

Audited Financial Statements

BAY CLIFF HEALTH CAMP, INC.

December 31, 2013

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## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of Bay Cliff Health Camp, Inc., (a non-profit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, 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 audits 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, 2013 and 2012, 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 6, 2014, on our consideration of Bay Cliff Health Camp, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bay Cliff Health Camp, Inc.'s internal control over financial reporting and compliance.

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

Marquette, Michigan

May 6, 2014

STATEMENTS OF FINANCIAL POSITION

BAY CLIFF HEALTH CAMP, INC.

	December 31	
	2013	2012
<b>ASSETS</b>		
Cash	\$ 93,535	\$ 88,406
Accounts and other receivables	157,805	136,414
Pledges receivable, net	183,912	6,600
Prepaid expenses	11,234	7,624
Investments	2,609,396	2,422,531
Land held for sale	7,000	15,800
Construction in progress	151,692	304,990
Land, buildings, and equipment, net	<u>6,596,105</u>	<u>6,674,002</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 9,810,679</u></u>	<u><u>\$ 9,656,367</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 33,371	\$ 44,407
Accrued payroll tax liabilities		6,846
Accrued interest payable	7,542	10,283
Line of credit	99,986	200,000
Mortgage note payable	<u>3,061,369</u>	<u>3,110,016</u>
<b>TOTAL LIABILITIES</b>	<u>3,202,268</u>	<u>3,371,552</u>
<b>NET ASSETS</b>		
Unrestricted:		
Designated	1,116,004	1,104,169
Undesignated	<u>3,875,355</u>	<u>3,513,638</u>
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<u>4,991,359</u>	<u>4,617,807</u>
Temporarily restricted	424,215	564,810
Permanently restricted	<u>1,192,837</u>	<u>1,102,198</u>
<b>TOTAL NET ASSETS</b>	<u><u>6,608,411</u></u>	<u><u>6,284,815</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 9,810,679</u></u>	<u><u>\$ 9,656,367</u></u>

See notes to financial statements.

# STATEMENT OF ACTIVITIES

## BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 1,134,689	\$ 225,713	\$ 42,226	\$ 1,402,628
Program income	120,777			120,777
Federal grants	36,637			36,637
Memorials and bequests	126,441			126,441
Rents	107,829			107,829
Interest and dividends	68,402	191		68,593
Miscellaneous	1,338			1,338
Net assets released due to satisfaction of restrictions	368,279	(368,279)		
<b>TOTAL SUPPORT AND REVENUE</b>	<b>1,964,392</b>	<b>(142,375)</b>	<b>42,226</b>	<b>1,864,243</b>
<b>EXPENSES</b>				
Program Services	1,614,084			1,614,084
Supporting Services:				
Management and General	145,709			145,709
Fundraising	96,677			96,677
<b>TOTAL SUPPORTING SERVICES</b>	<b>242,386</b>	<b>0</b>	<b>0</b>	<b>242,386</b>
<b>TOTAL EXPENSES</b>	<b>1,856,470</b>	<b>0</b>	<b>0</b>	<b>1,856,470</b>
Change in net assets before net realized and unrealized gains on investments	107,922	(142,375)	42,226	7,773
Net realized and unrealized gains (losses) on investments	265,630	1,780	48,413	315,823
<b>CHANGE IN NET ASSETS</b>	<b>373,552</b>	<b>(140,595)</b>	<b>90,639</b>	<b>323,596</b>
Net assets at beginning of year	4,617,807	564,810	1,102,198	6,284,815
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 4,991,359</b>	<b>\$ 424,215</b>	<b>\$ 1,192,837</b>	<b>\$ 6,608,411</b>

See notes to financial statements.

# STATEMENT OF ACTIVITIES

## BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 862,250	\$ 23,825		\$ 886,075
Program income	112,034			112,034
Federal grants	35,639			35,639
Memorials and bequests	132,605			132,605
Rents	105,519			105,519
Interest and dividends	88,351	402		88,753
Miscellaneous	15,057			15,057
Net assets released due to satisfaction of restrictions	179,851	(179,851)		
<b>TOTAL SUPPORT AND REVENUE</b>	<b>1,531,306</b>	<b>(155,624)</b>	<b>\$ 0</b>	<b>1,375,682</b>
<b>EXPENSES</b>				
Program Services	1,563,284			1,563,284
Supporting Services:				
Management and General	142,799			142,799
Fundraising	101,278			101,278
<b>TOTAL SUPPORTING SERVICES</b>	<b>244,077</b>	<b>0</b>	<b>0</b>	<b>244,077</b>
<b>TOTAL EXPENSES</b>	<b>1,807,361</b>	<b>0</b>	<b>0</b>	<b>1,807,361</b>
Change in net assets before net realized and unrealized gains on investments	(276,055)	(155,624)		(431,679)
Net realized and unrealized gains on investments	126,178	1,078	92,198	219,454
<b>CHANGE IN NET ASSETS</b>	<b>(149,877)</b>	<b>(154,546)</b>	<b>92,198</b>	<b>(212,225)</b>
Net assets at beginning of year	4,767,684	719,356	1,010,000	6,497,040
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 4,617,807</b>	<b>\$ 564,810</b>	<b>\$ 1,102,198</b>	<b>\$ 6,284,815</b>

See notes to financial statements.

# STATEMENTS OF CASH FLOWS

## BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31	
	2013	2012
	<hr/>	
CASH FLOWS PROVIDED (USED) BY		
OPERATING ACTIVITIES		
Change in net assets	\$ 323,596	\$ (212,225)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	264,697	261,875
Write-down of land held for sale	8,800	
Provision for uncollectible pledges receivable		11,272
Net realized and unrealized (gains) losses on investments	(315,823)	(219,454)
Noncash contributions	(27,621)	(1,012)
Contributions restricted for long-term purposes	(181,262)	
(Increase) Decrease in:		
Accounts and other receivables	(21,391)	(31,816)
Pledges receivable	3,950	7,363
Prepaid expenses	(3,610)	(3,591)
Other assets		17,000
Increase (Decrease) in:		
Accounts payable and other liabilities	(17,882)	19,298
Accrued interest	(2,741)	158
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<hr/> 30,713	<hr/> (151,132)
INVESTING ACTIVITIES		
Purchase of investments	(1,793,991)	(429,223)
Sales and maturities of investments	1,950,570	655,340
Capital expenditures for building improvements and equipment	(33,502)	(64,517)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<hr/> 123,077	<hr/> 161,600
FINANCING ACTIVITIES		
Net (payments) advances on line of credit	(100,014)	50,000
Payments on long-term debt	(48,647)	(48,635)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<hr/> (148,661)	<hr/> 1,365
NET INCREASE IN CASH	<hr/> 5,129	<hr/> 11,833
Cash at beginning of year	<hr/> 88,406	<hr/> 76,573
	<hr/> <hr/> \$ 93,535	<hr/> <hr/> \$ 88,406
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Stock donations as pledge payments	<hr/> \$ 9,981	<hr/> \$ 10,313

See notes to financial statements.



## STATEMENT OF FUNCTIONAL EXPENSES

### BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2013				
	Program Services	Supporting Services			Total Expenses
	Education and Therapy	Management and General	Fundraising	Total	
Salaries and wages	\$ 638,397	\$ 43,939	\$ 26,937	\$ 70,876	\$ 709,273
Payroll taxes	48,801	3,359	2,059	5,418	54,219
Employee benefits and retirement	77,812	5,356	3,283	8,639	86,451
<b>TOTAL SALARIES AND RELATED EXPENSES</b>	<b>765,010</b>	<b>52,654</b>	<b>32,279</b>	<b>84,933</b>	<b>849,943</b>
Food and food supplies	136,122				136,122
Auto and travel	22,199		1,549	1,549	23,748
Education and program supplies	18,201				18,201
Insurance	41,295	2,173		2,173	43,468
Maintenance	28,738	300	599	899	29,637
Postage	10,590	623	1,246	1,869	12,459
Printing	24,011	3,001	3,001	6,002	30,013
Supplies	2,931	366	366	732	3,663
Rent	4,014	803	535	1,338	5,352
Telephone	10,106	405	810	1,215	11,321
Bank and investment management fees		21,932		21,932	21,932
Utilities	108,406	5,706		5,706	114,112
Professional fees		24,782		24,782	24,782
Clothing and pictures	14,574				14,574
Medical and dental	6,303				6,303
Recruiting	20,120				20,120
Raffle prizes and fundraising events			37,918	37,918	37,918
Bad debt expense			100	100	100
Campership appeal		3,450	13,245	16,695	16,695
Miscellaneous	14,806	1,257	5,029	6,286	21,092
Interest expense	135,196	15,022		15,022	150,218
<b>TOTAL EXPENSES</b>					
<b>LESS DEPRECIATION</b>	<b>1,362,622</b>	<b>132,474</b>	<b>96,677</b>	<b>229,151</b>	<b>1,591,773</b>
Depreciation of buildings and equipment	251,462	13,235		13,235	264,697
<b>TOTAL EXPENSES</b>	<b>\$ 1,614,084</b>	<b>\$ 145,709</b>	<b>\$ 96,677</b>	<b>\$ 242,386</b>	<b>\$1,856,470</b>

See notes to financial statements.

## STATEMENT OF FUNCTIONAL EXPENSES

### BAY CLIFF HEALTH CAMP, INC.

	Year Ended December 31, 2012				
	Program Services	Supporting Services			Total Expenses
	Education and Therapy	Management and General	Fundraising	Total	
Salaries and wages	\$ 597,686	\$ 45,079	\$ 45,733	\$ 90,812	\$ 688,498
Payroll taxes	50,007	3,772	3,826	7,598	57,605
Employee benefits and retirement	59,397	4,480	4,545	9,025	68,422
<b>TOTAL SALARIES AND RELATED EXPENSES</b>	<b>707,090</b>	<b>53,331</b>	<b>54,104</b>	<b>107,435</b>	<b>814,525</b>
Food and food supplies	125,932				125,932
Auto and travel	20,866		1,415	1,415	22,281
Education and program supplies	15,814				15,814
Insurance	41,572	2,188		2,188	43,760
Maintenance	36,609	307	615	922	37,531
Postage	12,342	726	1,452	2,178	14,520
Printing	22,610	2,826	2,826	5,652	28,262
Supplies	4,159	520	520	1,040	5,199
Rent	4,014	803	535	1,338	5,352
Telephone	9,745	387	774	1,161	10,906
Bank and investment management fees		18,909		18,909	18,909
Utilities	106,565	5,609		5,609	112,174
Professional fees		17,772		17,772	17,772
Clothing and pictures	17,670				17,670
Medical and dental	10,765				10,765
Recruiting	17,523				17,523
Raffle prizes and fundraising events			39,037	39,037	39,037
Bad debt expense		11,272		11,272	11,272
Dues, subscriptions, licenses and permits	13,239				13,239
Miscellaneous	12,494				12,494
Interest expense	135,494	15,055		15,055	150,549
<b>TOTAL EXPENSES</b>					
<b>LESS DEPRECIATION</b>	<b>1,314,503</b>	<b>129,705</b>	<b>101,278</b>	<b>230,983</b>	<b>1,545,486</b>
Depreciation of buildings and equipment	248,781	13,094		13,094	261,875
<b>TOTAL EXPENSES</b>	<b>\$ 1,563,284</b>	<b>\$ 142,799</b>	<b>\$101,278</b>	<b>\$ 244,077</b>	<b>\$1,807,361</b>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

BAY CLIFF HEALTH CAMP, INC.

December 31, 2013

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

Bay Cliff Health Camp, Inc., (Corporation) is a private not-for-profit 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 not-for-profit organizations to provide programs for children and adults with many different kinds of disabilities and health challenges, helping them live a better life. The Corporation is governed by a fifteen-member Board of Directors and is funded primarily by charitable contributions.

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

The Corporation's financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958-310, *Not-for-Profit Organizations' Receivables*, and FASB ASC 958, *Financial Statements of Not-for-Profit Organizations*. In accordance with FASB ASC 958, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) based on the existence or nature of any donor-imposed restrictions. The Corporation has the following asset classes:

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

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

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

#### Cash

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

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

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

Receivables

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

Prepaid Expenses

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

Pledges Receivable

Contributions are recognized when the donor makes an unconditional promise to give. When donor restrictions expire (i.e., when a stipulated time restriction ends or other restrictions are met), temporarily restricted net assets are reclassified to unrestricted net assets as "net assets released from 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

## NOTES TO FINANCIAL STATEMENTS--Continued

### BAY CLIFF HEALTH CAMP, INC.

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

##### Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Both realized and unrealized gains and losses are included in net gains or losses on investments in the statement 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.

##### Accounts Payable and Accrued Expenses

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

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

Contributed professional services are recognized if the services received a) create or enhance non-financial assets or b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Additionally, the Corporation receives a significant amount of contributed time that does not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not recorded in the accompanying financial statements.

Contributions of tangible assets are recognized at fair market value when received.

##### Functional Allocation of Expenses

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

##### Estimates

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

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

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

Reclassifications

Certain amounts as of and for the year ended December 31, 2012, have been reclassified to conform to the current year's presentation.

Subsequent Events

Subsequent events were evaluated through May 6, 2014, which is the date the financial statements were available to be issued.

NOTE B--INVESTMENTS

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

	December 31, 2013		
	Cost	Market Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 78,940	\$ 78,940	
Mutual funds:			
Equity funds	1,569,546	1,667,500	\$ 97,954
Fixed income funds	875,878	862,956	(12,922)
	<u>2,445,424</u>	<u>2,530,456</u>	<u>85,032</u>
<b>TOTAL AT END OF YEAR</b>	<b><u>\$ 2,524,364</u></b>	<b><u>\$ 2,609,396</u></b>	<b><u>\$ 85,032</u></b>
	December 31, 2012		
	Cost	Market Value	Unrealized Appreciation (Depreciation)
Short-term investments	\$ 3,954	\$ 3,954	
Mutual funds:			
Equity funds	1,592,476	1,585,210	\$ (7,266)
Fixed income funds	821,048	833,367	12,319
	<u>2,413,524</u>	<u>2,418,577</u>	<u>5,053</u>
<b>TOTAL AT END OF YEAR</b>	<b><u>\$ 2,417,478</u></b>	<b><u>\$ 2,422,531</u></b>	<b><u>\$ 5,053</u></b>

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE B--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 FASB ASC 820 *Fair Value Measurements* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs consist of observable inputs other than quoted prices for identical assets; Level 3 inputs consist of unobservable inputs and have the lowest priority. The Corporation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2013:</u>				
Short-term investments	\$ 78,940	\$ 78,940		
Mutual funds:				
Equity funds	1,667,500	1,667,500		
Fixed income funds	862,956	862,956		
<b>TOTAL INVESTMENT SECURITIES</b>	<b>\$ 2,609,396</b>	<b>\$ 2,609,396</b>	<b>\$ 0</b>	<b>\$ 0</b>
<u>December 31, 2012:</u>				
Short-term investments	\$ 3,954	\$ 3,954		
Mutual funds:				
Equity funds	1,585,210	1,585,210		
Fixed income funds	833,367	833,367		
<b>TOTAL INVESTMENT SECURITIES</b>	<b>\$ 2,422,531</b>	<b>\$ 2,422,531</b>	<b>\$ 0</b>	<b>\$ 0</b>

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE C--LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following:

	December 31	
	2013	2012
Land and land improvements	\$ 583,238	\$ 583,238
Buildings and improvements	8,887,558	8,729,282
Equipment, furniture, and fixtures	803,018	774,494
	<u>10,273,814</u>	<u>10,087,014</u>
Less accumulated depreciation	<u>(3,677,709)</u>	<u>(3,413,012)</u>
<b>TOTAL LAND, BUILDINGS, AND EQUIPMENT</b>	<u><u>\$ 6,596,105</u></u>	<u><u>\$ 6,674,002</u></u>

NOTE D--PLEDGES RECEIVABLE

As of December 31, 2013, pledges receivable totaling \$192,262 are from "Securing the Future" Campership Appeal and \$2,650 represent outstanding pledges from the "Building for the Future" Capital Campaign, which officially ended on December 31, 2008:

	<u>December 31, 2013</u>
Receivable in less than one year	\$ 61,024
Receivable in one to five years	137,888
Total unconditional pledges receivable	<u>198,912</u>
Less discount to net present value (discounted at 3%)	(10,000)
Less allowance for uncollectible pledges	<u>(5,000)</u>
<b>NET UNCONDITIONAL PLEDGES RECEIVABLE</b>	<u><u>\$ 183,912</u></u>

As of December 31, 2012, pledges receivable totaling \$6,600 were outstanding from the "Building for the Future" Capital Campaign:

	<u>December 31, 2012</u>
Receivable in less than one year	\$ 4,300
Receivable in one to five years	<u>2,300</u>
<b>NET UNCONDITIONAL PLEDGES RECEIVABLE</b>	<u><u>\$ 6,600</u></u>



NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE E--RETIREMENT PLAN

The Corporation has a contributory defined contribution retirement plan for its permanent, full-time employees who meet the requirement of working more than 1,000 hours annually. The plan is being funded through the purchase of individual annuities. The Corporation contributes five percent (5%) of employees' gross salaries for qualifying participants. Contributions to the plan were \$30,247 during 2013 and \$20,895 in 2012.

NOTE F--SUMMARY OF EXPENSES

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

	Years Ended December 31			
	2013		2012	
Program Services:				
Education and Therapy	\$ 1,614,084	86.9%	\$ 1,563,284	86.4%
Supporting Services:				
Management and General	145,709	7.8%	142,799	7.9%
Fundraising	96,677	5.2%	101,278	5.6%
TOTAL SUPPORTING SERVICES	<u>242,386</u>	<u>13.1%</u>	<u>244,077</u>	<u>13.6%</u>
TOTAL EXPENSES	<u>\$ 1,856,470</u>	<u>100.0%</u>	<u>\$ 1,807,361</u>	<u>100.0%</u>

NOTE G--OPERATING LEASE COMMITMENTS

The Corporation leases an office facility in Marquette, Michigan, under a non-cancelable operating lease that expires April 30, 2014. Rental expense totaled \$5,352 for both years ended December 31, 2013 and 2012. Future minimum payments due under this lease for the year ended December 31, 2014, total \$1,784.

NOTE H--FEDERAL INCOME TAXES

The Corporation is a not-for-profit 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. The Corporation is generally no longer subject to examination by the Internal Revenue Service for years before 2010.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE I--LONG-TERM DEBT

The following is a summary of the mortgage note payable:

	December 31	
	2013	2012
	<hr/>	
Mortgage note payable to the United States Department of Agriculture, bearing a fixed interest rate of 4.5%. The note is payable in monthly installments of \$15,853, including interest for the remainder of the note maturing in December 2044. The note is secured by a mortgage on the Bay Cliff property and a UCC filing on all furniture, equipment, personal property, accounts receivable, supplies, contract rights, and intangibles.	<u>\$3,061,369</u>	<u>\$3,110,016</u>

Future maturities of the mortgage note payable are as follows:

	Years Ending December 31
	<hr/>
2014	\$ 53,694
2015	56,161
2016	58,741
2017	61,439
2018	64,262
Thereafter	<u>2,767,072</u>
	<u>\$ 3,061,369</u>

The Corporation paid interest of \$152,959 and \$150,391 during the years ended December 31, 2013 and 2012, respectively.

NOTE J--LINES-OF-CREDIT

The Corporation has two lines-of-credit with local financial institutions. One line matures on December 31, 2014, has a limit of \$100,000, and had \$49,986 outstanding as of December 31, 2013. This line bears interest at the prime rate, with a minimum of five percent (5%) and is unsecured. The other line matures on December 31, 2014, has a limit of \$100,000, and had \$50,000 outstanding as of December 31, 2013. This line bears interest at the prime rate plus one percent, with a minimum of six percent (6%) 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 K--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	
	2013	2012
Unrestricted:		
Designated:		
Evelyn T. Cohodas Memorial Center	\$ 125,779	\$ 113,944
Development Fund for staff salary, program improvements, and facility renovations	800,000	800,000
USDA required reserve account	190,225	190,225
TOTAL DESIGNATED	1,116,004	1,104,169
Undesignated	3,875,355	3,513,638
TOTAL UNRESTRICTED	4,991,359	4,617,807
Temporarily Restricted:		
Program support and equipment	227,995	23,865
Capital projects	196,220	540,945
TOTAL TEMPORARILY RESTRICTED	424,215	564,810
Permanently Restricted--Endowment Funds	1,192,837	1,102,198
TOTAL NET ASSETS	\$ 6,608,411	\$ 6,284,815

## NOTES TO FINANCIAL STATEMENTS--Continued

### BAY CLIFF HEALTH CAMP, INC.

#### NOTE L--ENDOWMENT FUNDS

The Corporation's endowment funds consist of two donor-restricted funds. 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, if applicable. 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 is 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 Brule Endowment Fund (Brule Fund). The Corporation and the donors have entered into a formal "Endowment Fund Agreement" (Agreement). This Agreement cites that the historic dollar value of the Fund 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 Fund.

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE L--ENDOWMENT FUNDS--Continued

The Corporation has adopted a "Statement of Investment Policy" (Policy) for the Brule Fund assets. The investment objectives are to preserve the purchasing power of the historic dollar value of the Brule Fund 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 Fund and the investment manager.

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

	December 31, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Brule endowment	\$ 142,107		\$ 1,140,611	\$ 1,282,718
Endowment		\$ 2,933	52,226	55,159
<b>TOTAL ENDOWMENT FUNDS</b>	<b>\$ 142,107</b>	<b>\$ 2,933</b>	<b>\$ 1,192,837</b>	<b>\$ 1,337,877</b>
	December 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Brule endowment	\$ 80,659		\$ 1,092,198	\$ 1,172,857
Endowment		\$ 1,650	10,000	11,650
<b>TOTAL ENDOWMENT FUNDS</b>	<b>\$ 80,659</b>	<b>\$ 1,650</b>	<b>\$ 1,102,198</b>	<b>\$ 1,184,507</b>

NOTES TO FINANCIAL STATEMENTS--Continued

BAY CLIFF HEALTH CAMP, INC.

NOTE L--ENDOWMENT FUNDS--Continued

The following represents the changes in endowment fund net assets for the years ended December 31, 2013 and 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets as of December 31, 2011	\$ 93,971	\$ 170	\$ 1,010,000	\$ 1,104,141
Investment return:				
Investment income	42,183	402	0	42,585
Realized appreciation	505	0	0	505
Unrealized appreciation	<u>0</u>	<u>1,078</u>	<u>92,198</u>	<u>93,276</u>
Total investment return	42,688	1,480	92,198	136,366
Contributions	0	0	0	0
Appropriation of endowment assets for expenditure	<u>(56,000)</u>	<u>0</u>	<u>0</u>	<u>(56,000)</u>
Endowment net assets as of December 31, 2012	80,659	1,650	1,102,198	1,184,507
Investment return:				
Investment income	27,894	191	0	28,085
Realized appreciation	101,054	1,995	0	103,049
Unrealized depreciation	<u>0</u>	<u>(215)</u>	<u>48,413</u>	<u>48,198</u>
Total investment return	128,948	1,971	48,413	179,332
Contributions	0	0	42,226	42,226
Appropriation of endowment assets for expenditure	<u>(67,500)</u>	<u>(688)</u>	<u>0</u>	<u>(68,188)</u>
Endowment net assets as of December 31, 2013	<u>\$ 142,107</u>	<u>\$ 2,933</u>	<u>\$ 1,192,837</u>	<u>\$ 1,337,877</u>



**REPORT OF INDEPENDENT AUDITORS 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), which comprise the statement of financial position as of December 31, 2013, 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 6, 2014.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Board of Directors  
Bay Cliff Health Camp, Inc.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Marquette, Michigan

May 6, 2014