

HIGGINS LAKE PROPERTY OWNERS ASSOCIATION

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2015**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Higgins Lake Property Owners Association
Roscommon, Michigan

We have audited the accompanying financial statements of Higgins Lake Property Owners Association (a Michigan Not-for-Profit Corporation), which comprise the statements of financial position as of December 31, 2015, and the related statement of activities and change in net assets 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 of 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Higgins Lake Property Owners Association as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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.



Robert F. Murray & Company
Certified Public Accountants, P.C.

June 2, 2016

**HIGGINS LAKE PROPERTY OWNERS ASSOCIATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 11,991
Total Current Assets	<u>11,991</u>
 Other Assets	
Certificates of Deposit	40,721
Restricted Cash	<u>9,652</u>
Total Other Assets	<u>50,373</u>
 Total Assets	 <u><u>\$ 62,364</u></u>

LIABILITIES

Current Liabilities	
Accounts Payable	\$ 1,012
Accrued Payroll and Withholdings Payable	613
Accrued Expenses	395
Unearned Revenue	<u>13,350</u>
Total Current Liabilities	<u>15,370</u>
 Total Liabilities	 15,370

NET ASSETS

Unrestricted :	
Undesignated	37,342
Temporarily Restricted	9,652
Permanently Restricted	<u>-</u>
Total Net Assets	<u>46,994</u>
 Total Liabilities and Net Assets	 <u><u>\$ 62,364</u></u>

See independent auditors' report and notes to financial statements.

**HIGGINS LAKE PROPERTY OWNERS ASSOCIATION
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED
DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
REVENUES AND OTHER SUPPORT:				
Operating Revenues:				
Memberships	37,125	-	-	37,125
Donations	4,658	50	-	4,708
Legal Donations	-	5,263	-	5,263
Interest, Dividends, Realized Gains & Losses	36	-	-	36
Miscellaneous	470	-	-	470
Net Assets Released from Restrictions:				
Satisfaction - Swimmer's Itch	50	(50)	-	-
Satisfaction of Legal Costs	6,083	(6,083)	-	-
Total Revenues and Other Support	<u>48,422</u>	<u>(820)</u>	<u>-</u>	<u>47,602</u>
EXPENSES:				
Operating Expenses	62,621	-	-	62,621
Legal Expenses	6,083	-	-	6,083
Total Expenses	<u>68,704</u>	<u>-</u>	<u>-</u>	<u>68,704</u>
CHANGE IN NET ASSETS	(20,282)	(820)	-	(21,102)
NET ASSETS - DECEMBER 31, 2014	55,153	-	-	55,153
PRIOR PERIOD ADJUSTMENT FOR:				
CORRECTION OF ERROR	2,471	-	-	2,471
LEGAL FUND	-	10,472	-	10,472
NET ASSETS - DECEMBER 31, 2015	<u>\$ 37,342</u>	<u>\$ 9,652</u>	<u>\$ -</u>	<u>\$ 46,994</u>

See independent auditors' report and notes to financial statements.

**HIGGINS LAKE PROPERTY OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
DECEMBER 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	(21,102)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
(Increase) Decrease in HLF Receivable	4,536
Increase (Decrease) in Payables and Accrued Expenses	26
Increase (Decrease) in Unearned Revenue	13,350
Net Cash Provided by Operating Activities	<u>(3,190)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Reinvestment of Certificate of Deposit Interest	<u>(33)</u>
Net Cash Used by Investing Activities	<u>(33)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Increase in Restricted Cash	<u>(410)</u>
Net Cash Used from Financing Activities	<u>(410)</u>

Increase / (Decrease) in Cash and Cash Equivalents	(3,633)
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CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	13,153
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PRIOR PERIOD ADJUSTMENT - CORRECTION OF ERROR	<u>2,471</u>
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CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 11,991</u></u>
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See independent auditors' report and notes to financial statements.

HIGGINS LAKE PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Higgins Lake Property Owners Association is a Michigan not-for-profit corporation exempt from income tax under Section 501(c)(4) of the Internal Revenue Code and was organized in 1940. The mission of Higgins Lake Property Owners Association is to protect, preserve and enhance the quality of Higgins Lake and its surrounding watershed.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when incurred.

Basis of Presentation

The Organization follows the presentation requirements of Financial Accounting Standards Board Codification of ASC Topic 958 – Not for Profit Entities (formerly SFAS No. 117, “*Financial Statements of Not-for-Profit Organizations.*”) Under ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Net Assets

Net assets consist of the following:

Unrestricted – These net assets are available for general operations.

Temporarily Restricted – These net assets are restricted by donors, grantors or other outside parties to be used for some specific purpose or for use in a future period. Amounts received are reported as revenue upon receipt and are transferred to unrestricted net assets when the purpose restriction or time restriction has been met or to permanently restricted if used to permanently increase an endowed fund.

HIGGINS LAKE PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently Restricted – These net assets represent amounts subject to restrictions of gift and trust instruments requiring that the principal be invested in perpetuity and the income only be used for particular purposes.

Use of Estimates

Preparation of the Organization's financial statements in conformity with generally accepted accounting principles requires the use of management's estimates, primarily related to the collectability of contributions and grant receivables and depreciable lives of property and equipment. Actual results may differ from these estimates.

Contributed Services

A substantial portion of the Organization's activities are conducted by unpaid volunteer officers, committees and individuals. The value of this contributed time is not reflected in the accompanying financial statements since no objective basis is available to measure its value.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as necessary.

**HIGGINS LAKE PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specified purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor-restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Acquisition of property and equipment in excess of \$1,000 are capitalized. Assets purchased are stated at cost. As of December 31, 2015, the Organization did not own any assets whose cost was in excess of \$1,000.

Income Taxes

The Organization is a non-profit Organization exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code. Donations to the Organization are not tax deductible.

Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Tax returns for the years ended December 31, 2012, 2013, and 2014 remain subject to examination.

**HIGGINS LAKE PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING
POLICIES (Continued)**

Subsequent Events

Management has considered subsequent events through June 2, 2016, the date the financial statements were available to be issued.

NOTE 2 - RESTRICTED NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Legal Expenses	\$ 6,083
Swimmer's Itch	<u>50</u>
Total restrictions released	<u>\$ 6,133</u>

Temporarily restricted net assets are restricted for the following purposes:

Legal Expenses	<u>\$ 9,652</u>
Total temporarily restricted net assets	<u>\$ 9,652</u>

NOTE 3 – RISK MANAGEMENT

Higgins Lake Property Owners Association is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; liability; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims for these risks have not exceeded insurance coverage.

NOTE 4 – COMPENSATED ABSENCES

Higgins Lake Property Owners Association employs one part-time employee and offers no benefits. Compensated absences were zero as of December 31, 2015

**HIGGINS LAKE PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 – REVENUE RECOGNITION

Higgins Lake Property Owners Association receives membership dues on an annual basis. The annual dues of \$75 per member are voluntary, therefore receivables are not recognized. The annual solicitation for membership dues is sent out in the fall of the preceding year. Some members pay their dues prior to the end of the Association's fiscal year end. These dues in the amount of \$13,350 are considered unearned revenue as of December 31, 2015.

NOTE 6 – FAIR VALUE OF INVESTMENTS

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements.) The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for the identical, unrestricted assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities in active markets and quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The following table sets forth, by level, within the fair value hierarchy the Association's investment assets and liabilities, at fair value as of December 31, 2015. As required by FASB ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value of measurement.

**HIGGINS LAKE PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 – FAIR VALUE OF INVESTMENTS (Continued)

Investment Assets at Fair Value
As of December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ 0	\$ 40,721	\$ 0	\$ 40,721

NOTE 7 – RENTAL AGREEMENTS

The Association entered into a rental agreement for the use of office space effective January 1, 2015. The lease agreement calls for monthly payments of \$395. The lease expires on December 31, 2016. Rent expense reported for the year ended December 31, 2015 was \$4,345.

Following is a schedule of future minimum rental payments required under the above operating lease as of December 31, 2015.

Year Ended	
<u>December 31</u>	<u>Amount</u>
2016	\$4,740

NOTE 8 – PRIOR PERIOD ADJUSTMENT

The Association collects funds for legal expenses. These funds are voluntary and designated by the member to be used strictly for legal expenses. In the past, the funds collected and spent were not reported in the statement of activities. The cumulative balance of the funds were reported as a liability on the balance sheet, however, under generally accepted accounting principles, the receipts should have been reported as revenues and the disbursements reported as expenses, the remaining balance is treated as temporarily restricted net assets (See Note 1.) The cumulative effect of the remaining funds in the amount of \$10,472 as of December 31, 2014 was changed to be reported as temporarily restricted net assets.

In addition, the Association inadvertently duplicated a group of expenses in 2014 and therefore their beginning cash balance was incorrect. A correction of this error in the amount of \$2,471 was made to the beginning net assets.

SUPPLEMENTARY INFORMATION

**HIGGINS LAKE PROPERTY OWNERS ASSOCIATION
SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED
DECEMBER 31, 2015**

Lobbyist	\$	15,500
HL Swimmers Itch Organization		16,000
Wages		7,421
Payroll Taxes		647
Printing & Copying - Newsletter		3,641
Boatwash Expenses		2,917
Outside Services		35
Insurance		651
Equipment Rent & Maintenance		158
Office Rent		4,345
Off-Site Rent		50
Utilities		2,190
Telephone and Internet		1,881
Website Development & Maintenance		1,636
Office Supplies		2,267
Postage		2,023
Bank Fees		18
Memberships		740
Conferences & Meetings		484
Travel		17
Totals	<u>\$</u>	<u>62,621</u>

See Independent Auditors' Report