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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, 2008 and 2007, and the related statements of operations and retained earnings and cash flows for the years then ended, and the accompanying supplementary information contained in the schedule of operating expenses 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.*

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January 23, 2009

HERITAGE LAKE ASSOCIATION, INC.  
BALANCE SHEETS  
December 31, 2008 and 2007

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ASSETS	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS:</b>		
Cash	\$ 59,397	\$ 121,540
Cash held as construction security deposits	2,022	2,012
Accounts receivable:		
Lot owner assessments	5,658	126
Lake fund charge	2,084	2,459
Road fund charge	1,837	136
Other receivables	4,755	5,485
Less allowance for doubtful accounts	<u>(10,997)</u>	<u>(4,000)</u>
Net accounts receivable	3,337	4,206
Prepaid expenses	<u>1,900</u>	<u>1,900</u>
Total current assets	66,656	129,658
<b>PROPERTY AND EQUIPMENT</b>	<u>427,099</u>	<u>448,658</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 493,755</u></u>	<u><u>\$ 578,316</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long term debt	\$ -	\$ 74,626
Accounts payable - trade	3,544	10,738
Construction security deposits of members	4,200	11,539
Accrued liabilities	<u>2,931</u>	<u>2,995</u>
Total current liabilities	10,675	99,898
<b>LONG-TERM LIABILITIES</b>	<u>-</u>	<u>7,021</u>
<b>TOTAL LIABILITIES</b>	10,675	106,919
<b>STOCKHOLDERS' EQUITY:</b>		
Contributed capital	272,902	272,902
Retained earnings	<u>210,178</u>	<u>198,495</u>
Total stockholders' equity	<u>483,080</u>	<u>471,397</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 493,755</u></u>	<u><u>\$ 578,316</u></u>

See accompanying accountant's compilation report.

HERITAGE LAKE ASSOCIATION, INC.  
STATEMENT OF OPERATIONS AND RETAINED EARNINGS  
For the Years Ended December 31, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
Operating income:		
Assessments	\$ 216,876	\$ 211,600
Road fund charge	47,856	46,640
Lake fund charge	36,987	35,952
Pool Assessment	-	46,760
Permits, fees and other operating income	37,665	35,156
Gain on sale of fixed assets	-	-
Fundraising income	-	827
Investment income	6,944	7,056
	<u>346,328</u>	<u>383,991</u>
Operating expenses:		
General and administrative	145,727	168,501
Property owner services	9,426	13,312
Conservation	81,662	55,131
Campgrounds	1,252	2,213
Sports Complex	-	93
Beach	7,372	5,742
Maintenance and repairs	48,215	71,141
Lodge and pool	39,930	39,032
	<u>333,584</u>	<u>355,165</u>
Net income from operations before income taxes	12,744	28,826
Income tax expense	1,061	271
Net income	11,683	28,555
Retained earnings, beginning of the year	198,495	169,940
Retained earnings, end of the year	<u>\$ 210,178</u>	<u>\$ 198,495</u>

See accompanying accountant's compilation report.



HERITAGE LAKE ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 11,683	\$ 28,555
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	26,385	30,211
(Increase) decrease in operating assets:		
Accounts receivable	869	(2,841)
Increase (decrease) in operating liabilities:		
Accounts payable - trade	(7,194)	5,393
Accrued liabilities	<u>(64)</u>	<u>23</u>
Net cash provided by operating activities	31,679	61,341
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisitions of property and equipment	(4,826)	(53,701)
Change in cash held as construction security deposits		9,527
Change in cash designated for emergency purposes	<u>(7,349)</u>	<u>-</u>
Net cash used in investing activities	(12,175)	(44,174)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long term debt	-	-
Payments on long term debt	<u>(81,647)</u>	<u>(29,974)</u>
Net cash used in financing activities	<u>(81,647)</u>	<u>(29,974)</u>
Increase (decrease) in cash	(62,143)	(12,807)
Cash, beginning of the year	<u>121,540</u>	<u>134,347</u>
Cash, end of the year	<u>\$ 59,397</u>	<u>\$ 121,540</u>
<b>Supplemental Data:</b>		
Cash paid during the year for Interest expense	<u>\$ 4,525</u>	<u>\$ 6,542</u>

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 \$204.60 and \$200 for 2008 and 2007, 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 2008 and 2007, each property owner was charged a fee of \$71.43 and \$69.82, 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.



HERITAGE LAKE ASSOCIATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

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

Lake Fund Charges – During 2008 and 2007, each property owner was charged a fee of \$54.89 and \$53.66, 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 1<sup>st</sup> 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, 2008 and 2007 was \$26,385 and \$30,211, 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.

HERITAGE LAKE ASSOCIATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS

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2. Property and Equipment

A summary of property and equipment follows:

	Cost at December 31,		Estimated
	<u>2008</u>	<u>2007</u>	Useful Lives (Years)
Land improvements	\$303,526	\$303,526	7 – 15
Buildings	175,445	175,445	7 – 31
Machinery and equipment	123,629	118,803	3 – 10
Transportation equipment	60,529	60,529	5
Office equipment	<u>17,795</u>	<u>17,795</u>	5
	680,924	676,098	
Less accumulated depreciation	<u>446,769</u>	<u>420,384</u>	
	234,155	255,714	
Subdivision lots	31,000	31,000	
Common properties – land	<u>161,944</u>	<u>161,944</u>	
	<u>\$427,099</u>	<u>\$448,658</u>	

3. Income Taxes

The Association filed its federal income tax return under Internal Revenue Code (IRC) Section 277 in 2008 and 2007. The income tax liability for the years ended December 31, 2008 and 2007 was \$1,061 and \$308, respectively.

4. Deposit Accounts

At various times during the year, the Association's cash in bank balances exceeded Federally insured limits. At December 31, 2008 and 2007, the Association's uninsured cash balances were \$0 and \$21,540 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, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
General and administrative:		
Labor	\$ 52,150	\$ 57,315
Payroll taxes	9,676	9,028
Depreciation	26,385	30,211
Insurance	11,813	12,094
Professional fees	1,000	2,219
Telephone	1,387	1,495
Office supplies and expense	774	1,919
Property taxes	1,179	1,160
Contract bookkeeping/audit services	24,475	24,624
Postage	2,545	3,457
Garbage service	1,979	1,508
Bad debts	(1,984)	9,184
Interest expense	4,525	6,542
Newspaper ads	461	81
Collection expense	4,801	3,964
Miscellaneous	4,561	3,700
	<u>145,727</u>	<u>168,501</u>
Property owner services:		
Enforcement	6,845	7,449
Newsletter	2,531	3,778
Other	50	2,085
	<u>9,426</u>	<u>13,312</u>
Conservation:		
Electricity	1,392	1,344
Restock fish	800	776
Lake and dam upgrades	79,038	51,450
Other	432	1,561
	<u>81,662</u>	<u>55,131</u>
Campgrounds:		
Electricity	692	1,018
Other	560	1,195
	<u>1,252</u>	<u>2,213</u>
Beach	<u>7,372</u>	<u>5,742</u>
Sports Complex	<u>-</u>	<u>93</u>



HERITAGE LAKE ASSOCIATION, INC.  
OPERATING EXPENSES  
For the Years Ended December 31, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
Maintenance and repairs:		
Fuel	\$ 7,918	\$ 6,430
Mowing	6,950	15,600
Snowplowing	8,934	14,712
Supplies	4,352	5,343
Equipment	8,003	6,350
Roads	7,414	18,403
Other	4,644	4,303
	<u>48,215</u>	<u>71,141</u>
Lodge and pool:		
Natural gas	2,470	1,975
Lifeguards	8,130	2,054
Pool manager & staff	3,308	2,537
Chemicals	2,061	1,215
Lodge repairs and maintenance	10,383	4,931
Pool repairs	4,261	20,402
Electricity	4,052	2,824
Water	3,406	1,958
Other	1,859	1,136
	<u>39,930</u>	<u>39,032</u>
	<u>\$ 333,584</u>	<u>\$ 355,165</u>