

# **HERITAGE LAKE ASSOCIATION, INC.**

## **FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Members  
Heritage Lake Association, Inc.

We have audited the accompanying balance sheets of Heritage Lake Association, Inc. as of December 31, 2001 and 2000, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Heritage Lake Association, Inc. as of December 31, 2000 were audited by other auditors. Their report, dated March 8, 2001, expressed an unqualified opinion on those statements.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heritage Lake Association, Inc. as of December 31, 2001 and 2000, 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements of Heritage Lake Association, Inc. taken as a whole. The schedules of operating expenses on pages 10 and 11 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Note 6, the Association has not estimated the remaining lives and replacements 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 the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

*Donald M. Heinold, CPA, P.C.*

Donald M. Heinold, CPA, P.C.

January 23, 2002

BALANCE SHEETS

December 31, 2001 and 2000

ASSETS	<u>2001</u>	<u>2000</u>
<b>CURRENT ASSETS:</b>		
Cash	\$ 52,762	\$ 39,234
Cash designated for emergency purposes	5,000	5,000
Cash held as construction security deposits	9,398	9,357
Accounts receivable:		
Lot owner assessments	16,004	14,840
Water billings	2,730	39,046
Road fund charge	4,571	-
Collection fees	975	-
Less allowance for doubtful accounts	<u>(15,380)</u>	<u>(17,300)</u>
Net accounts receivable	8,900	36,586
Prepaid expenses	<u>1,900</u>	<u>1,900</u>
Total current assets	77,960	92,077
<b>PROPERTY AND EQUIPMENT</b>	<u>273,667</u>	<u>286,632</u>
<b>TOTAL ASSETS</b>	<u>\$ 351,627</u>	<u>\$ 378,709</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long term debt	\$ 583	\$ 5,711
Accounts payable - trade	4,563	25,873
Construction security deposits of members	9,398	9,357
Accrued liabilities	<u>1,629</u>	<u>2,294</u>
Total current liabilities	16,173	43,235
LONG TERM DEBT, net of current maturities	-	-
<b>STOCKHOLDERS' EQUITY:</b>		
Contributed capital	272,902	272,902
Retained earnings	<u>62,552</u>	<u>62,572</u>
Total stockholders' equity	<u>335,454</u>	<u>335,474</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 351,627</u>	<u>\$ 378,709</u>

See accompanying notes.

HERITAGE LAKE ASSOCIATION, INC.  
STATEMENT OF OPERATIONS AND RETAINED EARNINGS  
 For the Years Ended December 31, 2001 and 2000

	2001	2000
Operating income:		
Assessments	\$ 162,637	\$ 161,504
Road fund charge	42,307	-
Permits, fees and other operating income	17,221	14,391
Water revenues	44,102	278,862
Investment income	2,956	3,079
	269,223	457,836
Operating expenses:		
General and administrative	72,398	65,672
Property owner services	9,810	9,357
Conservation	2,308	5,005
Campgrounds	1,019	1,317
Beach	4,706	2,148
Maintenance and repairs	102,940	94,589
Lodge and pool	30,006	27,577
Water services	45,937	260,727
	269,124	466,392
Net income (loss) from operations	99	(8,556)
Other income (expenses):		
Loss on write-off of water distribution system	-	77,412
	99	(85,968)
Net income (loss) before income taxes	99	(85,968)
Income tax expense	119	-
	(20)	(85,968)
Net income (loss)	(20)	(85,968)
Retained earnings, beginning of the year	62,572	148,540
Retained earnings, end of the year	\$ 62,552	\$ 62,572

See accompanying notes.

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (20)	\$ (85,968)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	20,711	24,751
Loss on write-off of water distribution system	-	77,412
(Increase) decrease in operating assets:		
Accounts receivable	27,686	(1,282)
Increase (decrease) in operating liabilities:		
Accounts payable - trade	(21,310)	6,308
Accrued liabilities	(665)	198
	<u>26,402</u>	<u>21,419</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions of property and equipment	(7,746)	(7,251)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on loan payable	(5,128)	(5,333)
	13,528	8,835
Increase in cash	13,528	8,835
Cash, beginning of the year	<u>39,234</u>	<u>30,399</u>
Cash, end of the year	<u>\$ 52,762</u>	<u>\$ 39,234</u>
<b>Supplemental Data:</b>		
Cash paid during the year for Interest expense	<u>\$ 776</u>	<u>\$ 595</u>

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization - Heritage Lake Association, Inc. ("Association") is a corporation organized under the General Not for Profit Corporation Act of Illinois. The purpose of the Association is to: promote pleasure, social recreation and sports activities for its members, their families and guests, and maintain a recreationally oriented environment in Heritage Lake subdivision, Mackinaw Township, Tazewell County, Illinois; provide a means for operating, maintaining, repairing and replacing the streets, parks, lakes, recreational areas and facilities and other amenities owned by the Association; and provide a means for governing the use and enjoyment of the Association's properties.

Assessments - Each lot owner in Heritage Lake subdivision is a member of the Association and is assessed annually by the Association. Assessments must be used for the purpose of promoting the recreation, health, safety and welfare of the Association's members, and improving and maintaining the Association's properties. No portion of the assessment is designated for future major repairs and replacements. Assessments are determined prior to February 1 each year by the Board of Directors, and are payable on or before March 1. Each lot was assessed at the rate of \$150 for 2001 and 2000. Delinquent accounts are charged penalties computed at the rate of seven percent (included in assessment income in the financial statements).

Road Fund Charges - Beginning in 2001, each property owner was charged a fee of \$60 to assist in covering the cost of road repairs and maintenance. Charges are determined prior to June 1 by the Board of Directors and are payable on or before August 15. Delinquent accounts are charged penalties computed at the rate of seven percent (included in road fund income in the financial statements).

Water Revenues - Unimproved subdivision lots which have access to water usage are billed for a water availability fee. Those lots which have direct water access through installation of meters are charged for actual usage based on established rates plus a water availability fee.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Association considers all short-term securities purchased with a maturity of three months or less to be cash equivalents.



1. Summary of Significant Accounting Policies (cont'd)

Property and Equipment – Generally, all property and equipment owned by the Association is recognized as an asset in the financial statements. Property and equipment are stated at cost. Depreciation is computed primarily using the applicable tax method which allows for accelerated depreciation over the estimated useful lives of the assets. Estimated useful lives range from three to thirty-one years. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized. Depreciation expense for the years ended December 31, 2001 and 2000 was \$20,711 and \$24,751, respectively.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

2. Designated Cash

In April 1989 the Board of Directors established a reserve account of \$50,000 to be used for emergency purposes as determined by the Board. The Board has periodically authorized transfers from the reserve to the general checking account in order to pay expenses. It is the Board's intention to replenish the reserve when able to do so from operating cash receipts.

3. Property and Equipment

A summary of property and equipment follows:

	Cost at December 31,		Estimated
	<u>2001</u>	<u>2000</u>	Useful Lives (Years)
Land improvements	\$ 36,068	\$ 36,068	7 – 15
Buildings	172,864	172,040	7 – 31
Machinery and equipment	65,503	60,343	3 – 10
Fire hydrants	41,535	41,535	15
Transportation equipment	33,576	33,576	5
Office equipment	<u>14,621</u>	<u>12,859</u>	5
	364,167	356,421	
Less accumulated depreciation	<u>283,444</u>	<u>262,733</u>	
	80,723	93,688	
Subdivision lots	31,000	31,000	
Common properties – land	<u>161,944</u>	<u>161,944</u>	
	<u>\$273,667</u>	<u>\$286,632</u>	

The Village of Mackinaw assumed responsibility for the water distribution system as of March 1, 2001, and the assets associated with the distribution system were transferred to the Village of Mackinaw. The undepreciated cost of such assets totaled \$77,412. This amount was written-off in the year ended December 31, 2000, and is reflected as a loss on the statement of operations.

4. Note Payable

First Security Bank, 6.9%, secured by truck, due \$494 per month. Final payment made in January 2002. Principal balances at December 31, 2001 and 2000 were \$583 and \$5,711, respectively.

5. Income Taxes

The Association filed its federal income tax return under Internal Revenue Code (IRC) Section 277 in 2001 and 2000. The income tax liability for the years ended December 31, 2001 and 2000 was \$119 and \$0, respectively.

6. Future Major Repairs and Replacements

The Association has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Association may seek membership approval for special assessments or delay major repairs and replacements until funds are available.

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements. Through 1993, the Association's by-laws limited annual assessments to a maximum of \$100 per lot, none of which was designated for future major repairs and replacements. In 1993 the members approved revisions to the by-laws enabling the Board of Directors to increase the annual assessment by the larger of \$10 or the annual rate of inflation, subject to a maximum increase of \$50 over a seven year period. The revisions also allow for special assessments, subject to approval by the members, in years when there is no increase in the annual assessment, and borrowing up to \$25,000.

OPERATING EXPENSES

For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
General and administrative:		
Bookkeeping/secretarial	\$ 17,017	\$ 11,806
Payroll taxes	5,749	5,536
Contribution to Individual Retirement Account	1,900	1,807
Depreciation	20,711	16,609
Insurance	8,744	8,625
Professional fees	5,082	5,941
Telephone	709	602
Office supplies and expense	1,675	1,758
Property taxes	104	-
Data processing	-	2,250
Audit	3,150	3,050
Collection	175	802
Postage	1,748	1,697
Garbage service	690	654
Bad debts	2,819	1,578
Interest expense	776	595
Miscellaneous	1,349	2,362
	<u>72,398</u>	<u>65,672</u>
Property owner services:		
Enforcement	7,217	6,348
Newsletter	1,296	702
Other	1,297	2,307
	<u>9,810</u>	<u>9,357</u>
Conservation:		
Electricity	1,381	1,275
Other	927	3,730
	<u>2,308</u>	<u>5,005</u>
Campgrounds:		
Electricity	828	1,016
Other	191	301
	<u>1,019</u>	<u>1,317</u>
Beach	<u>4,706</u>	<u>2,148</u>

OPERATING EXPENSES

For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Maintenance and repairs:		
Fuel	\$ 3,277	\$ 4,195
Mowing	9,532	8,092
Snowplowing	4,846	2,868
Supplies	2,884	3,485
Salaries	25,145	22,414
Equipment	11,006	10,456
Roads	44,420	41,410
Other	1,830	1,669
	<u>102,940</u>	<u>94,589</u>
Lodge and pool:		
Natural gas	2,132	1,623
Lifeguards	5,153	3,957
Pool manager	4,250	4,250
Chemicals	3,222	4,213
Lodge repairs and maintenance	3,267	3,422
Pool repairs	6,940	2,640
Electricity	3,708	3,319
Water	320	2,952
Other	1,014	1,201
	<u>30,006</u>	<u>27,577</u>
Water services:		
Water	39,198	214,264
Hook-ups	1,240	8,305
Meters and installation	-	3,531
Meter reader	568	3,322
Water operator	450	1,650
Administration	-	7,414
Repairs and maintenance	748	2,909
Data processing	-	2,500
Audit	5,285	3,050
Postage	365	2,091
Bad debts	(1,932)	340
Depreciation	-	8,142
Miscellaneous	15	3,209
	<u>45,937</u>	<u>260,727</u>
	<u>\$ 269,124</u>	<u>\$ 466,392</u>