BIRCHWOOD FARMS GOLF AND COUNTRY CLUB
PROPERTY OWNERS ASSOCIATION
FINANCIAL STATEMENTS

December 31, 2013 and 2012

Dennis, Gartland & Niergarth

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Years Ended December 31, 2013 and 2012

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees and Members
Birchwood Farms Golf and Country Club Property Owners Association

We have audited the accompanying financial statements of ***Birchwood Farms Golf and Country Club Property Owners Association*** (the "Association"), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in undesignated members' equity 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. 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 Association'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 Association'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Birchwood Farms Golf and Country Club Property Owners Association as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 14, the Association has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented information about the estimates of future costs of major repairs and replacements that will be required in the future that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.

Dennis, Gartland & Niergarth

May 12, 2014

BIRCHWOOD FARMS GOLF AND COUNTRY CLUB
PROPERTY OWNERS ASSOCIATION
BALANCE SHEETS
December 31,

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$ 1,023,441	$ 1,133,718
Accounts receivable - less allowance for doubtful accounts of $17,407 and $50,460, respectively	207,464	216,956
Inventories	272,455	269,346
Prepaid expenses	46,863	55,289
Total current assets	1,550,223	1,675,309
Property and equipment, net	14,949,706	15,000,497
Other assets	194,461	160,205
Total assets	$ 16,694,390	$ 16,836,011
Liabilities and Members' Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 224,166	$ 228,232
Deferred revenue	131,916	121,162
Current portion of long-term debt	271,109	252,864
Total current liabilities	627,191	602,258
Long-term liabilities		
Refundable security deposit	4,000	6,000
Long-term debt less current portion	5,374,936	5,646,045
Interest rate swap	1,065,048	1,707,784
Total long-term liabilities	6,443,984	7,359,829
Total liabilities	7,071,175	7,962,087
Members' equity		
Contributed capital	7,913,649	7,913,649
Accumulated other comprehensive loss	(1,065,048)	(1,707,784)
Undesignated	2,774,614	2,668,059
Total members' equity	9,623,215	8,873,924
Total liabilities and members' equity	$ 16,694,390	$ 16,836,011

The accompanying notes are an integral part of these financial statements.

BIRCHWOOD FARMS GOLF AND COUNTRY CLUB
PROPERTY OWNERS ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN UNDESIGNATED MEMBERS' EQUITY
Years Ended December 31,

	2013	2012
Revenues		
Operating assessments	$ 2,374,320	$ 2,370,026
Special assessments for debt retirement	675,768	674,546
Transfer fee assessments	337,500	324,500
Restaurant and bar sales	1,081,022	1,081,737
Golf course and pro shop	766,618	791,919
Tennis	16,268	23,814
Condo, snow plow, security and other service fees	183,030	173,935
Water usage and hookup	126,950	125,600
Social memberships	129,796	122,062
Interest and rentals	45,894	45,439
Other income	63,925	80,360
Total revenues	5,801,091	5,813,938
Expenses		
General and administrative	1,445,549	1,425,532
Interest on special assessment debt	385,855	403,567
Restaurant and bar	1,352,155	1,265,239
Golf course and pro shop operations	1,500,394	1,492,132
Building and grounds	653,589	612,191
Security	219,967	209,976
Tennis and swimming	137,027	127,606
Total expenses	5,694,536	5,536,243
Excess of revenues over expenses	106,555	277,695
Undesignated members' equity, beginning of year	2,668,059	2,390,364
Undesignated members' equity, end of year	$ 2,774,614	$ 2,668,059
Comprehensive income		
Excess of revenues over expenses	$ 106,555	$ 277,695
Other comprehensive income		
Change in interest rate swap	642,736	32,646
Total comprehensive income	$ 749,291	$ 310,341

The accompanying notes are an integral part of these financial statements.

BIRCHWOOD FARMS GOLF AND COUNTRY CLUB
PROPERTY OWNERS ASSOCIATION
STATEMENTS OF CASH FLOWS
Years Ended December 31,

	2013	2012
Cash flows from operating activities		
Excess of revenues over expenses	$ 106,555	$ 277,695
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation expense	510,826	494,641
Amortization expense	1,025	961
Gain on disposal of assets	(2,634)	(6,630)
(Increase) decrease in:		
Accounts receivable	9,492	(18,913)
Inventories	(3,109)	(46,025)
Prepaid expenses	8,426	261
Other real estate owned	-	(3,000)
Increase (decrease) in:		
Accounts payable and accrued expenses	(4,066)	1,604
Deferred revenue	10,754	9,198
Net cash provided by operating activities	637,269	709,792
Cash flows from investing activities		
Proceeds from sale property and equipment	2,634	16,800
Purchase of property and equipment	(460,035)	(454,541)
Net cash used by investing activities	(457,401)	(437,741)
Cash flows from financing activities		
Principal payments on long-term debt	(252,864)	(217,697)
Proceeds from contributed capital	-	1,000
Increase in restricted cash	(35,281)	(53,444)
Increase (decrease) in refundable security deposits	(2,000)	1,000
Net cash used by financing activities	(290,145)	(269,141)
Net increase (decrease) in cash	(110,277)	2,910
Cash and cash equivalents, beginning of year	1,133,718	1,130,808
Cash and cash equivalents, end of year	$ 1,023,441	$ 1,133,718
Supplemental Disclosures:		
Cash paid during the year for:		
Interest	$ 386,459	$ 403,994
Noncash Investing and Financing Transactions:		
Disposal of fully depreciated property and equipment	$ 46,691	$ 121,323

The accompanying notes are an integral part of these financial statements.

NOTE 1: NATURE OF ORGANIZATION

Birchwood Farms Golf and Country Club Property Owners Association (the "Association") is classified as a Common Interest Realty Association, whereby the individual property owners not only own their home site or multiple dwelling unit but also have an undivided interest in the common property. All property owners automatically become members of the Association and are bound by the covenants, by-laws and rules and regulations of the Association. Members are liable for all assessments of the Association until such time that they no longer are owners of said property.

The property, business and affairs of the Association are governed by its Board of Trustees, which consists of nine property owners elected for three-year terms at the Association's September membership meeting. The Association consisted of 761 property owners for the years ended December 31, 2013 and 2012.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u>

The financial statements are prepared on the accrual basis of accounting as required by generally accepted accounting principles for common interest realty associations. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is created.

<u>Cash and Cash Equivalents</u>

The Association considers all unrestricted highly liquid investments with maturities of three months or less to be cash equivalents. The Association has one certificate of deposit with a maturity greater than three months classified as a cash equivalent because of its liquidity.

<u>Accounts Receivable</u>

Association members are subject to monthly 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 assessments, fees and charges due primarily from property owners. An allowance for doubtful accounts is established by management based on historical experience and a review of the current status of existing receivables. The Association's policy is to restrict utility usage, retain legal counsel and place liens and/or foreclose on the property of members whose assessments are 90 days or more delinquent. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

<u>Inventories</u>

Inventories are stated at the lower-of-cost or market. Food inventory is determined by the first-in, first-out method. Beverage inventory, golf merchandise, and golf maintenance supply inventories are determined using average cost.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of roads and road improvements. Property and equipment is recorded at cost, except for contributed assets. Contributed assets are recorded at fair market value at the date of acquisition.

Depreciation is computed using the straight-line method over the useful life of the assets.

Gas Line Rights

The Association capitalizes gas line rights and amortizes these costs on a straight-line basis over an estimated useful life between thirteen and forty years.

Interest Rate Risk Management

The Association entered into an interest rate swap contract with the objective of altering the interest rate exposure related to the variable rate Clubhouse renovation and consolidation note payable. In this contract, the Association agreed with a financial institution to exchange, at monthly intervals, the difference between fixed and floating interest amounts calculated on an agreed upon amortizing notional amount. The interest rate swap is reported on a recurring basis at its fair value with changes in fair value reported as other comprehensive income or loss.

Revenue Recognition

Member assessments are recognized as revenue on a monthly basis. Other revenues are recorded at the time goods or services are delivered.

Member Assessments

All Association members are subject to the following types of assessments: (a) regular monthly assessments, (b) special assessments, (c) club account assessments and (d) transfer fee assessments, together with service fees thereon and the costs of collection thereof.

Regular monthly assessments are for the purpose of promoting the recreation, health, safety and welfare of the members. They are to be used by the Association to maintain the common properties and the facilities situated thereon, including but not limited to, the cost of club operations, road and water system maintenance, insurance and taxes. These assessments totaled $3,120 per member for both of the years ended December 31, 2013 and 2012.

Special assessments may be approved by the Association for the purpose of defraying emergency operating expenses or for the repair, replacement or construction of capital improvements to the common property. A special assessment, payable monthly and totaling $888 per member per year, was approved by Association members to incur and retire debt used for certain major capital projects.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Club account assessments represent individual member charges for the use of the club facilities and for services requested and provided by the Association. These charges are billed and payable on a monthly basis.

A transfer fee assessment is imposed each time that a home site or multiple dwelling unit is sold or transferred. The normal transfer fee assessment is $10,000; however, there is a lesser assessment of $3,500 under certain circumstances enumerated in the by-laws.

Income Taxes

The Association is a regular taxable corporation for Federal income tax purposes. As a regular corporation, membership income is exempt from taxation if certain elections are made. The Association is taxed only on its non-membership income at regular Federal and State corporate rates.

The Association files income tax returns in the U.S. Federal jurisdiction and the State of Michigan. With few exceptions, the Association is no longer subject to U.S. Federal or State income tax examinations by tax authorities for years before 2010.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts could differ from those estimates.

Reporting Comprehensive Income

Comprehensive income includes a change to equity that is not the result of a transaction with the members of the Association. Comprehensive income consists of two components – excess of revenues over expenses and other comprehensive income or loss. Included in other comprehensive income or loss for the Association is the interest rate swap market value adjustment. This adjustment is accumulated within the Members' equity section of the Balance Sheets under the caption "Accumulated other comprehensive loss."

Advertising Costs

Advertising costs are expensed as incurred. The Association's advertising expense was $69,782 and $68,375 for the years ended December 31, 2013 and 2012, respectively.

Subsequent Events

The Association has evaluated subsequent events and transactions for potential recognition and disclosure through May 12, 2014, the date the financial statements were available to be issued.

NOTE 3: UNINSURED CASH BALANCES

The Association maintains its cash balances at several financial institutions. At December 31, 2013, deposit accounts are insured in total up to $250,000 per institution by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Insurance Fund (NCUSIF). At December 31, 2013 and 2012, the uninsured bank balances were $141,945 and $5,229, respectively.

NOTE 4: INVENTORIES

The Association's inventories consist of the following at December 31:

	2013	2012
Held for resale	$ 142,662	$ 143,552
Held for operations	129,793	125,794
Total inventories	$ 272,455	$ 269,346

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2013	2012
Clubhouse	$ 8,789,913	$ 8,712,311
Land and improvements	5,253,509	5,247,558
Golf course and maintenance	2,895,974	2,868,825
Water system	2,310,137	2,310,137
Golf course equipment	1,584,141	1,565,617
Tennis court and pool	1,088,669	857,870
Vehicles	325,992	352,923
Real estate building	310,857	310,857
Total property and equipment	22,559,192	22,226,098
Less accumulated depreciation	7,689,736	7,225,601
Construction –in-progress	80,250	-
Total property and equipment net of accumulated depreciation	$ 14,949,706	$ 15,000,497

Depreciation expense for the years ended December 31, 2013 and 2012 amounted to $510,826 and $494,641, respectively

NOTE 6: OTHER ASSETS

Other assets consist of the following at December 31:

	2013	2012
Restricted cash		
Construction deposit	$ 4,000	$ 6,000
Golf Course Maintenance Trust	2,002	1,001
Debt service	136,009	99,729
Gas line rights, net	21,514	22,539
Other real estate owned	30,936	30,936
Total other assets	$ 194,461	$ 160,205

Restricted Cash

Property owners are required to deposit $4,000 into a restricted account prior to commencing residential construction on a new home and $1,000 for a renovation. These amounts are to be used to reimburse the Association for any damage done to the common areas. Upon completion of the residence and inspection by the Architectural Control Committee, the security deposit, or remainder in the event of damage, is refunded. The balance in this account was $4,000 and $6,000 at December 31, 2013 and 2012, respectively.

For each new lot or multiple housing unit sold, $1,000 contributed capital is received for expansion or creation of Birchwood amenities, subject to certain restrictions. These funds are deposited into a Golf Course Maintenance Trust account. The unapplied balance of this account was $2,002 and $1,001 at December 31, 2013 and 2012, respectively.

All Association members are subject to an annual special assessment of $888 to pay the indebtedness incurred to build a nine-hole golf course, purchase a parcel of property and renovate the Clubhouse. The unapplied balance of these assessments was $136,009 and $99,729 at December 31, 2013 and 2012, respectively.

Gas Line Rights

The Association capitalizes gas line rights and amortizes the cost of $188,240 on a straight-line basis over an estimated useful life between thirteen and forty years. Accumulated amortization was $166,726 and $165,701 at December 31, 2013 and 2012, respectively. Amortization expense amounted to $1,025 and $961 for the years ended December 31, 2013 and 2012, respectively.

Other Real Estate Owned

The Association had $30,936 in other real estate owned as of December 31, 2013 and 2012.

NOTE 7: LINE OF CREDIT

The Association has a bank line of credit, which provides short-term borrowings up to $500,000. Interest on advances is payable monthly at 2.439% over the London Interbank Offering Rate (LIBOR). The outstanding balance was $0 at December 31, 2013 and 2012.

NOTE 8: LONG-TERM DEBT

Long-term debt at December 31, 2013 and 2012 consisted of the following:

	2013	2012
Clubhouse renovation and consolidation note payable, due in monthly installments, including interest at a variable rate of 30 day LIBOR plus 1.4%, sufficient to fully amortize this note with final payment due August 7, 2027. Secured by an assignment of assessment revenue and all assets of the Association.	$ 5,646,045	$ 5,898,909
Total long-term debt	5,646,045	5,898,909
Less current portion	271,109	252,864
Total long-term debt, net of current portion	$5,374,936	$ 5,646,045

Total interest costs were $385,855 for the year ended December 31, 2013 and $403,567 for 2012, net of interest rate swap settlements.

Principal maturities on long-term debt at December 31, 2012 are as follows:

Year	Amount
2014	$271,109
2015	288,663
2016	311,727
2017	335,124
2018	358,283
2019-2023	2,218,298
2024-2028	1,862,841
Total	$5,646,045

The Association is subject to certain restrictive financial covenants. At December 31, 2013 and 2012, the Association was in compliance with these covenants.

NOTE 8: LONG-TERM DEBT - Continued

Interest Rate Swap

Concurrent with the funding of the clubhouse renovation and consolidation note payable in 2007, the Association entered into an interest rate swap with its principal bank which effectively fixes approximately 90% of the principal of the note payable at a rate of 6.9%. This contract exists for the lifetime of the note payable (August 2027) and therefore substantially reduces the impact of interest rate changes on future interest expense. The underlying notional balance at December 31, 2013 and December 31, 2012 was $5,338,478 and $5,565,310, respectively. The Association considers this to be an effective cash flow hedge and accordingly includes its fair value as a liability and the corresponding unrealized loss as other comprehensive loss in members' equity. The fair value of the contract at December 31, 2013 and December 31, 2012, was $1,065,048 and $1,707,784, respectively.

NOTE 9: OPERATING LEASE

The Association leases the golf carts used on the golf course. The lease requires monthly payments of $12,800 for each month of May through October, and no payments are required during the months of November through April. The lease expired in December 2013. Lease expense for the years ended December 31, 2013 and 2012 was $76,797.

A new lease agreement for golf carts was executed in August 2013. The new lease requires monthly payments of $12,805 for each month of May through October, and no payments are required during the months of November through April. The future minimum lease requirement for each of the next five years is $76,829.

NOTE 10: MEMBERS' EQUITY

Contributed Capital

A summary of capital activity is as follows:

	2013	2012
Balance, beginning of year	$ 7,913,649	$ 7,912,649
Golf Course Maintenance Trust fees	-	1,000
Balance, end of year	$ 7,913,649	$ 7,913,649

Accumulated Other Comprehensive Loss

A summary of activity is as follows:

	2013	2012
Balance, beginning of year	$ (1,707,784)	$ (1,740,430)
Change in interest rate swap	642,736	32,646
Balance, end of year	$ (1,065,048)	$ (1,707,784)

NOTE 11: PROFIT SHARING PLAN AND TRUST

The Association offers eligible employees participation in a 401(k) Profit Sharing Plan and Trust. Employees working over 1,000 hours per year, become eligible to participate in the plan after completion of one year of service and attaining the age of 21. The plan is a salary reduction plan, which allows employees to elect to defer a percentage of their compensation. The Association matches 40% of elective participant deferrals, up to 4% of compensation. Participants are also eligible to receive a special discretionary contribution, which is not required but will be determined each year by the Association.

Matching contributions to the plan for the years ended December 31, 2013 and 2012, respectively, were $12,324 and $12,464. There were no discretionary contributions for either year.

NOTE 12: ENVIRONMENTAL CONTINGENCY

The Association is subject to a judgment related to a 1972 environmental lawsuit for possible future water contamination. Unless this judgment is satisfied by installation of a Collection and Treatment System, the judgment shall continue until five years after homes have been constructed on 120 of the lots in Birchwood now designated as “water sensitive,” or until March 15, 2025, whichever event is later to occur. At such time, this judgment shall be deemed automatically satisfied.

Management has assessed the likelihood of future costs as remote and, therefore, no liability has been recorded.

NOTE 13: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Association’s financial instruments include cash and cash equivalents, accounts receivable, accounts payable, short-term debt, long-term debt and an interest rate swap. These financial instruments are described further in various preceding footnotes. The recorded values of these financial instruments approximates their fair value either because of their short-term nature or because their interest rates approximate market rates.

The following are the major categories of liabilities measured at fair value on a recurring basis using quoted prices in active markets for identical liabilities (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

The interest rate swap fair value is recorded as Level 2 at $1,065,048 and $1,707,784 at December 31, 2013 and 2012, respectively.

NOTE 14: INCOME TAXES

The Association has net operating loss ("NOL") carry-forwards to offset future taxable income of approximately $1,429,000 at December 31, 2013. Based on the available objective evidence, including the Association's history of losses, management believes it is more likely than not that any deferred tax asset derived from the NOL carry-forwards will not be fully realizable. Accordingly, the Association provided for a full valuation allowance against any deferred tax asset derived from the NOL carry-forwards as of December 31, 2013. The NOL carry-forwards expire at varying intervals between 2025 and 2033.

NOTE 15: SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

Neither State statute nor Association by-laws require funding for future major repairs and replacements. When funds are needed for projects of this type the Association has the ability by means of a vote of the membership, to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds are available.

Although the Association does informally monitor future funding requirements of this nature, no formal study has been made. Therefore, the effect on future assessments has not been determined at this time.