

HERITAGE LAKE ASSOCIATION, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

Donald M. Heinold, CPA, P.C.

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ACCOUNTANT'S COMPILATION REPORT

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

We have compiled the accompanying balance sheet of Heritage Lake Association, Inc. (a corporation) as of December 31, 2004, and the related statements of operations and retained earnings and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The financial statements for the year ended December 31, 2003, were audited by us and we expressed an unqualified opinion on them in our report dated February 23, 2004, but we have not performed any auditing procedures since that date.

Donald M. Heinold, CAA, P.C.

Donald M. Heinold, CPA, P.C.

February 25, 2005

BALANCE SHEETS

December 31, 2004 and 2003

ASSETS	<u>2004</u>	<u>2003</u>
CURRENT ASSETS:		
Cash	\$ 120,879	\$ 85,623
Cash designated for emergency purposes	5,000	5,000
Cash held as construction security deposits	16,113	20,861
Accounts receivable:		
Lot owner assessments	19,120	27,185
Lake fund charge	7,736	2,685
Road fund charge	6,147	6,408
Other receivables	7,110	4,917
Less allowance for doubtful accounts	<u>(22,000)</u>	<u>(25,615)</u>
Net accounts receivable	18,113	15,580
Prepaid expenses	<u>1,900</u>	<u>1,900</u>
Total current assets	162,005	128,964
PROPERTY AND EQUIPMENT	<u>452,345</u>	<u>471,454</u>
TOTAL ASSETS	<u>\$ 614,350</u>	<u>\$ 600,418</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long term debt	\$ 24,094	\$ 22,694
Accounts payable - trade	2,061	2,203
Construction security deposits of members	9,592	20,861
Accrued liabilities	<u>1,168</u>	<u>2,414</u>
Total current liabilities	36,915	48,172
LONG-TERM LIABILITIES	<u>124,404</u>	<u>148,100</u>
TOTAL LIABILITIES	161,319	196,272
STOCKHOLDERS' EQUITY:		
Contributed capital	272,902	272,902
Retained earnings	<u>180,129</u>	<u>131,244</u>
Total stockholders' equity	<u>453,031</u>	<u>404,146</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 614,350</u>	<u>\$ 600,418</u>

See accompanying accountant's compilation report.

HERITAGE LAKE ASSOCIATION, INC.
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating income:		
Assessments	\$ 182,336	\$ 171,331
Road fund charge	42,659	43,201
Lake fund charge	33,396	33,097
Permits, fees and other operating income	36,269	24,267
Gain on sale of fixed assets	-	1,650
Fundraising income	-	2,297
Investment income	6,393	8,688
	<u>301,053</u>	<u>284,531</u>
Operating expenses:		
General and administrative	118,572	96,296
Property owner services	8,125	9,940
Conservation	4,805	11,571
Campgrounds	1,115	1,870
Beach	4,394	2,568
Maintenance and repairs	76,291	50,303
Lodge and pool	37,954	30,444
	<u>251,256</u>	<u>202,992</u>
Net income from operations before income taxes	49,797	81,539
Income tax expense	912	1,214
Net income	48,885	80,325
Retained earnings, beginning of the year	<u>131,244</u>	<u>50,919</u>
Retained earnings, end of the year	<u>\$ 180,129</u>	<u>\$ 131,244</u>

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 48,885	\$ 80,325
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	34,365	26,783
(Increase) decrease in operating assets:		
Accounts receivable	(2,533)	(6,987)
Increase (decrease) in operating liabilities:		
Accounts payable - trade	(142)	(3,031)
Accrued liabilities	<u>(7,767)</u>	<u>1,833</u>
Net cash provided by operating activities	72,808	98,923
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(15,256)	(249,393)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt	-	175,047
Payments on long term debt	<u>(22,296)</u>	<u>(4,253)</u>
Net cash provided by (used in) financing activities	<u>(22,296)</u>	<u>170,794</u>
Increase in cash	35,256	20,324
Cash, beginning of the year	<u>85,623</u>	<u>65,299</u>
Cash, end of the year	<u>\$ 120,879</u>	<u>\$ 85,623</u>
Supplemental Data:		
Cash paid during the year for Interest expense	<u>\$ 10,085</u>	<u>\$ 1,392</u>

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. In accordance with the by-laws no portion of the assessments is required to be allocated for future major repairs and replacements; however the Association has been working toward upgrades of existing amenities by using a portion of the assessments for such repairs. Future forecasting and budgeting will require consideration of 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 \$170 and \$160 for 2004 and 2003, respectively. Delinquent accounts are charged penalties computed at the rate of seven percent (included in assessment income in the financial statements) and may be subject to various lien and collection fees.

Road Fund Charges - During 2004 and 2003, each property owner was charged a fee of \$63.22 and \$62, respectively, to assist in covering the cost of road repairs and maintenance. In accordance with the by-laws and prior to June 1 these charges are adjusted for cost of living. These charges 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) and may be subject to various lien and collection fees.

Lake Fund Charges - During 2004 and 2003, each property owner was charged a fee of \$48.59 and \$48, respectively, to assist in covering the cost of significant lake improvements (i.e. Lake dredging and dam repair). In accordance with the by-laws and prior to April 1st these charges are adjusted for cost of living. Delinquent accounts are charged penalties computed at the rate of seven percent (included in lake fund income in the financial statements) and may be subject to various lien and collection fees.

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

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.

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, 2004 and 2003 was \$34,365 and \$26,783, 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 to be used for emergency purposes. At December 31, 2004 the reserve balance is \$5,000.

3. Property and Equipment

A summary of property and equipment follows:

	Cost at December 31,		Estimated
	<u>2004</u>	<u>2003</u>	Useful Lives
			<u>(Years)</u>
Land improvements	\$251,453	\$251,453	7 – 15
Buildings	175,445	175,445	7 – 31
Machinery and equipment	84,430	69,451	3 – 10
Transportation equipment	60,529	60,529	5
Office equipment	<u>14,902</u>	<u>14,621</u>	5
	586,759	571,499	
Less accumulated depreciation	<u>327,358</u>	<u>292,989</u>	
	259,401	278,510	
Subdivision lots	31,000	31,000	
Common properties – land	<u>161,944</u>	<u>161,944</u>	
	<u>\$452,345</u>	<u>\$471,454</u>	

4. Notes Payable

Note payable, bank – dated March, 2003, original amount of \$29,047, secured by vehicle. Due in monthly installments of \$564.55, including interest at 6.25% per annum. Final payment due March, 2008. Principal balance \$19,883.

Note payable, bank – dated September, 2003, original amount of \$146,000, secured by 28 lots. Due in annual payments of \$26,237.44, including interest at 6.09% per annum. Final payment due September, 2008. Principal balance \$128,615.

4. Notes Payable (cont'd)

Maturities of long-term debt are as follows:

<u>For the Year</u> <u>Ended December 31</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005	\$ 8,918	\$ 24,094	\$ 33,012
2006	7,431	25,581	33,012
2007	5,852	27,160	33,012
2008	<u>3,884</u>	<u>71,663</u>	<u>75,547</u>
	<u>\$26,085</u>	<u>\$148,498</u>	<u>\$174,583</u>

5. Income Taxes

The Association filed its federal income tax return under Internal Revenue Code (IRC) Section 277 in 2004 and 2003. The income tax liability for the years ended December 31, 2004 and 2003 was \$1,075 and \$1,214, respectively.

6. Operating Lease

The Association leases a printer under an operating lease with the following commitments:

2005	\$1,423
2006	<u>356</u>
	<u>\$1,779</u>

Total lease expenditures for the year ending December 31, 2004 were \$1,423.

7. Future Major Repairs and Replacements

The Board of Directors has prepared for and participated in long term budgeting and visionary activities. The Board has determined that the Association will have a need for long term funding and has actively begun funding procedures through the enactment of Lake Fund and Road Fund assessments in 2003. Such long term planning, budgeting and proactive steps will continue to be required to address these future expenses.

7. Future Major Repairs and Replacements (cont'd)

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. In 2003 the Association's by-laws were amended to limit the Association to never borrow at any one time in excess of the current values of non-amenity properties for the purchase of real property, the issuance of bonds or debentures or the mortgage of any of its properties nor shall it mortgage any of the amenity properties without a two-thirds vote of the full board. The 2003 appraised value of non-amenity properties was \$146,000.

OPERATING EXPENSES

For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
General and administrative:		
Bookkeeping/secretarial	\$ 18,076	\$ 17,292
Payroll taxes	5,342	5,428
Depreciation	34,365	26,783
Insurance	11,789	11,370
Professional fees	6,467	10,854
Telephone	831	875
Office supplies and expense	4,693	4,214
Property taxes	1,543	113
Audit	5,360	1,809
Collection		-
Postage	3,598	1,996
Garbage service	1,086	446
Bad debts	12,876	8,652
Interest expense	10,085	1,392
Miscellaneous	2,461	5,072
	<u>118,572</u>	<u>96,296</u>
Property owner services:		
Enforcement	5,493	6,095
Newsletter	1,700	2,422
Other	932	1,423
	<u>8,125</u>	<u>9,940</u>
Conservation:		
Electricity	1,164	1,268
Restock fish	712	2,231
Lake and dam upgrades	-	5,500
Other	2,929	2,572
	<u>4,805</u>	<u>11,571</u>
Campgrounds:		
Electricity	856	851
Other	259	1,019
	<u>1,115</u>	<u>1,870</u>
Beach	<u>4,394</u>	<u>2,568</u>

OPERATING EXPENSES

For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Maintenance and repairs:		
Fuel	\$ 3,459	\$ 4,476
Mowing	5,036	5,014
Snowplowing	324	2,975
Supplies	8,356	5,277
Salaries	33,002	23,212
Equipment	4,595	4,909
Roads	18,873	2,834
Other	2,646	1,606
	<u>76,291</u>	<u>50,303</u>
Lodge and pool:		
Natural gas	1,773	2,322
Lifeguards	4,907	5,350
Pool manager	4,372	4,282
Chemicals	3,898	3,521
Lodge repairs and maintenance	10,626	8,421
Pool repairs	4,233	872
Electricity	4,202	4,161
Water	343	379
Other	3,600	1,136
	<u>37,954</u>	<u>30,444</u>
	<u>\$ 251,256</u>	<u>\$ 202,992</u>