

**Beaver Island Rural Health Center  
Beaver Island, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2016**



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

**Beaver Island Rural Health Center  
Beaver Island, Michigan**

**FINANCIAL STATEMENTS**

**September 30, 2016**

Beaver Island Rural Health Center

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Beaver Island Rural Health Center  
Beaver Island, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Beaver Island Rural Health Center (a nonprofit corporation) (the Organization), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Beaver Island Rural Health Center as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the Organization's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 10, 2017

Beaver Island Rural Health Center

STATEMENT OF FINANCIAL POSITION

September 30, 2016

(With Comparative Totals for September 30, 2015)

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 391,568	\$ 393,389
Investment - certificate of deposit	2,849	2,849
Accounts receivable, net	21,460	15,499
Other receivables	1,356	3,769
Prepays	803	-
Inventory	10,249	6,229
	<hr/>	<hr/>
Total current assets	428,285	421,735
Noncurrent assets		
Fixed assets not being depreciated	133,380	133,380
Fixed assets, net of accumulated depreciation	949,843	988,937
	<hr/>	<hr/>
Total noncurrent assets	1,083,223	1,122,317
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 1,511,508</b>	<b>\$ 1,544,052</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 20,994	\$ 34,930
Accrued liabilities	6,034	18,642
Current portion of capital lease payable	5,497	4,415
	<hr/>	<hr/>
Total current liabilities	32,525	57,987
Noncurrent liabilities		
Noncurrent portion of capital lease payable	2,118	7,614
	<hr/>	<hr/>
Total liabilities	34,643	65,601
<b>NET ASSETS</b>		
Unrestricted	1,452,794	1,456,929
Temporarily restricted	24,071	21,527
	<hr/>	<hr/>
Total net assets	1,476,865	1,478,451
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,511,508</b>	<b>\$ 1,544,052</b>

See accompanying notes to financial statements.

Beaver Island Rural Health Center

STATEMENT OF ACTIVITIES

Year Ended September 30, 2016  
(With Comparative Totals for Year Ended September 30, 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
<b>SUPPORT AND REVENUE</b>				
Local grants				
Township millages	\$ 200,012	\$ -	\$ 200,012	\$ 198,031
Charlevoix County Community Foundation	56,000	-	56,000	70,000
Other	-	6,500	6,500	-
State funding	100,000	-	100,000	125,721
Local contributions	15,983	10,255	26,238	21,409
Special events, net	12,882	-	12,882	18,890
Service revenues	145,139	-	145,139	113,511
Rental income	3,732	-	3,732	4,073
Reimbursements	12,468	-	12,468	22,004
Interest revenue	385	-	385	438
Net assets released from restrictions	14,206	(14,206)	-0-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<b>560,807</b>	<b>2,549</b>	<b>563,356</b>	<b>574,077</b>
<b>EXPENSES</b>				
Wages	267,205	-	267,205	266,799
Payroll taxes	20,650	-	20,650	19,639
Fringe benefits	28,929	-	28,929	23,371
Supplies	36,038	-	36,038	30,228
Professional services and fees	20,169	-	20,169	16,682
Contracted services	50,010	-	50,010	48,719
Occupancy	25,377	-	25,377	30,196
Telephone	4,570	-	4,570	5,233
Internet	11,200	-	11,200	10,643
Insurance	16,629	-	16,629	16,485
Printing and publication	4,090	-	4,090	5,725
Postage and shipping	1,585	-	1,585	1,943
Repairs and maintenance	24,518	-	24,518	67,379
Travel	3,641	-	3,641	7,088
Contributions	-	-	-0-	52,000
Interest expense	2,233	-	2,233	3,071
Other	6,799	-	6,799	8,119
Depreciation expense	41,299	-	41,299	42,094
<b>TOTAL EXPENSES</b>	<b>564,942</b>	<b>-0-</b>	<b>564,942</b>	<b>655,414</b>
<b>CHANGE IN NET ASSETS</b>	<b>(4,135)</b>	<b>2,549</b>	<b>(1,586)</b>	<b>(81,337)</b>
Net assets, beginning of year	1,456,929	21,522	1,478,451	1,559,788
Net assets, end of year	<u>\$ 1,452,794</u>	<u>\$ 24,071</u>	<u>\$ 1,476,865</u>	<u>\$ 1,478,451</u>

See accompanying notes to financial statements.

Beaver Island Rural Health Center

STATEMENT OF CASH FLOWS

Year Ended September 30, 2016  
(With Comparative Totals for Year Ended September 30, 2015)

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,586)	\$ (81,337)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	41,299	42,094
(Increase) decrease in:		
Accounts receivable, net	(5,961)	(2,864)
Other receivables	2,413	(3,361)
Prepays	(803)	-
Inventory	(4,020)	(2,857)
Increase (decrease) in:		
Accounts payable	(13,936)	24,186
Accrued liabilities	(12,608)	6,151
	<u>4,798</u>	<u>(17,988)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of capital lease payable	(4,414)	(3,545)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(2,205)	(12,404)
Purchase of investment - certificate of deposit	-	(2,849)
Maturity of investment - certificate of deposit	-	2,849
	<u>(2,205)</u>	<u>(12,404)</u>
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>		
<b>NET (DECREASE) IN CASH</b>	(1,821)	(33,937)
Cash, beginning of year	<u>393,389</u>	<u>427,326</u>
Cash, end of year	<u>\$ 391,568</u>	<u>\$ 393,389</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid during the year	<u>\$ 2,233</u>	<u>\$ 3,071</u>

See accompanying notes to financial statements.



Beaver Island Rural Health Center  
NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Beaver Island Rural Health Center (the Organization) was organized in 1973. The Organization's office is located in St. James Township, Beaver Island, Michigan. The Organization is a nonprofit corporation offering medical services. The Organization was created to operate and maintain a rural medical care facility for the benefit of the general public.

The Board of Directors of the Organization is comprised of eight (8) members. The majority of Beaver Island Rural Health Center's revenue is from professional charges for services, grants, and other public support.

The accounting policies of the Organization conform to U.S. generally accepted accounting principles (GAAP) as applicable to nonprofit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing nonprofit accounting and financial reporting principles.

The following is a summary of the significant accounting policies of the Organization:

**Basis of Presentation** - In accordance with GAAP, the Organization is required to report information regarding its financial position and activities according to three (3) classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions. Currently the Organization has no net assets classified as permanently restricted.

GAAP also require contributions received to be recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Organization has not received any contributions with donor-imposed restrictions that would result in permanently restricted net assets.

**Basis of Accounting** - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

The financial statements of the Organization are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for nonprofit organizations.

**Cash** - Cash consists of petty cash, a checking account, and a money market account.

**Investment** - The investment consists of a certificate of deposit with an original maturity period of greater than ninety (90) days. The investment has a readily determinable fair value and is stated at fair value at September 30, 2016.

**Inventory** - Inventory consists of medical supplies on hand and is charged as an expense at the time of sale. These items are valued at cost on a first in/first out basis.

**Service Revenues** - Service revenues represent the estimated net realizable amounts from patients, third party payers and others for services rendered.

**Contributions** - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of support, revenue, and expenses as net assets released from restrictions.

**Local Grants and State Funding** - Local grants and State funding are funds from the local Townships that levy a tax millage to support the Organization and the State of Michigan that are for particular operating purposes. These funds are not considered to be contributions and are recognized as revenue when expenses are incurred under the appropriate activity type (i.e., unrestricted).

Beaver Island Rural Health Center

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Income Taxes** - Beaver Island Rural Health Center is a nonprofit corporation and has been granted exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code. Beaver Island Rural Health Center is not classified as a private foundation.

**Accounts Receivable** - Accounts receivable from patients, insurance companies, and governmental agencies are based on net charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging as is agreed to by the Board of Directors. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible or when they are turned over to collections. An allowance for contractual adjustments is also established on an aggregate basis and is computed based on agreements with third-party payers that provide payments to the Organization at amounts different than established charges. Contractual adjustments are written off against the allowance for contractual adjustments in the period payment is received.

**Fixed Assets** - Fixed assets include land, land improvements, buildings and improvements, equipment and furniture, and vehicles and are capitalized at total acquisition cost. The Organization's policy is to capitalize items costing over \$1,000 that have a useful life greater than one year. Fixed assets acquired by the Organization are stated at cost, if purchased, or at fair value, if donated. The cost of normal maintenance that does not add to the value of assets or materially extend the asset lives is not capitalized. Depreciation is provided using either the straight line or the double declining balance methods over the useful lives of the respective assets as follows:

Buildings and improvements	10-39 years
Equipment and furniture	5-10 years
Land improvements	10 years
Vehicles	5 years

**Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Allocated Costs** - Certain costs of the Beaver Island Rural Health Center have been allocated to program service activities. Salaries and related expenses have been allocated to program service activities based upon time percentages for each employee. Most other costs are either charged directly or are allocated to program service activities based on average time percentages of all employees in total.

**Donated Materials and Service** - The Organization will record various types of in-kind contributions in accordance with GAAP. GAAP require recognition of professional services received if those services (a) create or enhance long-lived 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. Contributions of tangible assets are recognized at fair value when received. During the year ended September 30, 2016, Beaver Island Rural Health Center received no material donated items. The value of donated services is unknown and therefore has not been recorded in the financial statements as required by GAAP.

**Comparative Data** - Comparative total data for the prior year have been presented in the selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Organization's financial position and operations. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2015, from which the summarized information was derived.

**Subsequent Events** - In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 10, 2017, the date the financial statements were available to be issued.

Beaver Island Rural Health Center  
 NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**NOTE B: ACCOUNTS RECEIVABLE**

The details of accounts receivable are as follows for the year ended September 30, 2016:

Accounts Receivable	\$	54,301
Less: Allowance for Uncollectible Accounts		<u>(32,841)</u>
	\$	<u>21,460</u>

**NOTE C: FIXED ASSETS**

The following is a summary of the changes in fixed assets for the year ended September 30, 2016:

	Balance Oct. 1, 2015	Additions	Deletions	Balance Sept. 30, 2016
Fixed assets not being depreciated				
Land	\$ 133,380	\$ -	\$ -	\$ 133,380
Fixed assets being depreciated				
Land Improvements	5,855	-	-	5,855
Building and Improvements	1,363,579	-	-	1,363,579
Equipment and Furniture	226,579	2,205	-	228,784
Vehicles	8,779	-	-	8,779
	<u>1,604,792</u>	<u>2,205</u>	<u>-0-</u>	<u>1,606,997</u>
Total fixed assets being depreciated				
Less accumulated depreciation for:				
Land Improvements	(5,820)	(35)	-	(5,855)
Building and Improvements	(400,846)	(36,205)	-	(437,051)
Equipment and Furniture	(207,580)	(3,303)	-	(210,883)
Vehicles	(1,609)	(1,756)	-	(3,365)
	<u>(615,855)</u>	<u>(41,299)</u>	<u>-0-</u>	<u>(657,154)</u>
Total accumulated depreciation				
Net fixed assets being depreciated	<u>988,937</u>	<u>(39,094)</u>	<u>-0-</u>	<u>949,843</u>
Net fixed assets	<u>\$ 1,122,317</u>	<u>\$ (39,094)</u>	<u>\$ -0-</u>	<u>\$ 1,083,223</u>

**NOTE D: NET SPECIAL EVENT REVENUES**

The following is an analysis of special event revenues for the year ended September 30, 2016:

	Raffle
Gross receipts	\$ 36,500
Less: direct expenses	<u>(23,618)</u>
Special events revenue, net	<u>\$ 12,882</u>

Beaver Island Rural Health Center

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**NOTE E: CAPITAL LEASE**

In 2013 the Organization entered into a capital lease agreement for telephone equipment. The price of the equipment was \$20,000. The Organization will pay monthly installments of \$554, including an effective interest rate of 22.14%, for sixty (60) months, with the final payment due on January 2, 2018. The following table shows the activity for the year ended September 30, 2016:

	Balance Oct. 1, 2015	Additions	Deletions	Balance Sept. 30, 2016	Amount Due Within One Year
Capital Lease Payable	\$ 12,029	\$ -	\$ (4,414)	\$ 7,615	\$ 5,497

Annual payments for the remainder of the capital lease are as follows:

Year Ending September 30,	Principal	Interest
2017	\$ 5,497	\$ 1,150
2018	2,118	99
	<u>\$ 7,615</u>	<u>\$ 1,249</u>

**NOTE F: TEMPORARILY RESTRICTED NET ASSETS**

The following is a summary of temporarily restricted net assets for the year ended September 30, 2016:

Breast Health	\$ 1,680
Board Reimbursement	422
Senior Help Mate	4,176
Health Fair	148
Landscaping	7,017
BIHSC	16
Other	10,612
	<u>\$ 24,071</u>

**NOTE G: FUNCTIONAL EXPENSES**

The Organization provides general healthcare services to patients within its geographic location. Expenses related to providing these services for the year ended September 30, 2016 were as follows:

Program services	\$ 328,428
Management and general	236,514
	<u>\$ 564,942</u>

Beaver Island Rural Health Center  
NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**NOTE H: DEFINED CONTRIBUTION RETIREMENT PLAN**

Beaver Island Rural Health Center participates in a SIMPLE IRA Retirement Plan, which covers substantially all full-time employees of the Organization. Beaver Island Rural Health Center matches up to 3% of the employee's gross compensation. The Organization's contribution for the year ended September 30, 2016 was \$5,131.

**NOTE I: ASSETS HELD BY OTHERS**

Through its fundraising activities, the Organization accepts donations directly or encourages donors to contribute to either the Beaver Island Rural Health Center Endowment Fund, from which only the interest earned from the principal may be spent; or the Beaver Island Rural Health Center Special Projects Fund, which may be spent as necessary by the Organization. These funds are maintained by the Charlevoix County Community Foundation (the Foundation). The Foundation has explicit variance power and therefore these amounts are not shown in the financial statements of the Organization. This variance power allows the Foundation to modify any restrictions or considerations on the distributions of the fund. Distributions will be made to the Organization annually according to the spending guidelines. Summary financial information of the funds follows:

	<u>Pooled Investments</u>
Endowment Fund	\$ 1,376,001
Special Projects Fund	<u>134,306</u>
	<u>\$ 1,510,307</u>

The Endowment Fund has \$159,522 of spendable assets as of September 30, 2016. Grants from the Community Foundation are recognized by the Organization in the year they are received. For the year ended September 30, 2016 the Organization received \$56,000 from the Foundation.

**NOTE J: RELATED PARTIES**

Beaver Island Rural Health Center's bookkeeper and a member of the Board of Directors are considered related parties due to the fact that they are married to one another. Neither of these individuals has check signing authority nor does the board member serve on the Finance or Audit Committee. The Board of Directors is aware of this relationship. Bookkeeping services totaling \$4,785 were charged to the Organization and were considered arm's length transactions. \$480 was due and payable to the bookkeeper at year-end and is included in accounts payable on the Statement of Financial Position.