

HEATHERWOOD ASSOCIATION
REPORT FOR THE YEAR ENDED
DECEMBER 31, 2021

March & McMillin, CPAs, PLLC
CPA Services for Condominium & Homeowner Associations
www.marchandmcmillin.com

HEATHERWOOD ASSOCIATION
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Heatherwood Association

Opinion

We have audited the accompanying financial statements of Heatherwood Association (the "Association"), which comprise the balance sheet as of December 31, 2021, and the related statements of revenues and expenses and changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heatherwood Association as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenues and schedule of expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that future major repairs and replacements of common property on pages 13 - 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

March & McMillin, CPAs, PLLC

March 21, 2022

March McMillin, CPAs, PLLC
CPA services for Condominium Homeowners Associations

HEATHERWOOD ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2021

	Operating Fund	Reserve Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 21,578	\$ 494,464	\$ 516,042
Accounts Receivable	1,355		1,355
Due to/from Operating	9,850	(9,850)	
TOTAL ASSETS	\$ 32,783	\$ 484,614	\$ 517,397
LIABILITIES AND MEMBERS' EQUITY			
Accrued Expenses	\$ 23,151		\$ 23,151
Prepaid Assessments	12,391		12,391
TOTAL LIABILITIES	\$ 35,542	\$ -	\$ 35,542
 MEMBERS' EQUITY	 \$ (2,759)	 \$ 484,614	 \$ 481,855
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ 32,783	 \$ 484,614	 \$ 517,397

See Independent Auditors' Report and accompanying notes

HEATHERWOOD ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021

	Operating Fund	Reserve Fund	Total
REVENUES	<u>\$ 429,176</u>	<u>\$ 215,561</u>	<u>\$ 644,737</u>
EXPENSES			
Administrative	\$ 5,666		\$ 5,666
Maintenance and Repair	72,609		72,609
Landscaping	138,639		138,639
Utilities	152,122		152,122
Insurance	33,561		33,561
Professional Services	40,438		40,438
Reserve		\$ 63,895	63,895
Clubhouse/Pool	12,274		12,274
TOTAL EXPENSES	<u>\$ 455,309</u>	<u>\$ 63,895</u>	<u>\$ 519,204</u>
EXCESS REVENUES OVER (UNDER) EXPENSES	\$ (26,133)	\$ 151,666	\$ 125,533
MEMBERS' EQUITY - Beginning	<u>23,374</u>	<u>332,948</u>	<u>356,322</u>
MEMBERS' EQUITY - Ending	<u>\$ (2,759)</u>	<u>\$ 484,614</u>	<u>\$ 481,855</u>

See Independent Auditors' Report and accompanying notes

HEATHERWOOD ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Net excess of revenues (expenses)	\$ (26,133)	\$ 151,666	\$ 125,533
Adjustments to reconcile excess of revenues over expenses to net cash used by operating activities:			
(Increase) decrease in:			
Accounts Receivable	(190)		(190)
Due to/from Operating	(9,850)	9,850	
Increase (decrease) in:			
Accrued Expenses	12,966		12,966
Prepaid Assessments	1,040		1,040
Net cash provided (used) by operating activities	<u>\$ (22,167)</u>	<u>\$ 161,516</u>	<u>\$ 139,349</u>
Cash flows from investing activities:	-	-	-
Cash flows from financing activities:	-	-	-
Net increase (decrease) in cash	\$ (22,167)	\$ 161,516	\$ 139,349
Cash, beginning of year	<u>43,745</u>	<u>332,948</u>	<u>376,693</u>
Cash, end of year	<u><u>\$ 21,578</u></u>	<u><u>\$ 494,464</u></u>	<u><u>\$ 516,042</u></u>
Supplemental Cash Flow Information:			
Cash Paid for Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash Paid for Income Taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditors' Report and accompanying notes

HEATHERWOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1: NATURE OF ORGANIZATION

Heatherwood Association (the "Association") is incorporated as a Michigan Nonprofit Corporation under the laws of the State of Michigan and operated to perform those services normally associated with this type of association. The Association consists of 188 units located in Pittsfield Charter Township, Michigan.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Member Assessments

Association members are subject to regular assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable at the balance sheet date represent fees due from members, while assessments received in advance represent future months' fees paid in advance by members. The Association's policy is to retain legal counsel and place liens or foreclose on the units of members whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in future years.

Property and Equipment

The Association records and depreciates only personal property assets to which the association has title. Common property of the Association is not recognized as property and equipment for depreciation.

Basis of Accounting

The Association's financial statements are prepared on the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Assessments paid by members in advance are deferred and recognized as revenue when earned.

Fund Accounting

The Association uses fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Reserve Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Income Tax

The Association may, at its election, be taxed as a regular corporation or a homeowners association. This election is made yearly. For the current year, the Association was taxed as a homeowners association. The Association's federal tax return is subject to audit by the Internal Revenue Service. The tax returns for the current and prior two fiscal years remain open for examination by the IRS. In evaluating the Association's tax positions and accruals, the Association believes that its estimates are appropriate, based on the current facts and circumstances.

Interest Earned

The Association's policy is for interest to remain in the fund in which it is earned.

HEATHERWOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 21, 2022, which is the date that the financial statements were available to be issued.

NOTE 3: CONCENTRATION OF CREDIT RISK

The Association's annual assessment revenue is subject to significant concentration of credit risk, given that the revenue is received primarily within a small geographic area. The financial instruments that potentially subject the Association to credit risk consist principally of assessments receivable, the majority of which contain provisions for recovery by placing liens on real property and through legal judgments. In the event that the owners did not comply with the terms of the Covenant, Conditions and Restrictions and collection efforts by the Association were unsuccessful, the Association could incur a loss equal to the amount due.

NOTE 4: REVENUE RECOGNITION

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance established the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The Association does not believe that the performance obligation relating to the reserve fund meets the required contractual liability obligations necessary to implement ASC 606.

NOTE 5: FUNDED RESERVES

The Association requires funds to be accumulated for future repairs and replacements. These funds are maintained in interest-bearing accounts. In 2020, the Association conducted a study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future. The results of this study are summarized in the supplementary information section to these financial statements. The reserve funds may not be adequate for the required major repairs and replacements. The Association may need to borrow, increase maintenance assessments or delay repairs and replacements until funds are available.

The combined balance in the Association's deposit accounts at a single financial institution exceeds the Federal Deposit Insurance Corporation's insured limitations. The Association believes it is not exposed to significant credit risk in this matter.

HEATHERWOOD ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 6: RELATED PARTY TRANSACTIONS

The Association utilizes a property management company that manages the day-to-day operations of the Association. In addition to a management fee, other significant expenses may be incurred generally consisting of administrative expenses.

NOTE 7: LARGE PROJECT

The Association is planning a significant asphalt project to be started in 2022. Estimated costs for the project were not available as of the date of this report.

SUPPLEMENTARY INFORMATION

HEATHERWOOD ASSOCIATION
SCHEDULE OF REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Operating Fund	Reserve Fund	Total
Regular Assessments	\$ 427,956	\$ 215,004	\$ 642,960
Coupon Fees	20		20
Key Fees	50		50
Pool Fees	175		175
Late Charges	825		825
Bank Fee Reimbursements	50		50
Fines	75		75
Interest	25	557	582
TOTAL REVENUES	<u>\$ 429,176</u>	<u>\$ 215,561</u>	<u>\$ 644,737</u>

See Independent Auditors' Report and accompanying notes

HEATHERWOOD ASSOCIATION
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Operating Fund	Reserve Fund	Total
ADMINISTRATIVE			
Collection Charges	\$ 1,260		\$ 1,260
Bank Charges	120		120
Office Supplies	740		740
Postage	667		667
Copies and Printing	1,441		1,441
Fees and Permits	237		237
Miscellaneous Administrative	1,201		1,201
TOTAL ADMINISTRATIVE	<u>\$ 5,666</u>	<u>\$ -</u>	<u>\$ 5,666</u>
 MAINTENANCE AND REPAIR			
General Maintenance	\$ 37,178		\$ 37,178
Custodial Service	19,615		19,615
Building Maintenance	2,515		2,515
Building Supplies	766		766
Electrical	2,340		2,340
Fire System Repair and Maintenance	2,450		2,450
Foundation and Drainage	850		850
Gutters	2,000		2,000
Plumbing	1,045		1,045
Roofs	1,450		1,450
Miscellaneous Building	2,400		2,400
TOTAL MAINTENANCE AND REPAIR	<u>\$ 72,609</u>	<u>\$ -</u>	<u>\$ 72,609</u>
 LANDSCAPING			
Fertilizer and Weed Control	\$ 8,435		\$ 8,435
Landscape Contract	47,235		47,235
Tree Planting/Removal	525		525
Miscellaneous Landscape	298		298
Sprinkler	4,970		4,970
Exterminating	3,877		3,877
Snow Removal	71,524		71,524
Pond Maintenance	1,775		1,775
TOTAL LANDSCAPING	<u>\$ 138,639</u>	<u>\$ -</u>	<u>\$ 138,639</u>
 UTILITIES			
Electricity - Utilities	\$ 30,347		\$ 30,347
Gas - Clubhouse	67		67
Water and Sewer	84,991		84,991
Telephone	1,400		1,400
Internet Service	349		349
Rubbish Removal	34,968		34,968
TOTAL UTILITIES	<u>\$ 152,122</u>	<u>\$ -</u>	<u>\$ 152,122</u>
 INSURANCE			
Property and Liability Insurance	\$ 33,561		\$ 33,561
TOTAL INSURANCE	<u>\$ 33,561</u>	<u>\$ -</u>	<u>\$ 33,561</u>

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HEATHERWOOD ASSOCIATION
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

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	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
PROFESSIONAL SERVICES			
CPA Services	\$ 2,820		\$ 2,820
Legal Services	6,694		6,694
Management Fees	30,924		30,924
TOTAL PROFESSIONAL SERVICES	<u>\$ 40,438</u>	<u>\$ -</u>	<u>\$ 40,438</u>
RESERVE			
Electrical		\$ 24,850	\$ 24,850
Fire System		39,045	39,045
TOTAL RESERVE	<u>\$ -</u>	<u>\$ 63,895</u>	<u>\$ 63,895</u>
CLUBHOUSE/POOL			
Pool - Open/Close	\$ 6,529		\$ 6,529
Clubhouse Security System	606		606
Pool Repairs	393		393
Pool Supplies	1,337		1,337
Pool Service	3,409		3,409
TOTAL CLUBHOUSE/POOL	<u>\$ 12,274</u>	<u>\$ -</u>	<u>\$ 12,274</u>
 TOTAL EXPENSES	 <u>\$ 455,309</u>	 <u>\$ 63,895</u>	 <u>\$ 519,204</u>

HEATHERWOOD ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2021
(UNAUDITED)

The Association had a replacement reserve study conducted in 2020 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The following has been extracted or derived from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Components</u>	<u>Useful Life (Yrs)</u>	<u>Remaining Useful Life (Yrs)</u>	<u>Estimated 1st Year of Replacement</u>	<u>Total Cost for Future 30 Years (\$)</u>
<u>Exterior Building Components:</u>				
Balconies, Repair, Final Ph. (Incl. all Balcony Staining)	Varies	-	2020	210,342
Doors, Metal, Exterior, Phased	25 to 30	4	2024	72,956
Gutters and Downspouts, Aluminum, Phased	20 to 30	10	2030	266,044
Light Fixtures, Exterior	20 to 30	1	2021	114,048
Roofs, Asphalt Shingles, Phased	15 to 20	10	2030	2,531,766
Soffits, Fascia, and Trim, Phased	40 to 45	16	2036	1,038,977
Walls, Vinyl Siding, Phased	35 to 40	16	2036	1,758,308
Walls, Vinyl Siding, Repair/Wrap Installation, Partial	35 to 40	2	2022	423,349
<u>Internal Building Components</u>				
Floor Coverings, Carpet	10 to 15	10	2030	177,070
Light Fixtures, Interior	20 to 25	-	2020	26,704
Paint Finishes, Stairwells and Hallways	6 to 12	2	2022	175,525
<u>Service Components</u>				
Baseboard Heaters, Electric	30 to 35	6	2026	12,463
Project, Fire Suppression System, Upgrade	Varies	1	2021	30,894
Riser Sections & Common Plumbing, Partial Repl.	to 75	30	2050	60,595
<u>Site Components</u>				
Asphalt Pavement, Crack Repair, Patch and Seal Coat	3 to 5	1	2021	205,379
Asphalt Pavement, Repaving, Mill and Overlay	15 to 20	25	2045	342,352
Asphalt Pavement, Repaving, Full-Depth Replacement	15 to 20	5	2025	447,740
Catch Basins, Capital Repairs	15 to 20	25	2045	34,380
Concrete Curbs and Gutters, Partial Replacement	to 65	5	2025	74,698
Concrete Flatwork, Partial Replacement	to 65	5	2025	941,451
Irrigation System, Phased Replacements	30 to 35	14	2034	261,052
Landscaping Improvements	Varies	-	2020	381,156
Light Poles and Fixtures	25 to 30	1	2021	82,631
Mailbox Stations	to 30	22	2042	52,087
Pond, Aerator	to 15	4	2024	17,230
Ponds, Dredging	Varies	1	2021	68,399
Drainage and Erosion Control in Central Area, Final Ph.	Varies	3	2023	125,590
Retaining Walls, Boulder, Capital Repairs	to 15	6	2026	61,517
Signage, Monument	30 to 40	16	2036	7,999
Well, Replacement	20 to 25	1	2021	25,404

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See Independent Auditors' Report and accompanying notes

HEATHERWOOD ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2021
(UNAUDITED)

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<u>Components</u>	<u>Useful Life (Yrs)</u>	<u>Remaining Useful Life (Yrs)</u>	<u>Estimated 1st Year of Replacement</u>	<u>Total Cost for Future 30 Years (\$)</u>
<u>Poolhouse Components</u>				
Poolhouse, Floors and Walls, Ceramic Tile	25 to 30	11	2031	22,100
Poolhouse, Rest Rooms, Renovation	to 35	11	2031	20,719
Poolhouse, Security System, Surveillance	10 to 15	13	2033	41,144
<u>Pool Components</u>				
Pool Coping and Waterline Tile	30 to 35	24	2044	22,661
Pool Deck, Concrete, Partial Replacements	to 65	2	2022	34,596
Pool Furniture, Phased	to 12	3	2023	66,258
Pool Fence, Aluminum, Replacement	to 35	24	2044	31,868
Pool Mechanical Equip., Circulating Pump, Chlorinator	8 to 15	3	2023	23,703
Pool Mechanical Equipment, Heater	10 to 15	10	2030	20,550
Pool Resurfacing, Hydrazzo	8 to 12	6	2026	87,488
<u>Other Components</u>				
Project-Power Washing Allowance	4 to 6	4	2024	241,184
Reserve Study Update	to 3	3	2023	3,731

See Independent Auditors' Report and accompanying notes