

# Bailey, Modshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Lake Somerset Property Owners Association  
Somerset, MI 49281

We have audited the accompanying Statement of Assets, Liabilities, Reserve and Members' Equity - Cash Basis of the Lake Somerset Property Owners Association as of August 31, 2006 and the related Statement of Revenue and Expenses - Cash Basis and Changes in Members' Equity - Cash Basis for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the Accounting Policy Note, these financial statements were prepared on the basis of cash receipts and disbursements except that the statements include a provision for depreciation of buildings and equipment. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and members' equity of the Lake Somerset Property Owners Association as of August 31, 2006, and its revenue, expenses and changes in members' equity for the year then ended, on the basis of accounting as described in the Accounting Policy Note.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The budget information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Jonesville, Michigan  
October 15, 2006

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION  
STATEMENT OF ASSETS, LIABILITIES, RESERVE AND  
MEMBERS' EQUITY - CASH BASIS  
AUGUST 31, 2006

ASSETS

Current Assets:		
Cash in Checking Account	\$ 4,458	
Cash in Savings Account	4,259	
Cash in Edward Jones Money Market Account	3,388	
Cash in Credit Union Accounts	28,807	
Cash in Multitrust Account	40,269	
Maintenance Assessments Receivable	<u>29,338</u>	
Total Current Assets		\$ 110,519
Fixed Assets:		
Buildings and Improvements	\$ 44,549	
Equipment and Signs	<u>136,692</u>	
	\$ 181,241	
Less: Accumulated Depreciation	<u>(143,544)</u>	
Net Book Value	\$ 37,697	
Land (Hillandale - Lot #231)	5,820	
Land (Meckleys-Somerset Heights)	<u>40,748</u>	
Total Fixed Assets - Net Book Value		84,265
Other Assets:		
Edward Jones-Collateralized Mortgage Obligation (Market Value \$22,793-Matures 2034)		<u>25,063</u>
Total Assets		<u><u>\$ 219,847</u></u>

LIABILITIES, RESERVE AND MEMBERS' EQUITY

Liabilities:		
Bank Loan Payable		\$ 23,816
Reserve for Maintenance Assessments Receivable		29,338
Members' Equity		<u>166,693</u>
Total Liabilities, Reserve and Members' Equity		<u><u>\$ 219,847</u></u>

The accompanying notes are an integral part of this statement.

**LAKE SOMERSET PROPERTY OWNERS ASSOCIATION**  
**BUDGET STATEMENT OF REVENUE AND EXPENSES - CASH BASIS**  
**FOR THE YEAR ENDED AUGUST 31, 2006**

	Budget (Unaudited)	Actual	Over (Under) Budget
<b>REVENUE</b>			
Assessments	\$ 132,315	\$ 126,993	\$ (5,322)
Boat Stickers	18,000	17,435	(565)
Interest - Assessments	500	823	323
Interest - Bank Accounts	1,000	1,398	398
Interest - Money Market Account & Bond	0	1,247	1,247
Other - Insurance and Gate Keys	1,000	1,718	718
Boat Numbers	30	35	5
Construction Review	<u>0</u>	<u>1,425</u>	<u>1,425</u>
Total Revenue	<u>\$ 152,845</u>	<u>\$ 151,074</u>	<u>\$ (1,771)</u>
<b>EXPENSES</b>			
<u>Treasurer</u>			
Audit Fees	\$ 2,400	\$ 2,500	\$ 100
Postage	1,400	927	(473)
Printing, Maintenance, and Computer	4,000	1,961	(2,039)
Accounting	5,000	4,596	(404)
Telephone	20	345	325
Taxes - Property	2,500	3,079	579
Legal and Recording Fees	5,000	1,586	(3,414)
Insurance	6,000	7,892	1,892
Bank Charges	200	0	(200)
Annual Meeting	75	82	7
IRS - Taxes	1,000	0	(1,000)
Office Rent	8,400	1,750	(6,650)
Miscellaneous	<u>400</u>	<u>1,846</u>	<u>1,446</u>
Total Treasurer	<u>\$ 36,395</u>	<u>\$ 26,564</u>	<u>\$ (9,831)</u>
<u>Water Quality</u>			
Harvester/Truck Fuel	\$ 600	\$ 965	\$ 365
Harvester Maintenance	5,000	3,845	(1,155)
Truck Maintenance	1,500	1,365	(135)
Dredging & Erosion	14,000	0	(14,000)
Harvester Labor	4,000	3,163	(837)
Miscellaneous	2,200	609	(1,591)
Herbicide	39,000	34,494	(4,506)
Lake Study	<u>12,000</u>	<u>2,809</u>	<u>(9,191)</u>
Total Water Quality	<u>\$ 78,300</u>	<u>\$ 47,250</u>	<u>\$ (31,050)</u>

The accompanying notes are an integral part of this statement.

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION  
 BUDGET STATEMENT OF REVENUE AND EXPENSES - CASH BASIS  
 (CONTINUED)  
 FOR THE YEAR ENDED AUGUST 31, 2006

	Budget (Unaudited)	Actual	Over (Under) Budget
<u>Parks</u>			
Dock Repair	\$ 1,400	\$ 667	\$ (733)
Playground Equipment	600	197	(403)
Fence Repair	2,000	12	(1,988)
Port-a-Johns	1,500	1,388	(112)
Trash Pickup	1,000	398	(602)
Consumers Power	1,300	1,171	(129)
Mowing	5,500	4,900	(600)
Picnic Table Repair	850	746	(104)
Signs & Buoys	1,500	423	(1,077)
Water Pump and Repair to Parks	1,000	1,153	153
Keys & Miscellaneous	2,500	1,317	(1,183)
Trees & Maintenance of Beaches	<u>2,400</u>	<u>1,745</u>	<u>(655)</u>
Total Parks and Security	<u>\$ 21,550</u>	<u>\$ 14,117</u>	<u>\$ (7,433)</u>
 <u>Security</u>			
Guards	<u>\$ 5,100</u>	<u>\$ 5,353</u>	<u>\$ 253</u>
 <u>Gazette</u>			
Postage & Printing	<u>\$ 2,500</u>	<u>\$ 1,468</u>	<u>\$ (1,032)</u>
 <u>Fish Planting</u>	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 0</u>
 <u>Community Council</u>	<u>\$ 1,000</u>	<u>\$ 760</u>	<u>\$ (240)</u>
 <u>Fireworks Display</u>	<u>\$ 400</u>	<u>\$ 400</u>	<u>\$ 0</u>
 <u>Interest</u>	<u>\$ 0</u>	<u>\$ 747</u>	<u>\$ 747</u>
 <u>Capital Equipment Depreciation</u>	<u>\$ 5,000</u>	<u>\$ 10,154</u>	<u>\$ 5,154</u>
 Total Expenses	<u><u>\$ 155,245</u></u>	<u><u>\$ 111,813</u></u>	<u><u>\$ (43,432)</u></u>

The accompanying notes are an integral part of this statement.

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION  
ANALYSIS OF CHANGES IN MEMBERS' EQUITY - CASH BASIS  
FOR THE YEAR ENDED AUGUST 31, 2006

Members' Equity - September 1, 2005		\$ 127,432
Add: Excess of Revenue over Expenses		
Revenue	\$ 151,074	
Expenses	<u>111,813</u>	<u>39,261</u>
Members' Equity - August 31, 2006		<u><u>\$ 166,693</u></u>

The accompanying notes are an integral part of this statement.

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2006

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 \$960.

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, a multitrust account, and a brokerage account with Edward Jones. The balance sheet has been capitalized for unpaid maintenance assessments at August 31, 2006 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-year life 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 15 year life straight line method used for the pavilion and a 39 year life for the storage building improvement.

LAKE SOMERSET PROPERTY OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2006

Members' Equity

The Members' Equity of \$166,693 at year-end was an increase of \$39,261 from the prior year-end balance of \$127,432.

Related Parties

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

Long-Term Debt

During the year, \$32,000 was borrowed from County National Bank to purchase certain lots in the inlet area. The loan is payable at 7.5% with monthly payments of \$257.78. A balloon payment for the balance will be due in April, 2009. The balance due at August 31, 2006, was \$23,816. The land (lot) cost has been capitalized in the "Fixed Assets" section of the Statement of Assets, Liabilities, Reserve, and Members' Equity.