# LAKE SANTEE PROPERTY OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

FEBRUARY 28, 2017 AND FEBRUARY 29, 2016



# LAKE SANTEE PROPERTY OWNERS ASSOCIATION, INC.

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# ACCOUNTANT'S COMPILATION REPORT

Board of Directors
Lake Santee Property Owners Association, Inc.
Greensburg, Indiana

Management is responsible for the accompanying financial statements of Lake Santee Property Owners Association, Inc., which comprise the balance sheets as of February 28, 2017 and February 29, 2016, and the related statements of revenues, expenses and changes in fund balances and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Alerding CPA Group

July 27, 2017

# LAKE SANTEE PROPERTY OWNERS ASSOCIATION, INC.

BALANCE SHEETS
FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

**ASSETS**

| | February 28, 2017 | | | February 29, 2016 |
|---|---|---|---|---|
| | Operating Fund | Replacement Fund | Total | |
| **Current Assets:** | | | | |
| Cash and cash equivalents | $ 327,888 | $ -0- | $ 327,888 | $ 296,089 |
| Investments | 39,551 | 247,891 | 287,442 | 288,323 |
| Dues and assessment receivables | 46,116 | -0- | 46,116 | 40,475 |
| Lots and lot deposits | 3,163 | -0- | 3,163 | 2,522 |
| Total current assets | 416,718 | 247,891 | 664,609 | 627,409 |
| **Property and Equipment:** | | | | |
| Land and land improvements | 696,007 | -0- | 696,007 | 696,007 |
| Bridges | 203,557 | -0- | 203,557 | 203,557 |
| Buildings and tennis courts | 401,804 | -0- | 401,804 | 398,273 |
| Maintenance and restaurant equipment | 636,852 | -0- | 636,852 | 629,201 |
| Office equipment | 20,194 | -0- | 20,194 | 20,194 |
| | 1,958,414 | -0- | 1,958,414 | 1,947,232 |
| Accumulated depreciation | (811,406) | -0- | (811,406) | (762,450) |
| Property and equipment, net | 1,147,008 | -0- | 1,147,008 | 1,184,782 |
| **Deferred Tax Asset** | 44,105 | -0- | 44,105 | 49,589 |
| | $ 1,607,831 | $ 247,891 | $ 1,855,722 | $ 1,861,780 |

**LIABILITIES AND FUND BALANCES**

| | | | | |
|---|---|---|---|---|
| **Liabilities:** | | | | |
| Accounts payable | $ 3,945 | $ -0- | $ 3,945 | $ 8,198 |
| Payroll liabilities | 13,192 | -0- | 13,192 | 10,811 |
| Accrued property tax | 3,316 | -0- | 3,316 | 1,074 |
| Damage deposit | 2,000 | -0- | 2,000 | 2,000 |
| Dues and assessments received in advance | 111,935 | -0- | 111,935 | 104,031 |
| Deferred tax liability | 4,648 | -0- | 4,648 | 31 |
| Total liabilities | 139,036 | -0- | 139,036 | 126,145 |
| **Fund Balances:** | | | | |
| Operating fund | 1,468,795 | -0- | 1,468,795 | 1,495,819 |
| Replacement reserve funds: | | | | |
| Equipment replacement reserve | -0- | 79,092 | 79,092 | 51,902 |
| Erosion control reserve | -0- | 13,176 | 13,176 | 12,672 |
| Road paving reserve | -0- | 30,000 | 30,000 | 30,000 |
| Dam repairs reserve | -0- | -0- | -0- | 53,649 |
| Dredging reserve | -0- | 125,623 | 125,623 | 91,593 |
| Total fund balances | 1,468,795 | 247,891 | 1,716,686 | 1,735,635 |
| | $ 1,607,831 | $ 247,891 | $ 1,855,722 | $ 1,861,780 |

See Accountant's Compilation Report.
See accompanying Notes to Financial Statements.

# LAKE SANTEE PROPERTY OWNERS ASSOCIATION, INC.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEARS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

| | 2017 | 2016 |
|---|---|---|
| **Revenues:** | | |
| Dues and assessments | $ 555,188 | $ 547,370 |
| Management and facilities fees | 180,022 | 169,876 |
| Boat permits | 41,325 | 37,095 |
| Mowing | 16,930 | 20,563 |
| Rental income | 4,667 | 5,500 |
| Trash bag sales | 15,915 | 15,727 |
| Delinquent fees | 7,744 | 15,987 |
| Cart fees | 5,450 | 5,060 |
| Slip fees | 17,000 | 12,750 |
| Interest and dividend income | 8,307 | 8,170 |
| Gain on sale of lots and assets | 12,565 | 5,177 |
| Unrealized gain (loss) on investments | 20,915 | (25,107) |
| Property tax appeal | -0- | 19,668 |
| Other | 20,434 | 25,442 |
| Total revenues | 906,462 | 863,278 |
| **Operating Expenses:** | | |
| Maintenance | 272,545 | 260,803 |
| Administrative | 288,882 | 287,675 |
| Security | 64,544 | 66,851 |
| Recreation | 10,349 | 24,278 |
| Lake and beach | 112,495 | 44,697 |
| Community building | 16,955 | 20,911 |
| Trash | 22,705 | 16,095 |
| Sewer | 64,425 | 61,946 |
| Water | 62,410 | 61,675 |
| Total operating expenses | 915,310 | 844,931 |
| Excess (deficiency) of revenues over (under) expenses before income taxes | (8,848) | 18,347 |
| **Income Tax Expense** | (10,101) | (2,927) |
| Excess (deficiency) of revenues over (under) expenses | (18,949) | 15,420 |
| **Fund Balances, Beginning of Year** | 1,735,635 | 1,720,215 |
| **Fund Balances, End of Year** | $ 1,716,686 | $ 1,735,635 |

See Accountant's Compilation Report.
See accompanying Notes to Financial Statements.

# LAKE SANTEE PROPERTY OWNERS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

| | 2017 | 2016 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Excess (deficiency) of revenues over (under) expenses | $ (18,949) | $ 15,420 |
| Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities: | | |
| Depreciation | 54,274 | 55,296 |
| Loss on disposal of assets | 3,671 | -0- |
| Unrealized (gain) loss on investments | (20,915) | 25,107 |
| Deferred income taxes | 10,101 | 2,927 |
| Changes in assets and liabilities: | | |
| Dues and assessment receivables | (5,641) | 4,104 |
| Lots and lot deposits | (641) | 1,669 |
| Accounts payable | (4,253) | 60 |
| Dues and assessments received in advance | 7,904 | 19,871 |
| Other liabilities | 4,623 | (1,932) |
| Net cash provided by operating activities | 30,174 | 122,522 |
| **Cash Flows From Investing Activities:** | | |
| Acquisition of property and equipment | (20,171) | (18,506) |
| Purchases of investments | (184,861) | (62,061) |
| Proceeds received from sale of investments | 206,657 | 54,000 |
| Net cash provided by (used in) investing activities | 1,625 | (26,567) |
| Net increase | 31,799 | 95,955 |
| **Cash and Cash Equivalents, Beginning of Year** | 296,089 | 200,134 |
| **Cash and Cash Equivalents, End of Year** | $ 327,888 | $ 296,089 |

See Accountant's Compilation Report.
See accompanying Notes to Financial Statements.

# LAKE SANTEE PROPERTY OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2017 AND FEBRUARY 29, 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Santee Property Owners Association, Inc., (the "Association"), located in Greensburg, Indiana was formed to own, manage, maintain, reserve, repair, and reconstruct the Community Area and Common Facilities and to provide architectural control of the Lots at Lake Santee. Its members are property owners of the Lake Santee Subdivision, a private residential community located on 1,256 acres in Decatur County, Indiana. The subdivision is comprised of 1,680 lots platted around a 250-acre lake. In addition, the Association is formed for the promotion of the health, safety, and welfare of the owners of Lots at Lake Santee, their tenants, and for other nonprofit purposes.

The significant accounting policies followed by the Association in the preparation of its financial statements are summarized below.

### Fund Accounting

The Association has an Operating Fund and a Replacement Fund. Member assessments for operating purposes are set annually by the Board of Directors as part of the budget preparation process. Special assessments, if required for expensive projects, are required to be approved by a simple majority vote of the members.

The Operating Fund is an unrestricted fund to account for administrative and operating costs as well as general maintenance of common areas of the community.

The Replacement Fund is a Board designated fund for major repairs or capital improvements to the community. Expenditures from the Replacement Fund must be initiated and approved by the Board of Directors.

### Cash and Cash Equivalents

Cash and Cash Equivalents include general checking and money market funds (Note 2).

### Investments

The Association values investments at fair value for financial reporting purposes. Realized gains and losses are determined on a first-in, first-out ("FIFO") basis.

### Dues and Assessment Receivables

Dues and assessment receivables are reported at the amount invoiced, and primarily include unpaid dues and assessments. At 30 days past due, the property owner is assessed a 10% penalty, and beginning 60 days past due, interest at 1½% is charged monthly for the next twelve months. At the discretion of management, the Association may place a lien on the assessed property for unpaid dues and assessments, or may pursue collections by use of legal services. Management periodically reviews unpaid dues and assessment receivables, and those determined to be uncollectible are written off to bad debt expense. Bad debt expense was $6,635 and $19,512 for the years ended February 28, 2017 and February 29, 2016, respectively, and is included in administrative expenses.

Revenue Recognition

Membership dues are invoiced in advance of the year to which they relate and are non-refundable. Accordingly, membership dues revenues are recognized March 1st of each fiscal year. Management and facilities fees are received and recognized on a monthly basis. Other revenues are recognized in the period of which the service or fee relates.

Property, Equipment and Depreciation

Property and equipment are recorded at cost. Major repairs to property and equipment are capitalized while minor repairs are expensed as incurred. The Association provides for depreciation of property and equipment for financial reporting purposes using the straight-line method at rates designed to depreciate the cost of such assets over their estimated useful lives. The ranges of estimated useful lives are as follows:

| Description | Ranges of useful lives |
|---|---|
| Bridges | 50 years |
| Buildings and tennis courts | 15 - 40 years |
| Maintenance and restaurant equipment | 5 - 39 years |
| Office equipment | 3 - 10 years |

Depreciation expense was $54,274 and $55,296 for the years ended February 28, 2017 and February 29, 2016, respectively, and is included in administrative expense.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates. Accounts requiring the use of significant estimates include the collectability of dues and assessment receivables and deferred tax assets and liabilities, and depreciable lives of property and equipment.

Income Taxes

Homeowners' associations may be taxed as homeowners' associations or as a Corporation. If the Association elects to be taxed as a homeowners' association, they acquire a tax-exempt status for the years. For the years ended February 28, 2017 and February 29, 2016, the Association elected to be taxed as a Corporation (Note 3).

Management of the Association evaluates all significant income tax positions as required by U.S. GAAP. As of February 28, 2017, management does not believe the Association has taken any income tax positions that would require the recording of an income tax liability, nor do they believe that there are any unrealized income tax benefits that would be realized within the next twelve months. The Association's Federal and various state income tax returns remain open and subject to examination beginning with the tax year ended February 28, 2014.

Subsequent Events

Subsequent events have been evaluated through July 27, 2017 which is the date the financial statements were available for issuance.

## 2. INVESTMENTS

Investments at February 28, 2017 and February 29, 2016 are classified as available for sale, and include the following:

February 28, 2017

| | Cost | Market | Unrealized Gain (Loss) |
|---|---|---|---|
| Cash and cash equivalents | $ 354,198 | $ 354,198 | $ -0- |
| Certificates of deposit | 111,000 | 110,915 | (85) |
| Mutual funds | 103,052 | 150,217 | 47,165 |
| Total investments | $ 568,250 | $ 615,330 | $ 47,080 |

February 29, 2016

| | Cost | Market | Unrealized Gain (Loss) |
|---|---|---|---|
| Cash and cash equivalents | $ 371,616 | $ 371,616 | $ -0- |
| Certificates of deposit | 91,000 | 91,032 | 32 |
| Mutual funds | 95,631 | 121,764 | 26,133 |
| Total investments | $ 558,247 | $ 584,412 | $ 26,165 |

The market value of the Association's investments are measured by a Level I input in accordance with Financial Accounting Standards Board Accounting Standards Codification 820 ("ASC 820"), defined as quoted prices in active markets for identical investments that can be accessed as of the measurement date. All liquid investments with original maturity dates of three months or less are classified as cash equivalents. The investments may be liquidated for use in general operations at the discretion of management. However, the Association does not actively trade the investments.

## 3. INCOME TAXES

Income tax expense includes the following:

| | 2017 | 2016 |
|---|---|---|
| **Federal:** | | |
| Current | $ -0- | $ -0- |
| Deferred | (3,863) | (1,120) |
| | (3,863) | (1,120) |
| **State:** | | |
| Current | -0- | -0- |
| Deferred | (6,238) | (1,807) |
| | (6,238) | (1,807) |
| **Income Tax Expense** | $ (10,101) | $ (2,927) |

The difference between the actual income taxes and the amount obtained by applying the Federal statutory rate to the income before income taxes relates primarily to the effect of non-taxable unrealized gains and losses on investments and the deduction for Federal tax purposes of state income taxes. At February 28, 2017, the Association has approximately $221,000 of net operating loss carry forwards available to offset future Federal taxable income which begin to expire in the fiscal year ending February 28, 2028.

The components of the deferred income tax asset (liability) include the following:

| | 2017 | 2016 |
|---|---|---|
| **Current Deferred Tax Liability** | | |
| **For Taxable Temporary Differences:** | | |
| Investments | $ (4,648) | $ (31) |
| **Long-Term Deferred Tax Asset (Liability)** | | |
| **For Taxable Temporary Differences:** | | |
| Book depreciation in excess of tax depreciation | (5,159) | (4,470) |
| Net operating losses | 49,264 | 54,059 |
| | 44,105 | 49,589 |
| | $ 39,457 | $ 49,558 |

## 4. MANAGEMENT AND FACILITIES FEES

Under the terms of a Management and Facilities Agreement, the Association provides operational and administrative services, office space, supplies and equipment to Lake Santee Regional Waste & Water District (the "District") requiring monthly payments to the Association aggregating $15,002 and $14,156 for the years ending February 28, 2017 and February 29, 2016. The agreement is subject to renewal annually, and has been renewed for fiscal year 2017, and may be terminated by either party with 90 days notice. The District paid $180,022 and $169,876 to the Association during the years ended February 28, 2017 and February 29, 2016, respectively.

## 5. CONCENTRATION OF CREDIT RISK

Cash and Cash Equivalents:

The Association maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed the Federally insured limit. The Association has not experienced any losses in such accounts, and management does not believe the Association is exposed to any significant credit risk on cash and cash equivalents.

Revenue:

For the years ended February 28, 2017 and February 29, 2016, 20% of total revenues were from the District under the annual Management and Facilities Agreement (Note 4).