

LAKESIDE ASSOCIATION AND AFFILIATES
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2011 AND 2010

LAKESIDE ASSOCIATION AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

June 24, 2011

The Board of Directors
The Lakeside Association and Affiliates
Lakeside, Ohio

We have audited the consolidated statement of financial position of Lakeside Association and Affiliates as of March 31, 2011, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Lakeside Association and Affiliates as of March 31, 2010, were audited by other auditors whose opinion dated July 6, 2010, expressed an unqualified opinion on the consolidated financial statements. As discussed in Note A, the organization has restated its March 31, 2010 consolidated financial statements during the current year to reclassify its board designated endowment activity from temporarily restricted to unrestricted, in conformity with accounting principles generally accepted in the United States of America. The other auditors reported on the March 31, 2010 consolidated financial statements before the restatement.

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.

In our opinion, the March 31, 2011 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lakeside Association and Affiliates as of March 31, 2011, and the results of its operation, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note L that were applied to restate the March 31, 2010 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Lakeside Association and Affiliates' March 31, 2010 consolidated financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the March 31, 2010 consolidated financial statements as a whole.

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THE LAKESIDE ASSOCIATION AND AFFILIATES

Consolidated Statements of Financial Position

	March 31,	
	2011	2010 (as restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,251,042	\$ 1,068,062
Accounts receivable	273,458	288,636
Supplies inventory	18,468	25,785
Prepaid taxes	5,701	8,246
Prepaid expenses	230,719	138,311
TOTAL CURRENT ASSETS	1,779,388	1,529,040
Property and Equipment		
Land and land improvements	5,235,210	4,955,639
Buildings and fixed equipment	10,662,967	10,363,028
Equipment	2,918,937	2,795,210
Intangible asset - computer software	-0-	110,135
Work in progress	140,314	177,938
	<u>18,957,428</u>	<u>18,401,950</u>
Less accumulated depreciation	<u>12,034,056</u>	<u>11,547,374</u>
	6,923,372	6,854,576
Other Assets		
Fiduciary investments	400,165	563,909
Endowment investments	2,841,563	2,464,247
Beneficial interest in remainder trusts	487,187	472,911
Deferred taxes	-0-	5,672
Cash surrender value - life insurance	25,078	24,119
Goodwill	90,000	90,000
	<u>3,843,993</u>	<u>3,620,858</u>
TOTAL ASSETS	<u>\$ 12,546,753</u>	<u>\$ 12,004,474</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 169,483	\$ 164,648
Accrued salaries and wages	118,058	117,404
Deferred revenue	502,948	486,816
Real estate escrow held	5,000	1,000
Current portion of long-term debt	19,066	19,254
TOTAL CURRENT LIABILITIES	814,555	789,122
Long-Term Liabilities		
Notes payable, less current portion	544,735	561,971
Obligations under annuity agreements	169,914	179,929
	<u>714,649</u>	<u>741,900</u>
Net Assets		
Unrestricted	7,695,319	7,400,168
Temporarily restricted	1,806,104	1,681,573
Permanently restricted	1,516,126	1,391,711
TOTAL NET ASSETS	<u>11,017,549</u>	<u>10,473,452</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,546,753</u>	<u>\$ 12,004,474</u>

See Notes to Consolidated Financial Statements

THE LAKESIDE ASSOCIATION AND AFFILIATES

Consolidated Statements of Activities and Changes in Net Assets

	Year Ended March 31, 2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND OTHER SUPPORT				
Program revenue	\$ 6,345,521			\$ 6,345,521
Contributions and bequests	424,316	\$ 219,976	\$ 124,415	768,707
Investment income:				
Interest and dividends, net	14,872	62,060		76,932
Realized and unrealized gain	50,801	188,341		239,142
Change in annuity agreements, net		(21,973)		(21,973)
Loss of sale of property and equipment	(5,128)			(5,128)
Endowment appropriation	71,237	(71,237)		-0-
Total revenue and other support	6,901,619	377,167	124,415	7,403,201
Net assets released from restrictions	252,636	(252,636)		-0-
	<u>7,154,255</u>	<u>124,531</u>	<u>124,415</u>	<u>7,403,201</u>
EXPENSES				
Program expenses	5,780,472			5,780,472
General and administrative expenses	892,339			892,339
Fundraising expenses	186,293			186,293
Total expenses	6,859,104	-0-	-0-	6,859,104
Changes in net assets	295,151	124,531	124,415	544,097
Net assets, beginning of year as restated	7,400,168	1,681,573	1,391,711	10,473,452
NET ASSETS, end of year	<u>\$ 7,695,319</u>	<u>\$ 1,806,104</u>	<u>\$ 1,516,126</u>	<u>\$11,017,549</u>

See Notes to Consolidated Financial Statements

	Year Ended March 31, 2010 (as restated)			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND OTHER SUPPORT				
Program revenue	\$ 6,357,110			\$ 6,357,110
Contributions and bequests	367,112	\$ 338,185	\$ 12,230	717,527
Investment income:				
Interest and dividends, net	41,895	23,876	1	65,772
Realized and unrealized gain	301,958	306,553		608,511
Change in annuity agreements, net		37,574		37,574
Loss of sale of property and equipment				-0-
Endowment appropriation	48,222	(48,222)		-0-
Total revenue and other support	7,116,297	657,966	12,231	7,786,494
Net assets released from restrictions	270,326	(270,326)		-0-
	<u>7,386,623</u>	<u>387,640</u>	<u>12,231</u>	<u>7,786,494</u>
EXPENSES				
Program expenses	5,866,806			5,866,806
General and administrative expenses	918,613			918,613
Fundraising expenses	186,948			186,948
Total expenses	6,972,367	-0-	-0-	6,972,367
Changes in net assets	414,256	387,640	12,231	814,127
Net assets, beginning of year as previously reported	6,734,601	1,545,244	1,379,480	9,659,325
Prior period adjustment	251,311	(251,311)		-0-
Net assets, beginning of year as restated	<u>6,985,912</u>	<u>1,293,933</u>	<u>1,379,480</u>	<u>9,659,325</u>
NET ASSETS, end of year as restated	<u>\$ 7,400,168</u>	<u>\$ 1,681,573</u>	<u>\$ 1,391,711</u>	<u>\$ 10,473,452</u>

See Notes to Consolidated Financial Statements

THE LAKESIDE ASSOCIATION AND AFFILIATES

Consolidated Statements of Functional Expenses

	Year Ended March 31, 2011			Total
	Program	General and Administrative	Fund-Raising	
Salaries and wages	\$ 1,342,086	\$ 397,959	\$ 97,726	\$ 1,837,771
Payroll taxes	127,118	13,483	7,392	147,993
Employee benefits	84,529	52,982	4,485	141,996
Pension expense	45,390	25,466	6,232	77,088
Program contracts	688,021	3,952		691,973
Supplies	202,976	18,369	2,771	224,116
Depreciation	661,687	13,899	4,621	680,207
Utilities and rubbish removal	355,380	19,376		374,756
Maintenance and repairs	180,574	17,069	19,336	216,979
Advertising and publications	116,077	215		116,292
Telephone	27,121	20,838	2,643	50,602
Postage	6,249	5,217	2,435	13,901
Travel and auto	44,000	16,774	7,256	68,030
Food and lodging	351,383	18,865	6,716	376,964
Professional fees	4,000	72,540		76,540
Bank charges	20,190	102,446		122,636
Dues and subscriptions	2,380	1,323	145	3,848
Insurance	91,921	10,400		102,321
Real estate taxes	73,492	7,796		81,288
Sales and use taxes	1,234			1,234
Conferences and seminars	13,615	8,415	731	22,761
Lease payments	77,482	24,432	500	102,414
Promotional	108,199		23,131	131,330
Interest expense	15,087	22,428		37,515
Taxes	9,096			9,096
Miscellaneous	31,428	18,095	173	49,696
Cottage rental commissions	923,562			923,562
Real estate sales commissions	176,195			176,195
	<u>\$ 5,780,472</u>	<u>\$ 892,339</u>	<u>\$ 186,293</u>	<u>\$ 6,859,104</u>

See Notes to Consolidated Financial Statements

	Year Ended March 31, 2010			Total
	Program	General and Administrative	Fund-Raising	
Salaries and wages	\$ 1,442,761	\$ 396,107	\$ 98,092	\$ 1,936,960
Payroll taxes	135,900	30,716	7,715	174,331
Employee benefits	94,044	57,978	8,471	160,493
Pension expense	37,909	22,763	2,762	63,434
Program contracts	653,038	1,776		654,814
Supplies	202,205	36,120	3,174	241,499
Depreciation	681,693	16,119	2,162	699,974
Utilities and rubbish removal	359,427	19,491	1,287	380,205
Maintenance and repairs	244,201	22,196	15,524	281,921
Advertising and publications	126,522	447		126,969
Telephone	26,162	23,627	1,229	51,018
Postage	4,079	8,177	5,950	18,206
Travel and auto	35,803	8,015	1,119	44,937
Food and lodging	274,514	16,551	10,143	301,208
Professional fees	305	66,659		66,964
Bank charges	18,927	98,366		117,293
Dues and subscriptions	1,043	701	355	2,099
Insurance	82,577	11,984		94,561
Real estate taxes	88,270	19,443		107,713
Sales and use taxes	3,137			3,137
Conferences and seminars	13,613	3,295	100	17,008
Lease payments	61,938	23,370	500	85,808
Promotional	147,827		28,159	175,986
Interest expense	15,488	10,826		26,314
Taxes	5,883			5,883
Miscellaneous	42,867	23,886	206	66,959
Cottage rental commissions	975,817			975,817
Real estate sales commissions	90,856			90,856
	<u>\$ 5,866,806</u>	<u>\$ 918,613</u>	<u>\$ 186,948</u>	<u>\$ 6,972,367</u>

THE LAKESIDE ASSOCIATION AND AFFILIATES

Consolidated Statements of Cash Flows

	Years Ended March 31,	
	2011	2010
Cash Flows From Operating Activities:		
Changes in net assets:	\$ 544,097	\$ 814,127
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	680,207	699,974
Loss on sale of property and equipment	5,128	-0-
Realized/unrealized gain on investments	(239,142)	(608,511)
Changes in cash surrender value - life insurance	(959)	4,295
Contributions restricted for long-term investment	(124,415)	-0-
Changes in deferred taxes	5,672	5,583
Change in annuity agreements, net	21,973	(87,849)
(Increase) decrease in assets:		
Accounts receivable	15,178	(1,063)
Supplies inventory	7,317	(3,290)
Prepaid taxes	2,545	(8,246)
Prepaid expenses	(92,408)	(10,874)
Increase (decrease) in liabilities:		
Accounts payable	4,835	16,995
Accrued salaries and wages	654	8,720
Taxes payable	-0-	(3,648)
Deferred revenue	16,132	(21,230)
Real estate escrow held	4,000	(1,000)
Net cash provided by operating activities	<u>850,814</u>	<u>803,983</u>
Cash Flows From Investing Activities:		
Purchases of property and equipment	(757,731)	(482,031)
Purchases of investments	(104,633)	(188,868)
Payments to annuitants	(46,264)	-0-
Proceeds from sale of property and equipment	3,600	-0-
Proceeds from sale of investments	130,203	61,605
Net cash used in investing activities	<u>(774,825)</u>	<u>(609,294)</u>
Cash Flows From Financing Activities:		
Contributions restricted for long-term investment	124,415	-0-
Payments on notes payable	(17,424)	(40,748)
Net cash provided by (used in) financing activities	<u>106,991</u>	<u>(40,748)</u>
Net increase in cash and cash equivalents	182,980	153,941
Cash and cash equivalents at beginning of year	<u>1,068,062</u>	<u>914,121</u>
Cash and cash equivalents at end of year	<u>\$ 1,251,042</u>	<u>\$ 1,068,062</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	<u>\$ 37,515</u>	<u>\$ 26,314</u>
Income taxes	<u>\$ -0-</u>	<u>\$ 11,990</u>

See Notes to Consolidated Financial Statements

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Lakeside Association (Association) was incorporated in the State of Ohio in 1919 as a not-for-profit organization providing religious, educational, cultural and recreational programs upon the plan or system known as the Chautauqua plan to Lakeside residents and guests. The Association generates revenues from the summer programs and from providing municipal services to the Lakeside homeowners.

Basis of Accounting

The consolidated financial statements of the Association have been prepared utilizing the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. Furthermore, the accounting policies adhered to by the Association are generally consistent with the *Audit and Accounting Guide for Not-For-Profit Organizations* issued by the American Institute of Certified Public Accountants.

Consolidated Financial Statements

The accompanying financial statements present the consolidated financial position, changes in net assets, functional expenses, and cash flows of The Lakeside Association, its wholly owned subsidiary Lakeside Chautauqua Realty, LLC and related not-for-profit organization Lakeside Chautauqua Foundation, collectively, the (Association). All intercompany transactions and balances have been eliminated in the consolidation.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets

Net assets not subject to donor-imposed stipulations. This category periodically includes net assets designated to the endowment by the Board. At March 31, 2011 and 2010 board designated net assets were \$644,964 and \$539,019, respectively.

Temporarily Restricted Net Assets

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by actions of the Board/Organization and/or the passage of time. Temporarily restricted net assets also include endowment earnings on donor restricted endowment assets not yet appropriated by the board of directors.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents exclude any cash or cash equivalents maintained in a professional investment account.

Accounts Receivables

Accounts receivables are uncollateralized non-interest bearing homeowner obligations requiring payment within 30 days from the invoice date. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 60 days from invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Accounts are written off when deemed uncollectible. At March 31, 2011 and 2010, the allowance for doubtful accounts was \$-0-. Bad debt expense was \$-0- for the years ended March 31, 2011 and 2010.

Supplies Inventory

Supplies inventory consists of maintenance supplies and is stated at cost, determined by the first-in, first-out method (FIFO), but not in excess of net realizable value.

Property and Equipment

Purchased property and equipment are stated at cost. Donated property and equipment are stated at fair value at the time of the donation. All property and equipment are being depreciated on the straight-line basis over the estimated useful lives of the assets, ranging from five to forty years. The Organization's capitalization policy is to capitalize assets greater than \$1,000 with a useful life of more than one year.

Repairs and maintenance are charged to expense as incurred, whereas the costs of property and equipment additions and improvements are capitalized. Depreciation expense for the years ended March 31, 2011 and 2010 was \$680,207 and \$699,974, respectively.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

The Association evaluates impairment of goodwill whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable or at least annually. Measurement of an impairment loss for goodwill is based on discounted cash flows and the fair value of the asset. The Association performed its annual impairment test and concluded there was no impairment for the years ended March 31, 2011 and 2010.

Deferred Revenue

Deferred revenue represents various deposits received from hotel guests and cottage rentals received in advance of their stay.

Program Revenue

Program revenues primarily consist of admission charges to visitors of the Association during the summer season and accommodation revenues, which include revenues generated from hotels, a trailer park, restaurant operations and other accommodations.

Contributions

The Organization recognizes contribution revenue in the period in which the pledge (promise to give) is received. Contributions with donor-imposed restrictions that are met in the same period are reported as unrestricted contributions.

Donated Services and Materials

The Organization receives volunteer services and materials that are not reportable under accounting principles generally accepted in the United States of America. A substantial number of unpaid volunteers have donated a significant amount of time to the Organization's program and fundraising.

Advertising

Advertising costs are charged to expense in the period the advertising first takes place. Advertising expense was \$116,292 and \$126,969, respectively, for the years ended March 31, 2011 and 2010.

Functional Allocation of Expenses

The costs of providing the Association's various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Functional expenses are allocated based on an analysis by management of employee time spent within each functional area.

Subsequent Events

Subsequent Events have been evaluated through June 24, 2011, which is the date the financial statements were available to be issued.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE B - FAIR VALUE MEASUREMENTS

Fair value is defined as the price the Association would receive to sell an asset or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the asset or liability. There is a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Association's financial instruments.

The inputs are summarized in the three broad levels listed below:

Level 1 - quoted prices in active markets for identical assets.

Level 2 - quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 - the valuation technique includes one or more inputs that are significant and unobservable (including the Association's own assumptions in determining fair value of the assets).

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Association's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE B - FAIR VALUE MEASUREMENTS (CONTINUED)

The Association's investments accounted at fair value as of March 31, 2011 are summarized below:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Money market funds	\$ 170,651	\$ 246	\$ 170,405
Equity mutual funds:			
KT value/charitable funds	109,140		109,140
Foreign blend	256,323	256,323	
Foreign large value	59,086	59,086	
Exchange traded funds	149,220	149,220	
	<u>573,769</u>	<u>464,629</u>	<u>109,140</u>
Common/collective equity funds	1,294,229		1,294,229
Fixed income mutual funds:			
Intermediate-term bonds	1,001,129	1,001,129	
Inflation protected bond	201,950	201,950	
	<u>1,203,079</u>	<u>1,203,079</u>	<u>-0-</u>
Total	<u>\$ 3,241,728</u>	<u>\$ 1,667,954</u>	<u>\$ 1,573,774</u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE B - FAIR VALUE MEASUREMENTS (CONTINUED)

The Association's investments accounted at fair value as of March 31, 2010 are summarized below:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Money market funds	\$ 139,002	\$ 630	\$ 138,372
Equity mutual funds:			
KT value/charitable funds	127,812		127,812
Foreign blend	223,103	223,103	
	<u>350,915</u>	<u>223,103</u>	<u>127,812</u>
Common/collective equity funds	1,409,019		1,409,019
Fixed income mutual funds:			
Intermediate-term bonds	988,845	988,845	
Inflation protected bonds	140,375	140,375	
	<u>1,129,220</u>	<u>1,129,220</u>	<u>-0-</u>
Total	<u>\$3,028,156</u>	<u>\$ 1,352,953</u>	<u>\$ 1,675,203</u>

The following is a description of the valuation methodologies used for the investments measured at fair value as of March 31, 2011 and 2010. There have been no changes in the methodologies used as of March 31, 2011 and 2010.

Money market funds, equity mutual funds, and fixed income mutual funds are valued at the net asset value of shares held by the Organization at year end.

Common /collective equity funds are valued at the net asset value of units reported to investors through common fund website, investor statements, and audited financial statements.

Beneficial interest in remainder trusts are valued at the present value of the expected distribution from the trust at the time of the donor's death which is based on life expectancy tables using discount rate of 3.8%. Management has determined the beneficial interest in remainder trusts to be Level 2 assets.

The cash surrender value of Association owned life insurance policies are valued using Level 2 inputs based on quoted prices for the underlying mutual fund investments.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE C - ENDOWMENT

The Association's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Management and the Board of Directors of the Association have interpreted the Unified Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the State of Ohio, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Association, and (7) the Association's investment policies.

Return Objectives and Risk Parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified periods as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce above average investment yield while assuming a moderate level of investment risk. The Association expects its endowment assets over time to provide an average long-term rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Association uses a diversified asset allocation that places a greater emphasis on equity based investments and a total return strategy in which investment returns are achieved through both capital appreciation and current return.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE C - ENDOWMENT (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Association has a policy of appropriating for expenditure each year 4 percent of the endowment assets average fair value at the end of the three years preceding the year in which the appropriation is planned. In establishing this policy, the Association considered the long-term expected rate of return on its endowment assets. Accordingly, over the long term, the Association expects the current spending policy to allow the endowment to grow and average of 4 percent annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of March 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 644,964	\$ -0-	\$ -0-	\$ 644,964
Donor-restricted endowment funds	<u>-0-</u>	<u>680,474</u>	<u>1,516,125</u>	<u>2,196,599</u>
Total	<u>\$ 644,964</u>	<u>\$ 680,474</u>	<u>\$ 1,516,125</u>	<u>\$ 2,841,563</u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE C - ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended March 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, April 1, 2010 as restated	\$ 539,019	\$ 533,518	\$ 1,391,710	\$ 2,464,247
Investment return:				
Investment income	18,289	61,515	-0-	79,804
Net appreciation (realized and unrealized)	<u>46,583</u>	<u>156,678</u>	<u>-0-</u>	<u>203,261</u>
Total investment return	64,872	218,193	-0-	283,065
Contributions	62,253	-0-	124,415	186,668
Appropriation	<u>(21,180)</u>	<u>(71,237)</u>	<u>-0-</u>	<u>(92,417)</u>
Endowment net assets, March 31, 2011	<u>\$ 644,964</u>	<u>\$ 680,474</u>	<u>\$ 1,516,125</u>	<u>\$ 2,841,563</u>

Endowment net asset composition by type of fund as of March 31, 2010:

	<u>Unrestricted (as restated)</u>	<u>Temporarily Restricted (as restated)</u>	<u>Permanently Restricted (as restated)</u>	<u>Total</u>
Board-designated endowment funds	\$ 539,019	\$ -0-	\$ -0-	\$ 539,019
Donor-restricted endowment funds	<u>-0-</u>	<u>533,518</u>	<u>1,391,710</u>	<u>1,925,228</u>
Total	<u>\$ 539,019</u>	<u>\$ 533,518</u>	<u>\$ 1,391,710</u>	<u>\$ 2,464,247</u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE C - ENDOWMENT (CONTINUED)

Changes in Endowment Net Assets for the year ended March 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, April 1, 2009 as previously reported	\$ -0-	\$ 502,622	\$ 1,379,480	\$ 1,882,102
Prior period adjustment	251,311	(251,311)	-0-	-0-
Endowment net assets, April 1, 2009 as restated	251,311	251,311	1,379,480	1,882,102
Investment return:				
Investment income	33,212	33,213	-0-	66,425
Net appreciation (realized and unrealized)	227,550	297,216	-0-	524,766
Total investment return	260,762	330,429	-0-	591,191
Contributions	75,168	-0-	12,230	87,398
Appropriation	(48,222)	(48,222)	-0-	(96,444)
Endowment net assets, March 31, 2010 as restated	<u>\$ 539,019</u>	<u>\$ 533,518</u>	<u>\$ 1,391,710</u>	<u>\$ 2,464,247</u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE D - SPLIT INTEREST AGREEMENTS

Charitable Gift Annuities and Charitable Remainder Trusts

The Association is the beneficiary of several charitable gift annuities and a charitable remainder trust that are managed by third-party trustees. The assets held in trust are recorded at fair value at the date of initial recognition. At March 31, 2011 and 2010, total assets of \$887,352 and \$902,513, respectively, were held by the Association, which are included in fiduciary investments and beneficial interest in remainder trusts on the statements of financial position.

Under the terms of the trust agreements, a designated beneficiary is to receive regular payments from the trust assets for the beneficiaries remaining life. Upon death of the beneficiary, the assets are to be retained for the Association's unrestricted use. At March 31, 2011 and 2010, liabilities of \$169,914 and \$179,929 were recognized as obligations under annuity agreements. The liabilities represent the present value of the expected beneficiary payments calculated based on the estimated life of the beneficiary and a discount rate. The discount rate used to calculate the present value was 5%.

NOTE E - LINE OF CREDIT

The Association has an unsecured demand line of credit with a bank with maximum borrowings of \$500,000 at the prime interest rate (3.25% at March 31, 2011). There were no borrowings on the line of credit as of March 31, 2011 and 2010.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2011 and 2010

NOTE F - NOTES PAYABLE

Notes payable at March 31, 2011 and 2010 include the following:

	March 31,	
	<u>2011</u>	<u>2010</u>
Note payable to Huntington National Bank, payable in monthly installments of \$920, including interest at a rate of 5.9%, balance due November 2014. The note is secured by real property.	\$ 102,728	\$ 107,465
Note payable to Huntington National Bank, payable in monthly installments of \$1,688, including interest at a rate of 7.49%, balance due October 2013. The note is secured by real property.	195,804	200,973
Note payable to Huntington National Bank, payable in monthly installments of \$1,970, including interest at a rate of 5.9%, balance due November 2014. The note is secured by real property.	<u>265,269</u>	<u>272,787</u>
	563,801	581,225
Less current-portion	<u>19,066</u>	<u>19,254</u>
Long-term portion of notes payable	<u>\$ 544,735</u>	<u>\$ 561,971</u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Financial Statements Years Ended March 31, 2011 and 2010

NOTE F - NOTES PAYABLE (CONTINUED)

The following are maturities of notes payable for each of the next four years:

<u>Years Ended March 31,</u>	<u>Amount</u>
2012	\$ 19,066
2013	20,319
2014	199,307
2015	<u>325,109</u>
	<u>\$ 563,801</u>

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted for the following purposes as of March 31,

	<u>2011</u>	<u>2010</u> <u>(restated)</u>
Development fund	\$ 408,193	\$ 425,471
Fiduciary fund	717,437	722,584
Endowment earnings	<u>680,474</u>	<u>533,518</u>
Total temporarily restricted net assets:	<u>\$ 1,806,104</u>	<u>\$1,681,573</u>

A description of the nature and purpose of the funds are as follows:

Development Fund

The development fund represents donor-restricted contributions that have not yet been used for the donor specified purpose.

Fiduciary Fund

The fiduciary fund consists of investments held under charitable remainder gift annuities and charitable remainder unitrusts, net of the present value of the liabilities to the annuitants and trust beneficiaries for future payments. The fiduciary fund net assets are temporarily restricted until the death of the annuitant or trust beneficiaries, at which time the remaining trust assets are available to the Association for unrestricted purposes.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Financial Statements Years Ended March 31, 2011 and 2010

NOTE H - PENSION PLAN

The Association provides a 401(k) defined contribution profit-sharing plan and a voluntary tax-deferred annuity plan for the benefit of its employees.

Under the defined contribution profit-sharing plan, the Association contributes a percent of eligible employees' annual compensation. The contribution percentage is at the discretion of the Board of Directors and is determined annually. Employees become vested in the plan after three years of service. The Association contributed \$37,038 and \$41,086, respectively, under the plan during the years ended March 31, 2011 and 2010.

Under the voluntary tax-deferred annuity plan, the Association contributes one dollar for every two dollars contributed to the plan by the employee up to a maximum of 4 percent of the employee's gross salary. The Association contributed \$31,438 and \$20,197, respectively, to the plan during the years ended March 31, 2011 and 2010.

NOTE I - OPERATING LEASES

The Association leases a postage meter under an operating lease expiring in August 2013 for \$139 per month.

The Association leases a copier under an operating lease expiring in July 2012 for \$1,247 per month.

The Association has a submerged land lease for \$402 per year expiring in February 2051.

Minimum future rental payments under all non-cancelable operating leases having remaining terms in excess of one year are as follows:

<u>Years Ending</u>	
2012	\$ 20,845
2013	10,873
2014	4,913
2015	4,218
2016	402
Thereafter	<u>17,154</u>
Total minimum future rental payments	<u>\$ 58,405</u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Financial Statements Years Ended March 31, 2011 and 2010

NOTE J - INCOME TAXES

The Lakeside Association and the Lakeside Chautauqua Foundation are exempt from the federal income taxes under Section 501 (c) (3) of the Internal Revenue Code. In addition, the Association and Foundation have been determined by the Internal Revenue Service not to be private foundations within the meaning of Section 509 (c) (2) of the Internal Revenue Code.

Lakeside Chautauqua Realty, LLC, a wholly owned subsidiary of the Lakeside Association, is a disregarded entity for tax purposes. Therefore, all activity of Lakeside Chautauqua Realty, LLC is reported on the tax return of the Lakeside Chautauqua Realty, LLC is reported on the tax returns of The Lakeside Association. Because the activity of Lakeside Chautauqua Realty is not within the tax exempt purpose of The Lakeside Association, it is taxed as unrelated business income.

A provision for income taxes is recorded based on unrelated business income. Current income tax expense is based on taxable income computed under the requirements of the Internal Revenue Code. A provision is made for deferred income taxes where temporary differences exist between the period in which transactions affect taxable income and the period in which they enter into the determination of income in the financial statements. The temporary differences giving rise to deferred taxes consist primarily of a net operating loss carryover from prior years. The net operating loss carry forward at March 31, 2010 was approximately \$43,000 and was used in full at March 31, 2011.

Income tax expense, for the years ended March 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Current income tax expense	\$ 3,280	\$ -0-
Deferred income tax expense	<u>5,672</u>	<u>5,583</u>
Net income tax expense	<u>\$ 8,952</u>	<u>\$ 5,583</u>

The Association's effective income tax rate is lower than would be expected if the federal statutory rates were applied to income from operations primarily because of goodwill amortization deductible for tax purposes.

Total deferred tax assets were \$-0- and \$5,672, respectively, at March 31, 2011 and 2010. There were no deferred tax liabilities.

The Association is no longer subject to tax examinations for years before 2008 by taxing authorities in jurisdictions where the Association has filed returns.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Financial Statements Years Ended March 31, 2011 and 2010

NOTE J - INCOME TAXES (CONTINUED)

The Association did not identify any material unrecognized tax benefits upon evaluation of tax positions taken and therefore, there was no material effect on the Association's financial condition or results of operations upon adoption.

The Association evaluates at each balance sheet date uncertain tax positions taken, if any, to determine the need to record liabilities for taxes, penalties, and interest. The Association's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of March 31, 2011 and 2010, the Association had no accrued taxes, interest or penalties related to uncertain tax positions. The Association estimates the unrecognized tax benefit will not change significantly within the next twelve months.

NOTE K - REAL ESTATE CONTINGENCY

The Association filed 12 Applications for Real Property Tax Exemption and Remission for certain properties used for various tax-exempted purposes. The Association requested a refund in the amount of \$34,864. The Association has been withholding real estate taxes on the disputed properties beginning with the July 2010 assessment. As of March 31, 2011, the Association's total withholdings were \$13,946. Additionally, the Association did not accrue \$10,460 of real estate taxes to be paid in 2011 and 2012 pertaining to those parcels. Management of the Association expects the application for property tax exemption to be accepted.

NOTE L - PRIOR PERIOD ADJUSTMENT

The financial statements for the year ended March 31, 2010 have been restated for a correction of an error in the classification of board designated net assets. The restatement had the effect of increasing unrestricted net assets and decreasing temporarily restricted net assets by \$251,311 as of April 1, 2009. There was no effect on changes in net assets.