

HERITAGE LAKE ASSOCIATION, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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, 2007 and 2006, 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 23, 2008

HERITAGE LAKE ASSOCIATION, INC.
BALANCE SHEETS
 December 31, 2007 and 2006

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ASSETS	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash	\$ 121,540	\$ 134,347
Cash held as construction security deposits	2,012	5,500
Accounts receivable:		
Lot owner assessments	126	-
Lake fund charge	2,459	2,381
Road fund charge	136	121
Other receivables	5,485	2,863
Less allowance for doubtful accounts	<u>(4,000)</u>	<u>(4,000)</u>
Net accounts receivable	4,206	1,365
Prepaid expenses	<u>1,900</u>	<u>1,900</u>
Total current assets	129,658	143,112
PROPERTY AND EQUIPMENT	<u>448,658</u>	<u>425,168</u>
TOTAL ASSETS	<u>\$ 578,316</u>	<u>\$ 568,280</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long term debt	\$ 74,626	\$ 29,966
Accounts payable - trade	10,738	5,345
Construction security deposits of members	11,539	5,500
Accrued liabilities	<u>2,995</u>	<u>2,972</u>
Total current liabilities	99,898	43,783
LONG-TERM LIABILITIES	<u>7,021</u>	<u>81,655</u>
TOTAL LIABILITIES	106,919	125,438
STOCKHOLDERS' EQUITY:		
Contributed capital	272,902	272,902
Retained earnings	<u>198,495</u>	<u>169,940</u>
Total stockholders' equity	<u>471,397</u>	<u>442,842</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 578,316</u>	<u>\$ 568,280</u>

See accompanying accountant's compilation report.

HERITAGE LAKE ASSOCIATION, INC.
STATEMENT OF OPERATIONS AND RETAINED EARNINGS
For the Years Ended December 31, 2007 and 2006

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	2007	2006
Operating income:		
Assessments	\$ 211,600	\$ 201,716
Road fund charge	46,640	45,001
Lake fund charge	35,952	34,651
Pool Assessment	46,760	-
Permits, fees and other operating income	35,156	44,441
Gain on sale of fixed assets	-	-
Fundraising income	827	76
Investment income	7,056	6,160
	383,991	332,045
Operating expenses:		
General and administrative	168,501	151,452
Property owner services	13,312	9,671
Conservation	55,131	33,288
Campgrounds	2,213	3,742
Sports Complex	93	547
Beach	5,742	3,957
Maintenance and repairs	71,141	109,963
Lodge and pool	39,032	43,285
	355,165	355,905
Net income (loss) from operations before income taxes	28,826	(23,860)
Income tax expense	271	793
Net income (loss)	28,555	(24,653)
Retained earnings, beginning of the year	169,940	194,593
Retained earnings, end of the year	\$ 198,495	\$ 169,940

See accompanying accountant's compilation report.

HERITAGE LAKE ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2007 and 2006

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	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 28,555	\$ (24,653)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	30,211	30,740
(Increase) decrease in operating assets:		
Accounts receivable	(2,841)	26,617
Increase (decrease) in operating liabilities:		
Accounts payable - trade	5,393	862
Accrued liabilities	23	1,542
	61,341	35,108
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(53,701)	(26,972)
Change in cash held as construction security deposits	9,527	(10)
Change in cash designated for emergency purposes	-	5,000
	(44,174)	(21,982)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt	-	15,000
Payments on long term debt	(29,974)	(27,245)
	(29,974)	(12,245)
Increase (decrease) in cash	(12,807)	881
Cash, beginning of the year	134,347	133,466
Cash, end of the year	\$ 121,540	\$ 134,347
Supplemental Data:		
Cash paid during the year for Interest expense	\$ 6,542	\$ 8,107

See accompanying accountant's compilation report.

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 \$200 and \$190 for 2007 and 2006, 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 late fees, lien and collection fees.

Road Fund Charges - During 2007 and 2006, each property owner was charged a fee of \$69.82 and \$67.59, 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 by the rate of inflation which is determined by the increase in the U.S. Bureau of Labor Statistics Consumer Price Index for all Urban Consumers during the preceding calendar year. 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 late fees, lien and collection fees.

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

Lake Fund Charges – During 2007 and 2006, each property owner was charged a fee of \$53.66 and \$51.95, 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 by the rate of inflation which is determined by the increase in the U.S. Bureau of Labor Statistics Consumer Price Index for all Urban Consumers during the preceding calendar year. Delinquent accounts are charged penalties computed at the rate of nine percent (included in lake fund income in the financial statements) and may be subject to various late fees, lien and collection fees.

Special Pool Fund Charge – During 2007, each property owner was charged a one time fee of \$70.00 to assist in covering the cost of significant repairs and improvements made to the pool. Delinquent accounts were charged penalties computed at the rate of nine percent and were subject to late fees, lien and collection fees.

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, 2007 and 2006 was \$30,211 and \$30,740, 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. Property and Equipment

A summary of property and equipment follows:

	Cost at December 31,		Estimated
	<u>2007</u>	<u>2006</u>	Useful Lives (Years)
Land improvements	\$303,526	\$256,325	7 – 15
Buildings	175,445	175,445	7 – 31
Machinery and equipment	118,803	112,303	3 – 10
Transportation equipment	60,529	60,529	5
Office equipment	<u>17,795</u>	<u>17,795</u>	5
	676,098	622,397	
Less accumulated depreciation	<u>420,384</u>	<u>390,173</u>	
	255,714	232,224	
Subdivision lots	31,000	31,000	
Common properties – land	<u>161,944</u>	<u>161,944</u>	
	<u>\$448,658</u>	<u>\$425,168</u>	

3. 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 \$1,710.

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 \$69,914.

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 \$10,023.

3. Notes Payable (cont'd)

Maturities of long-term debt are as follows:

<u>For the Year Ended December 31</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	\$ 4,873	\$ 74,626	\$ 79,499
2009	383	3,216	3,599
2010	154	3,445	3,599
2011	<u>2</u>	<u>360</u>	<u>362</u>
	<u>\$ 5,412</u>	<u>\$ 81,647</u>	<u>\$ 87,059</u>

4. Income Taxes

The Association filed its federal income tax return under Internal Revenue Code (IRC) Section 277 in 2007 and 2006. The income tax liability for the years ended December 31, 2007 and 2006 was \$308 and \$793, respectively.

5. 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, 2007 and 2006 were \$0 and \$442 respectively.

6. Deposit Accounts

At various times during the year, the Association's cash in bank balances exceeded Federally insured limits. At December 31, 2007 and 2006, the Association's uninsured cash balances were \$21,540 and \$34,347 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, 2007 and 2006

	2007	2006
General and administrative:		
Labor	\$ 57,315	\$ 13,428
Payroll taxes	9,028	9,026
Depreciation	30,211	30,740
Insurance	12,094	12,117
Professional fees	2,219	7,667
Telephone	1,495	1,028
Office supplies and expense	1,919	3,213
Property taxes	1,160	1,206
Contract bookkeeping/audit services	24,624	23,625
Postage	3,457	3,387
Garbage service	1,508	2,647
Bad debts	9,184	28,950
Interest expense	6,542	8,107
Newspaper ads	81	511
Collection expense	3,964	2,924
Miscellaneous	3,700	2,876
	168,501	151,452
Property owner services:		
Enforcement	7,449	5,949
Newsletter	3,778	3,322
Other	2,085	400
	13,312	9,671
Conservation:		
Electricity	1,344	1,271
Restock fish	776	66
Lake and dam upgrades	51,450	29,234
Other	1,561	2,717
	55,131	33,288
Campgrounds:		
Electricity	1,018	906
Other	1,195	2,836
	2,213	3,742
Beach	5,742	3,957
Sports Complex	93	547

HERITAGE LAKE ASSOCIATION, INC.
OPERATING EXPENSES
 For the Years Ended December 31, 2007 and 2006

	2007	2006
Maintenance and repairs:		
Fuel	\$ 6,430	\$ 3,845
Mowing	15,600	20,250
Snowplowing	14,712	5,722
Supplies	5,343	5,801
Salaries	-	43,522
Equipment	6,350	9,824
Roads	18,403	15,686
Other	4,303	5,313
	71,141	109,963
 Lodge and pool:		
Natural gas	1,975	984
Lifeguards	2,054	5,070
Pool manager & staff	2,537	3,400
Chemicals	1,215	7,831
Lodge repairs and maintenance	4,931	8,804
Pool repairs	20,402	8,564
Electricity	2,824	3,699
Water	1,958	3,802
Other	1,136	1,131
	39,032	43,285
	\$ 355,165	\$ 355,905