

THE HARBOURS ASSOCIATION

Financial Statements

December 31, 2024

The Harbours Association
Financial Statements
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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Co-Owners
The Harbours Association
Keego Harbor, Michigan

We have reviewed the accompanying financial statements of The Harbours Association (a Corporation), which comprise the Statement of Assets, Liabilities and Co-Owners' Equity – Modified Accrual Basis as of December 31, 2024, and the related statements of Revenue and Expenses – Modified Accrual Basis, Changes in Co-Owners' Equity – Modified Accrual Basis and Cash Flows – Modified Accrual Basis for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified accrual basis of accounting; this includes determining that the basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the modified accrual basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of The Harbours Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the modified accrual basis of accounting.

Basis of Accounting

We draw attention to Note C – Summary of Accounting Policies, Basis of Accounting, of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified accrual basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Supplementary Information

The supplementary information on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the basic 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. We have not audited, reviewed or compiled the supplementary information and do not express an opinion on such information.

Required Supplementary Information

Management has omitted supplementary information about future major repairs and replacements of common property required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context.

NH & Associates, PLLC

NH & Associates, PLLC

Livonia, Michigan

August 18, 2025

The Harbours Association
 Statement of Assets, Liabilities, and Co-Owners' Equity-Modified Accrual Basis
 December 31, 2024

ASSETS

	Operating Fund	Replacement Fund	Total All Funds
Current Assets:			
Cash-Operating	\$ 1,870	\$ -	\$ 1,870
Money Market	-	159,527	159,527
Assessments Receivable	2,857	-	2,857
Prepaid Insurance	1,818	-	1,818
Total Current Assets	6,545	159,527	166,072
Total Assets	\$ 6,545	\$ 159,527	\$ 166,072

LIABILITIES AND CO-OWNERS' EQUITY

Current Liabilities:			
Assessments Received in Advance	\$ 7,710	\$ -	\$ 7,710
Current Portion of LTD	32,326	-	32,326
Total Current Liabilities	40,036	-	40,036
Other Liabilities			
First Citizens Loan Payable	149,590	-	149,590
Less: Current Portion of LTD	(32,326)	-	(32,326)
Total Other Liabilities	117,264	-	117,264
Total Liabilities	157,300	-	157,300
Co-Owners' Equity			
Reserve Fund	-	159,527	159,527
Operating Fund	(150,755)	-	(150,755)
Total Co-Owners' Equity	(150,755)	159,527	8,772
Total Liabilities and Co-Owners' Equity	\$ 6,545	\$ 159,527	\$ 166,072

The Harbours Association
 Statement of Revenue and Expenses-Modified Accrual Basis
 For the Year Ended December 31, 2024

	Operating Fund	Replacement Fund	Total All Funds
Members' Assessments	\$ 152,760	\$ -	\$ 152,760
Additional Assessment	238,063	-	238,063
Allocation of Assessments to Replacement Funds	<u>(400,593)</u>	<u>400,593</u>	<u>-</u>
Total Members' Assessments	(9,770)	400,593	390,823
Financial Revenue- Interest	32	2,125	2,157
Other Revenue			
Late Fees	700	-	700
Boat Dock & Kayak Fees	<u>200</u>	<u>-</u>	<u>200</u>
Total Other Revenue	900	-	900
Revenue Available for Operations	(8,838)	402,718	393,880
Operating Expenses	<u>153,093</u>	<u>355,110</u>	<u>508,203</u>
Excess (Deficiency) of Revenues over Expenses	\$ <u>(161,931)</u>	\$ <u>47,608</u>	\$ <u>(114,323)</u>

The Harbours Association
Statement of Changes in Co-Owners' Equity - Modified Accrual Basis
For the Year Ended December 31, 2024

	Operating Fund	Replacement Fund	Total All Funds
Co-Owners' Equity, Beginning of the Year (Deficit)	\$ 11,176	\$ 111,919	\$ 123,095
Excess (Deficiency) of Revenues over Expenses	<u>(161,931)</u>	<u>47,608</u>	<u>(114,323)</u>
Co-Owners' Equity, Ending of the Year (Deficit)	<u>\$ (150,755)</u>	<u>\$ 159,527</u>	<u>\$ 8,772</u>

The Harbours Association
Statement of Cash Flows-Modified Accrual Basis
For the Year Ended December 31, 2024

	Operating Fund	Replacement Fund	Total All Funds
Cash Flows From Operating Activities:			
Excess (deficiency) of revenues over expenses	\$ (161,931)	\$ 47,608	\$ (114,323)
Adjustments to Reconcile the excess (deficiency) of revenues over expenses to net cash provided by (applied to) operating activities:			
(Increase) Decrease in:			
Assessments Receivable	2,181	-	2,181
Prepaid Insurance	1,604	-	1,604
Increase (Decrease) in:			
Assessments Received in Advance	4,987	-	4,987
Total Adjustments	8,772	-	8,772
Net Cash Provided by (applied to) Operating Activities	(153,159)	47,608	(105,551)
Financing Activities:			
Payments of Long Term Debt	149,590	-	149,590
Net Cash Provided by (applied to) Financing Activities	149,590	-	149,590
Net Increase (Decrease) in Cash	(3,569)	47,608	44,039
Cash and Cash Equivalents, Beginning of Year	5,439	111,919	117,358
Cash and Cash Equivalents, End of Year	\$ 1,870	\$ 159,527	\$ 161,397

SUPPLEMENTAL DISCLOSURE

Interest Paid \$ 10,178

The Harbours Association
Notes to Financial Statements
Year Ended December 31, 2024

Note A - NATURE OF ORGANIZATION

The Harbours Association (the "Association") is a condominium association incorporated in the State of Michigan on October 20, 1986. The Association is responsible for the operation and maintenance of the common property of the condominium project. The Association consists of 38 multi-family residential units located in Waterford, Michigan.

Note B - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 18, 2025, which is the date that the financial statements were available to be issued.

Note C - SUMMARY OF ACCOUNTING POLICIES

BASIS OF ACCOUNTING

the Association prepares its monthly reports using the modified accrual basis of accounting, which is an acceptable basis of accounting for interim reporting purposes for Homeowners Associations.

The financial statements are prepared in accordance with the modified accrual basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under this method of accounting, revenue is recognized when assessments are earned, and expenses are recognized when goods or services are paid for.

FUND ACCOUNTING

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

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

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

DEPRECIATION:

Capitalized common property is depreciated over its estimated useful life using the straight-line method of depreciation.

INTEREST INCOME:

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

CASH EQUIVALENTS

Cash and cash equivalents include not only currency on hand, but also demand deposits with banks. For the purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

The Harbours Association
Notes to Financial Statements
Year Ended December 31, 2024

Note C - SUMMARY OF ACCOUNTING POLICIES:(CONTINUED)

MEMBERS' ASSESSMENTS

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments are determined by the Board of Directors upon approval of the annual budget and are intended to meet both the normal and operating costs of the Association and the costs of estimated future major repairs or capital improvements. No distinction made to separately allocate owners' payments between replacement fund and operating fund.

Assessments Receivable at the report date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to notify the Homeowners with a series of letters for immediate payment of past due assessments. If this measure is not successful, the Association will retain legal counsel and place liens on the properties of Homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year.

REVENUE RECOGNITION

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance represent dues paid in advance. These are dues that have not been recognized as revenue by the Association at year-end as they apply to a subsequent financial period.

ESTIMATES:

The preparation of financial statements in conformity with modified accrual basis of accounting 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. Actual results could differ from those estimates.

PROPERTY AND EQUIPMENT:

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property to which it has title at cost.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Association considers assessments receivable collectible until the unit has been foreclosed or the unit owner has filed for bankruptcy. The Allowance for Doubtful Account is based on a review of current receivable due to the uncertainty of foreclosures or bankruptcies. An allowance for doubtful accounts has not been established as all balances are expected to be collected.

The Harbours Association
Notes to Financial Statements
Year Ended December 31, 2024

Note D - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments, including cash, certificates of deposit, assessment receivable and accounts payable approximate their fair market value due to the short term maturities of these instruments.

Note E- INCOME TAXES

The Association may, at its discretion, be taxed as a Corporation or Homeowners Association. This election is made yearly by filing either a Form 1120 (to elect corporate taxation) or Form 1120-H (to elect exemption related to its tax exempt activities) with the Internal Revenue Service. Net non-exempt function income, which includes earned interest and revenues received from non-members, is taxed at 30% by the Federal Government. For the year ended December 31, 2024, the Association elected to be taxed as a Homeowners Association. The Association had no net taxable income for federal tax purposes at December 31, 2024.

The Association has adopted the recognition requirements for uncertain income tax positions as required by modified accrual basis of accounting. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Association has analyzed tax positions taken for filing with the Internal Revenue Service. The Association believes that 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 Association's financial condition, results of operations or cash flows. Accordingly, the Association has not recorded any reserves, or related accruals for interest or penalties for uncertain income tax positions at December 31, 2024.

Note F- MANAGEMENT AGREEMENT

The Association has an agreement with The Highlander Group, Inc, a Michigan property management company, for the purpose of assessment collections, preparation of annual budget and other administrative responsibilities. Annual management fees paid to The Highlander Group, Inc. were \$12,398.

Note G- CONCENTRATIONS OF CREDIT RISK

The Association maintains its cash balance at First Citizens Bank. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2024, the Association had no federally uninsured cash balance.

Note H- CLAIMS OR LITIGATION

From time to time, claims or matters of litigation may arise in the ordinary conduct of the Association's business. In the opinion of management, claims or litigation, if any, outstanding against the Association as of December 31, 2024 are either without merit or the losses stemming from such claims, if any, would not have a material adverse effect on the financial position or results of operations of the Association.

The Harbours Association
Notes to Financial Statements
Year Ended December 31, 2024

Note I- MAJOR REPAIRS AND REPLACEMENTS

The cash received for repair and replacement are funds that have been set aside by the Association for major maintenance and repairs of the Association. Generally such purposes are for repairs, replacement and other contingencies that may develop in the operations of the Association. State of Michigan Administrative code for condominiums and the Association's bylaws require the Co-owners to maintain a reserve fund which, at a minimum, shall be equal to 10% of the association's current annual budget on a noncumulative basis. As of December 31, 2024, the reserve fund was above this minimum standard.

Funds are to be accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components. Actual expenditures and investment income may vary from estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to board approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. At December 31, 2024, the total funds restricted for such purposes amounted to \$159,527.

The Association has not conducted a reserve study to determine the estimated funding needed for the future major repairs and replacements. It is funding major repairs and replacements through special assessments as the need arises.

Note J- LONG-TERM DEBT

The Association long-term debt consists of a loan from First Citizens Bank in the original amount of \$230,000. The owners had the option to pay their portion of the loan (\$9,211) up front, pay half (\$4,606) up front and remaining balance over 7-years or pay zero down and \$9,211 using a 7-year payment plan to pay off their portion plus interest. As of December 31, 2024, twenty one owners paid off their balance and the remaining seventeen owners are assessed additional assessments to cover the loan principal and interest payments. The loan is payable in monthly installments of \$3,385.98 including interest at a current rate of 6.15%. The loan is secured by all the assets of the Association and the individual Condominium units. The loan balance as of December 31, 2024 is \$149,590.

Long-Term Debt	\$ 149,590
Less Current Portion	<u>(32,326)</u>
	<u><u>\$ 117,264</u></u>

Principal maturities of long-term debt for the 5 years succeeding December 31, 2024 are as follows:

2025	\$ 32,326
2026	34,371
2027	36,546
2028	38,858
2029	7,489

The Harbours Association
Notes to Financial Statements
Year Ended December 31, 2024

Note K- UNCERTAIN TAX POSITIONS

The Association's federal tax returns are generally subject to examination by taxing authorities for three years after the returns are filed. As of December 31, 2024, the income tax returns for December 31, 2021, December 31, 2022 and December 31, 2023 remain open to examination.

SUPPLEMENTARY INFORMATION

The Harbours Association
Schedule I - Statement of Operating Expenses-Modified Accrual Basis
For the Year Ended December 31, 2024

	Operating Fund	Replacement Fund	Total All Funds
Administrative Expenses:			
Bank Charges	\$ 500	\$ -	\$ 500
Copies	650	-	650
Postage	199	-	199
Legal Fees	1,481	-	1,481
Audit/Tax	1,050	-	1,050
Management Services	12,398	-	12,398
Assessment Service Fee	2,415	-	2,415
Other Professional	85	-	85
Miscellaneous	742	-	742
Website	420	-	420
Total Administrative Expenses	19,940	-	19,940
Maintenance and Repairs Expenses:			
Structural	7,921	-	7,921
Gutters	2,088	-	2,088
Roof Maintenance/Repairs	-	300	300
Plumbing	1,137	-	1,137
Painting	72	-	72
Roof Replacement	-	339,010	339,010
Grounds Maintenance	1,600	-	1,600
Landscape Maintenance	22,881	-	22,881
Lawn Fertilization	2,745	-	2,745
Tree Removal	2,620	-	2,620
Irrigation	2,951	-	2,951
Snow Removal	11,760	-	11,760
Asphalt / Parking Lot	14,994	10,000	24,994
Pest Control	4,232	-	4,232
Trash Removal	7,836	-	7,836
Total Maintenance and Repairs Expenses	82,837	349,310	432,147
Utilities:			
Electric	681	-	681
Water	17,045	5,800	22,845
Total Utilities	17,726	5,800	23,526
Other Expenses:			
Workers Compensation Insurance	550	-	550
Directors & Officers Insurance	2,803	-	2,803
Liability Insurance	19,059	-	19,059
Interest Expense	10,178	-	10,178
Total Other Expenses	32,590	-	22,412
Total Operating Expenses	\$ 153,093	\$ 355,110	\$ 508,203

The Harbours Association
Schedule II - Statement of Funded Reserves - Modified Accrual Basis
For the Year Ended December 31, 2024

	December 31, 2023	Transfers to	Transfers from	December 31, 2024
	Balance			Balance
Replacement	\$ <u>111,919</u>	\$ <u>402,718</u>	\$ <u>355,110</u>	\$ <u>159,527</u>

DISBURSEMENT OF FUNDS:

Purpose	Amount
Roof Maintenance/Repairs	\$ 300
Roof Replacement	339,010
Asphalt / Parking Lot	10,000
Water	5,800
 Total	 <u>\$ 355,110</u>