

# Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

479 E. CHICAGO STREET  
P.O. BOX 215  
JONESVILLE, MI 49250

PHONE: (517) 849-2410  
FAX: (517) 849-2493  
E-MAIL: BAILEYHODSHIRE@SBCGLOBAL.NET

## 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, 2009, 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 21, 2009

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION  
STATEMENT OF ASSETS, LIABILITIES, RESERVE AND  
MEMBERS' EQUITY - CASH BASIS  
AUGUST 31, 2009

ASSETS

Current Assets:

Cash in Checking Account	\$ 61,446	
Cash in Savings Account	8,514	
Cash in Edward Jones Money Market Account	1,010	
Cash in Credit Union Accounts	111,331	
Maintenance Assessments Receivable	<u>46,241</u>	
Total Current Assets		\$ 228,542

Fixed Assets:

Buildings and Improvements	\$ 51,034	
Equipment and Signs	<u>170,627</u>	
	\$ 221,661	
Less: Accumulated Depreciation	<u>(159,799)</u>	
Net Book Value	\$ 61,862	
Land (Hillandale - Lot #231)	5,820	
Land (Meckleys-Somerset Heights)	<u>40,748</u>	
Total Fixed Assets - Net Book Value		108,430

Other Assets:

Edward Jones-Collateralized Mortgage Obligation (Market Value \$21,942-Matures 2034)		<u>25,063</u>
Total Assets		<u>\$ 362,035</u>

LIABILITIES, RESERVE AND MEMBERS' EQUITY

Liabilities		\$ 0
Reserve for Maintenance Assessments Receivable		46,241
Members' Equity		<u>315,794</u>
Total Liabilities, Reserve and Members' Equity		<u>\$ 362,035</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, 2009

REVENUE

Assessments	\$ 131,879
Boat Stickers	17,485
Interest - Assessments	1,811
Interest - Bank Accounts	5,442
Other - Gate Keys	1,693
Construction Review	<u>950</u>
Total Revenue	<u>\$ 159,260</u>

EXPENSES

Treasurer

Compilation Report Fee	\$ 1,800
Postage	1,067
Printing and Supplies	2,025
Accounting and Office Labor	6,668
Telephone and Internet	1,114
Taxes - Property	3,731
Legal and Recording Fees	2,630
Insurance	6,366
Annual Meeting	84
IRS - Taxes	1,706
Office Rent	3,300
Miscellaneous - Contingency, Collections and Mileage	<u>1,381</u>
Total Treasurer	<u>\$ 31,872</u>

Water Quality

Harvester Maintenance	\$ 4,631
Harvester Labor	6,247
Truck Maintenance	1,277
Dredging & Erosion	10,759
Fuel	1,263
Miscellaneous	1,233
Herbicide	23,587
Lake Study	<u>4,887</u>
Total Water Quality	<u>\$ 53,884</u>

Secretary

Gazette Printing and Mailing	\$ 964
Web Maintenance	<u>360</u>
Total Secretary	<u>\$ 1,324</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, 2009

(CONTINUED)

<u>Parks</u>	
Dock Repair	\$ 540
Playground Equipment Maintenance	950
Fence Repair	1,806
Port-a-Johns	2,040
Trash Pickup	546
Consumers Power	1,246
Mowing	4,900
Picnic Table Repair	600
Signs & Buoys	707
Miscellaneous	2,635
Trees & Maintenance of Beaches	<u>945</u>
Total Parks	\$ <u>16,915</u>
<u>Security</u>	
Guard Labor	\$ 5,684
Keys and Other	<u>1,493</u>
Total Security	\$ <u>7,177</u>
<u>Fish Planting</u>	\$ <u>7,219</u>
<u>Community Council</u>	\$ <u>738</u>
<u>Fireworks Display</u>	\$ <u>400</u>
<u>Depreciation</u>	\$ <u>4,973</u>
Total Expenses	\$ <u>124,502</u>
Excess of Revenue over (Under) Expenses	\$ <u>34,758</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, 2009

Members' Equity - September 1, 2008		\$ 281,036
Add: Excess of Revenue over Expenses		
Revenue	\$ 159,260	
Expenses	<u>(124,502)</u>	<u>34,758</u>
Members' Equity - August 31, 2009		<u>\$ 315,794</u>

See accompanying notes and accountants' report.

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2009

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 \$2,025.

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, 2009, of \$46,241 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, 2009

Members' Equity

The Members' Equity of \$315,794 at year-end was an increase of \$34,758 from the prior year-end balance of \$281,036.

Related Parties

The members of the Board serve as volunteers by virtue of the annual election at each October meeting.