<u>\$ 2,035,824</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, 2019. Rental expense totaled \$5,585 and \$5,501 for the years ended December 31, 2017 and 2016, respectively. Future minimum payments due under this lease for the years ending December 31, 2018 and 2019, total \$5,604 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	
	2017	2016
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>\$ 2,831,011</u>	<u>\$ 2,893,786</u>

Future maturities of the mortgage note payable are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2018	\$ 64,340
2019	67,296
2020	70,387
2021	73,621
2022	77,003
Thereafter	<u>2,478,364</u>
	<u><u>\$ 2,831,011</u></u>

NOTE K--LINES OF CREDIT

The Corporation has two lines of credit with local financial institutions. One line matures on December 17, 2018, has a limit of \$100,000, and had \$0 outstanding as of December 31, 2017 and 2016. This line bears interest at the prime rate, with a minimum of 5 percent, and is unsecured. The other line matured on March 11, 2018, has a limit of \$100,000, and had \$0 outstanding as of December 31, 2017 and 2016. 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	
	2017	2016
Unrestricted:		
Designated		
Evelyn T. Cohodas Memorial Center	\$ 141,067	\$ 126,402
Development Fund for staff salary, program improvements, and facility renovations	800,000	800,000
USDA required reserve account	190,225	190,225
	<u>1,131,292</u>	<u>1,116,627</u>
TOTAL DESIGNATED		
Undesignated	4,412,899	4,491,564
	<u>5,544,191</u>	<u>5,608,191</u>
TOTAL UNRESTRICTED		
Temporarily restricted:		
Program support and equipment	89,815	92,169
Capital projects	206,160	208,520
	<u>295,975</u>	<u>300,689</u>
TOTAL TEMPORARILY RESTRICTED		
Permanently Restricted--Endowment Funds	<u>1,379,873</u>	<u>1,261,129</u>
	<u>\$ 7,220,039</u>	<u>\$ 7,170,009</u>
TOTAL NET ASSETS		

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, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Brule Endowment	\$ 19,124		\$ 1,313,422	\$ 1,332,546
Other Endowment	7,908	\$ 1,430	66,451	75,789
TOTAL ENDOWMENT FUNDS	\$ 27,032	\$ 1,430	\$ 1,379,873	\$ 1,408,335

	December 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Brule Endowment	\$ 22,235		\$ 1,195,678	\$ 1,217,913
Other Endowment	1,292	\$ 262	65,451	67,005
TOTAL ENDOWMENT FUNDS	\$ 23,527	\$ 262	\$ 1,261,129	\$ 1,284,918

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, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</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	5,242	945	143,698	149,885
Total investment return	<u>(49,504)</u>	<u>720</u>	<u>143,698</u>	<u>94,914</u>
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>
Investment return:				
Investment income, net of fees	36,338	297		36,635
Realized gains	23,229			23,229
Unrealized appreciation	7,488	1,321	117,744	126,553
Total investment return	<u>67,055</u>	<u>1,618</u>	<u>117,744</u>	<u>186,417</u>
Contributions	0	0	1,000	1,000
Appropriation of endowment assets for expenditure	<u>(63,550)</u>	<u>(450)</u>	<u>0</u>	<u>(64,000)</u>
Endowment net assets as of December 31, 2017	<u>\$ 27,032</u>	<u>\$ 1,430</u>	<u>\$ 1,379,873</u>	<u>\$ 1,408,335</u>

NOTE N--RELATED-PARTY TRANSACTIONS

The Corporation purchased windows totaling \$368 and \$43,359 from a business that is owned by a member of the Corporation's Board for the years ended December 31, 2017 and 2016, respectively. A discount of \$13,640 was provided for the windows, which was recorded as a non-monetary donation for the year ended December 31, 2016.

In addition, the Corporation purchased maintenance services totaling \$4,857 and \$1,761 from a business that is owned by a member of the Corporation's Board for the years ended December 31, 2017 and 2016, 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, 2017, 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 15, 2018.

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.

May 15, 2018