

Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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ACCOUNTANT'S REPORT

To the Board of Directors
Lake Somerset Property Owners Association
Somerset, Michigan

We have compiled the accompanying Statement of Assets, Liabilities, Reserve and Members' Equity - Cash Basis of the Lake Somerset Property Owners Association (a corporation) as of August 31, 2008, and the related Statement of Revenue and Expenses - Cash Basis and Changes in Members' Equity - Cash Basis 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. These financial statements have been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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.

Bailey, Hodshire & Company, P.C.

Jonesville, Michigan
October 23, 2008

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION
STATEMENT OF ASSETS, LIABILITIES, RESERVE AND
MEMBERS' EQUITY - CASH BASIS
AUGUST 31, 2008

ASSETS

Current Assets:

Cash in Checking Account	\$ 15,540	
Cash in Savings Account	36,539	
Cash in Edward Jones Money Market Account	6,425	
Cash in Credit Union Accounts	46,890	
Cash in Multitrust Account	45,569	
Maintenance Assessments Receivable	<u>44,003</u>	
Total Current Assets		\$ 194,966

Fixed Assets:

Buildings and Improvements	\$ 49,569	
Equipment and Signs	<u>163,703</u>	
	\$ 213,272	
Less: Accumulated Depreciation	<u>(154,826)</u>	
Net Book Value	\$ 58,446	
Land (Hillandale - Lot #231)	5,820	
Land (Meckleys-Somerset Heights)	<u>40,748</u>	
Total Fixed Assets - Net Book Value		105,014

Other Assets:

Edward Jones-Collateralized Mortgage Obligation (Market Value \$20,240-Matures 2034)		<u>25,063</u>
Total Assets		<u><u>\$ 325,043</u></u>

LIABILITIES, RESERVE AND MEMBERS' EQUITY

Liabilities		\$ 0
Reserve for Maintenance Assessments Receivable		44,003
Members' Equity		<u>281,040</u>
Total Liabilities, Reserve and Members' Equity		<u><u>\$ 325,043</u></u>

See accompanying notes and accountants' report.

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION
 STATEMENT OF REVENUE AND EXPENSES - CASH BASIS
 FOR THE YEAR ENDED AUGUST 31, 2008

REVENUE

Assessments	\$ 129,779
Boat Stickers	16,765
Interest - Assessments	379
Interest - Bank Accounts	4,203
Interest - Money Market Account & Bond	1,505
Other - Pig Roast and Gate Keys	1,615
Construction Review	<u>1,275</u>
Total Revenue	<u><u>\$155,521</u></u>

EXPENSES

Treasurer

Audit Fees	\$ 2,600
Postage	710
Printing and Supplies	1,549
Accounting and Office Labor	4,598
Telephone and Internet	714
Taxes - Property	3,753
Legal and Recording Fees	1,324
Insurance	5,957
Annual Meeting	84
IRS - Taxes	1,850
Office Rent	3,350
Miscellaneous - Contingency and Collections	<u>1,312</u>

Total Treasurer \$ 27,801

Water Quality

Harvester/Truck Fuel/Parts	\$ 1,561
Harvester Maintenance Labor	7,438
Truck Maintenance	283
Dredging & Erosion	0
Harvester Operation Labor	4,792
Miscellaneous	886
Herbicide	22,848
Lake Study	<u>2,911</u>

Total Water Quality \$ 40,719

See accompanying notes and accountants' report.

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION
STATEMENT OF REVENUE AND EXPENSES - CASH BASIS
FOR THE YEAR ENDED AUGUST 31, 2008

(CONTINUED)

<u>Parks</u>	
Dock Repair	\$ 540
Playground Equipment Maintenance	0
Fence Repair	0
Port-a-Johns	1,658
Trash Pickup	438
Consumers Power	1,448
Mowing	4,958
Picnic Table Repair	0
Signs & Buoys	501
Miscellaneous	817
Trees & Maintenance of Beaches	<u>1,718</u>
Total Parks and Security	<u>\$ 12,078</u>
<u>Security</u>	
Guard Labor, Keys and Other	<u>\$ 7,990</u>
<u>Gazette</u>	
Postage & Printing	<u>\$ 1,549</u>
<u>Fish Planting</u>	<u>\$ 2,500</u>
<u>Community Council</u>	<u>\$ 791</u>
<u>Fireworks Display</u>	<u>\$ 400</u>
<u>Depreciation</u>	<u>\$ 4,044</u>
Total Expenses	<u><u>\$ 97,872</u></u>

See accompanying notes and accountants' report.

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION
ANALYSIS OF CHANGES IN MEMBERS' EQUITY - CASH BASIS
FOR THE YEAR ENDED AUGUST 31, 2008

Members' Equity - September 1, 2007		\$ 223,391
Add: Excess of Revenue over Expenses		
Revenue	\$ 155,521	
Expenses	<u>(97,872)</u>	<u>57,649</u>
Members' Equity - August 31, 2008		<u><u>\$ 281,040</u></u>

See accompanying notes and accountants' report.

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2008

Description of Reporting Entity

The Lake Somerset Property Owners Association is a Michigan non-stock corporation. Generally speaking, any person or entity who has an equitable interest in any lot and is subject to the restrictive covenants or assessments by the Association is a member. The operations are governed by a nine member Board of Directors with a president at its head. The appointed committees include: Building Control; Water Quality; Parks; Security and Roads; and Public Affairs, Rules and Bylaws.

Federal and State Taxes

The Association is classified as a "Homeowners Association" subject to corporate federal income taxes which accompany that type of entity status. The total income tax liability for the current year is \$1,708.

Accounting Policy

The accounting policy of the Association includes the maintenance of records on the cash basis of accounting. Under this basis, revenue and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. The finances are controlled by a budget which is approved by members attending the Annual Meeting, usually in October of each year. The depositories include a non-interest bearing checking account, an interest bearing savings account, certificate of deposit account, a multitrust account, and a brokerage account with Edward Jones. The balance sheet has been capitalized for unpaid maintenance assessments at August 31, 2008, of \$44,003 with an equal amount being shown as "Reserve for Maintenance Assessments Receivable."

Maintenance Assessments Receivable

The maintenance assessment is currently \$115 per lot, billed in March of each year. There are approximately 1,150 billable units (lots). No provision has been made for estimated uncollectible maintenance assessments.

Equipment and Accumulated Depreciation

The costs of depreciable tangible equipment, the storage building, fencing, park improvements, and the pavilion are shown on the balance sheet in the assets section. The equipment includes weed harvesting, park and office equipment. The weed harvesting equipment is being depreciated over 10 years. The park fencing, improvements, and equipment are being depreciated over a 10-20 year lives at straight line rates, and the office and other equipment utilizes accelerated depreciation rates with a 5-year life. The storage building has a 31.5-year life at an accelerated depreciation rate, with a 20 year life straight line method used for the pavilions and a 39 year life for the storage building improvement.

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2008

Members' Equity

The Members' Equity of \$281,040 at year-end was an increase of \$57,649 from the prior year-end balance of \$223,391.

Related Parties

The members of the Board serve as volunteers by virtue of the annual election at each October meeting. The Treasurer position is the only paid officer with the fees appearing as part of "Accounting and Office Labor" in the Treasurer's section of the revenue and expense statement.