

HERITAGE LAKE ASSOCIATION, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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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, 2006 and 2005, and the related statements of operations and retained earnings and cash flows for the years 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.

We are not independent of Heritage Lake Association, Inc.

Donald M. Heinold, CPA, P.C.

Donald M. Heinold, CPA, P.C.

January 8, 2007

BALANCE SHEETS

December 31, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:		
Cash	\$ 134,347	\$ 133,466
Cash designated for emergency purposes	-	5,000
Cash held as construction security deposits	5,500	2,340
Accounts receivable:		
Lot owner assessments	-	21,021
Lake fund charge	2,381	5,650
Road fund charge	121	6,194
Other receivables	2,863	15,367
Less allowance for doubtful accounts	<u>(4,000)</u>	<u>(20,250)</u>
Net accounts receivable	1,365	27,982
Prepaid expenses	<u>1,900</u>	<u>1,900</u>
Total current assets	143,112	170,688
PROPERTY AND EQUIPMENT	<u>425,168</u>	<u>428,935</u>
TOTAL ASSETS	<u>\$ 568,280</u>	<u>\$ 599,623</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long term debt	\$ 29,966	\$ 25,749
Accounts payable - trade	5,345	4,483
Construction security deposits of members	5,500	2,350
Accrued liabilities	<u>2,972</u>	<u>1,429</u>
Total current liabilities	43,783	34,011
LONG-TERM LIABILITIES	<u>81,655</u>	<u>98,117</u>
TOTAL LIABILITIES	125,438	132,128
STOCKHOLDERS' EQUITY:		
Contributed capital	272,902	272,902
Retained earnings	<u>169,940</u>	<u>194,593</u>
Total stockholders' equity	<u>442,842</u>	<u>467,495</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 568,280</u>	<u>\$ 599,623</u>

See accompanying accountant's compilation report.

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating income:		
Assessments	\$ 201,716	\$ 191,364
Road fund charge	45,001	44,463
Lake fund charge	34,651	33,684
Permits, fees and other operating income	44,441	36,865
Gain on sale of fixed assets	-	-
Fundraising income	76	3,287
Investment income	6,160	7,111
	<u>332,045</u>	<u>316,774</u>
Operating expenses:		
General and administrative	151,452	118,445
Property owner services	9,671	11,285
Conservation	33,288	5,817
Campgrounds	3,742	3,619
Sports Complex	547	278
Beach	3,957	7,146
Maintenance and repairs	109,963	112,806
Lodge and pool	43,285	42,181
	<u>355,905</u>	<u>301,577</u>
Net income (loss) from operations before income taxes	(23,860)	15,197
Income tax expense	793	733
Net income (loss)	(24,653)	14,464
Retained earnings, beginning of the year	<u>194,593</u>	<u>180,129</u>
Retained earnings, end of the year	<u>\$ 169,940</u>	<u>\$ 194,593</u>

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (24,653)	\$ 14,464
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	30,740	32,077
(Increase) decrease in operating assets:		
Accounts receivable	26,617	(9,869)
Increase (decrease) in operating liabilities:		
Accounts payable - trade	862	2,422
Accrued liabilities	1,542	261
	<u>35,108</u>	<u>39,355</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(26,972)	(8,668)
Change in cash held as construction security deposits	(10)	
Change in cash designated for emergency purposes	5,000	6,532
	<u>(21,982)</u>	<u>(2,136)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt	15,000	-
Payments on long term debt	(27,245)	(24,632)
	<u>(12,245)</u>	<u>(24,632)</u>
Net cash used in financing activities		
Increase in cash	881	12,587
Cash, beginning of the year	<u>133,466</u>	<u>120,879</u>
Cash, end of the year	<u>\$ 134,347</u>	<u>\$ 133,466</u>
Supplemental Data:		
Cash paid during the year for Interest expense	<u>\$ 8,107</u>	<u>\$ 8,346</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 \$190 and \$180 for 2006 and 2005, respectively. Delinquent accounts are charged penalties computed at the rate of nine percent (included in assessment income in the financial statements) and may be subject to various lien and collection fees.

Road Fund Charges - During 2006 and 2005, each property owner was charged a fee of \$67.59 and \$64.93, 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 July 1. Delinquent accounts are charged penalties computed at the rate of nine percent (included in road fund income in the financial statements) and may be subject to various lien and collection fees.

Lake Fund Charges - During 2006 and 2005, each property owner was charged a fee of \$51.95 and \$49.90, 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, 2006 and 2005 was \$30,740 and \$32,077, 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. During 2006, the funds were transferred from a separate savings account into the General Fund money market account and are now included as general cash. At December 31, 2006 and 2005 the reserve balance was \$0 and \$5,000, respectively.

3. Property and Equipment

A summary of property and equipment follows:

	Cost at December 31, <u>2006</u>	2005	Estimated Useful Lives (Years)
Land improvements	\$256,325	\$256,325	7 – 15
Buildings	175,445	175,445	7 – 31
Machinery and equipment	112,303	85,903	3 – 10
Transportation equipment	60,529	60,529	5
Office equipment	<u>17,795</u>	<u>17,223</u>	5
	622,397	595,425	
Less accumulated depreciation	<u>390,173</u>	<u>359,434</u>	
	232,224	235,991	
Subdivision lots	31,000	31,000	
Common properties -- land	<u>161,944</u>	<u>161,944</u>	
	<u>\$425,168</u>	<u>\$428,935</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 \$8,169.

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 \$90,638.

Note payable, bank – dated February, 2006, original amount of \$15,000, secured by equipment. Due in monthly installments of \$299.91, including interest at 6.9% per annum. Final payment due January, 2011. Principal balance \$12,814.

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>
2007	\$ 6,644	\$ 29,966	\$ 36,610
2008	4,873	74,645	79,518
2009	383	3,216	3,599
2010	154	3,445	3,599
2011	<u>2</u>	<u>349</u>	<u>351</u>
	<u>\$12,056</u>	<u>\$111,621</u>	<u>\$123,677</u>

5. Income Taxes

The Association filed its federal income tax return under Internal Revenue Code (IRC) Section 277 in 2006 and 2005. The income tax liability for the years ended December 31, 2006 and 2005 was \$793 and \$733, respectively.

6. Operating Lease

The Association leased a printer under an operating lease which was bought out during 2006. There are no future commitments for operating leases.

Total lease expenditures for the years ending December 31, 2006 and 2005 were \$442 and \$1,499 respectively.

7. Deposit Accounts

At various times during the year, the Association's cash in bank balances exceeded Federally insured limits. At December 31, 2006 and 2005, the Association's uninsured cash balances were \$34,347 and \$33,466 respectively. Contract provisions between the Association and First Security Bank require that balances exceeding the insured limits are properly secured. Adequate security has been pledged by the bank to cover balances over insured limits.

HERITAGE LAKE ASSOCIATION, INC.
OPERATING EXPENSES
For the Years Ended December 31, 2006 and 2005

	2006	2005
General and administrative:		
Secretarial	\$ 13,428	\$ 15,360
Payroll taxes	9,026	7,297
Depreciation	30,740	32,077
Insurance	12,117	12,057
Professional fees	7,667	2,704
Telephone	1,028	792
Office supplies and expense	3,213	6,441
Property taxes	1,206	1,641
Contract bookkeeping/audit services	23,625	17,800
Fundraising	-	2,932
Postage	3,387	3,644
Garbage service	2,647	1,236
Bad debts	28,950	3,558
Interest expense	8,107	8,346
Newspaper ads	511	-
Collection expense	2,924	-
Miscellaneous	2,876	2,560
	151,452	118,445
Property owner services:		
Enforcement	5,949	7,367
Newsletter	3,322	2,518
Other	400	1,400
	9,671	11,285
Conservation:		
Electricity	1,271	1,353
Restock fish	66	744
Lake and dam upgrades	29,234	592
Other	2,717	3,128
	33,288	5,817
Campgrounds:		
Electricity	906	957
Other	2,836	2,662
	3,742	3,619
Beach	3,957	7,146
Sports Complex	547	278

HERITAGE LAKE ASSOCIATION, INC.
OPERATING EXPENSES
For the Years Ended December 31, 2006 and 2005

	2006	2005
Maintenance and repairs:		
Fuel	\$ 3,845	\$ 4,219
Mowing	20,250	18,217
Snowplowing	5,722	4,124
Supplies	5,801	9,073
Salaries	43,522	40,703
Equipment	9,824	16,918
Roads	15,686	16,079
Other	5,313	3,473
	109,963	112,806
Lodge and pool:		
Natural gas	984	2,761
Lifeguards	5,070	5,614
Pool manager	3,400	4,549
Chemicals	7,831	3,125
Lodge repairs and maintenance	8,804	8,062
Pool repairs	8,564	8,846
Electricity	3,699	4,344
Water	3,802	483
Other	1,131	4,397
	43,285	42,181
	\$ 355,905	\$ 301,577