



**AUDITED CONSOLIDATED
FINANCIAL STATEMENTS**

YEARS ENDED MARCH 31, 2019 AND 2018

THE LAKESIDE ASSOCIATION AND AFFILIATES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Lakeside Association and Affiliates (a nonprofit organization), which comprise the consolidated statements of financial position as of March 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.
Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Lakeside Association and Affiliates as of March 31, 2019 and 2018, and the changes in its net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Barnes Wendling CPAs

Sandusky, Ohio
August 2, 2019

THE LAKESIDE ASSOCIATION AND AFFILIATES

Consolidated Statements of Financial Position

	March 31,	
	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,935,175	\$ 1,376,510
Accounts receivable, net	325,523	303,826
Current portion of pledges receivable	415,978	267,440
Supplies inventory	6,167	6,273
Prepaid expenses	<u>246,105</u>	<u>212,345</u>
TOTAL CURRENT ASSETS	2,928,948	2,166,394
Property and Equipment		
Land and land improvements	9,902,993	9,791,126
Buildings and fixed equipment	14,742,430	13,415,870
Equipment	4,094,750	3,873,927
Construction in progress	<u>1,636,701</u>	<u>1,681,601</u>
	30,376,874	28,762,524
Less accumulated depreciation	<u>17,345,724</u>	<u>16,550,049</u>
	13,031,150	12,212,475
Other Assets		
Pledges receivable, net of current portion	315,500	268,917
Fiduciary investments	240,563	240,238
Endowment investments	6,863,268	6,598,554
Cash surrender value - life insurance	26,168	26,168
Goodwill, net	<u>30,000</u>	<u>40,000</u>
	<u>7,475,499</u>	<u>7,173,877</u>
TOTAL ASSETS	<u>\$ 23,435,597</u>	<u>\$ 21,552,746</u>

See Notes to Consolidated Financial Statements

	March 31,	
	2019	2018
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 448,089	\$ 220,308
Accrued salaries and wages	211,547	189,522
Deferred revenue	782,661	694,470
Accrued expenses	8,500	9,050
Line of credit	773,835	1,128,835
Current portion of notes payable	269,372	410,646
Current portion of obligations under annuity agreements	7,652	7,652
TOTAL CURRENT LIABILITIES	2,501,656	2,660,483
Long-Term Liabilities		
Notes payable, less current portion	366,805	254,942
Obligations under annuity agreements, less current portion	23,663	23,663
	390,468	278,605
TOTAL LIABILITIES	2,892,124	2,939,088
Net Assets		
Without donor restriction		
Undesignated	12,084,624	9,493,639
Designated by the Board for endowment	1,847,105	1,840,931
Regulatory-restricted endowment funds	64,992	61,618
With donor restriction		
Development fund	1,386,333	2,312,542
Fiduciary fund	209,248	208,923
Endowment funds	4,951,171	4,696,005
TOTAL NET ASSETS	20,543,473	18,613,658
TOTAL LIABILITIES AND NET ASSETS	\$ 23,435,597	\$ 21,552,746

THE LAKESIDE ASSOCIATION AND AFFILIATES

Consolidated Statements of Activities and Changes in Net Assets

	Year Ended March 31, 2019		
	Without Donor Restriction	With Donor Restriction	Total
REVENUE AND OTHER SUPPORT			
Program revenue	\$ 8,516,005		\$ 8,516,005
Contributions and bequests	650,811	\$ 2,268,205	2,919,016
Burial fees	37,700		37,700
Investment income, net	81,001	191,282	272,283
Gain on sale of property and equipment	630		630
Change in annuity agreements, net		(7,652)	(7,652)
Endowment appropriation	167,180	(167,180)	-0-
 Total revenue and other support	 9,453,327	 2,284,655	 11,737,982
 Net assets released from restrictions	 2,955,373	 (2,955,373)	 -0-
	12,408,700	(670,718)	11,737,982
EXPENSES			
Program - Chautauqua	7,880,904		7,880,904
General and administrative	1,572,553		1,572,553
Fundraising	354,710		354,710
Total expenses	9,808,167	-0-	9,808,167
 Changes in net assets	 2,600,533	 (670,718)	 1,929,815
Net assets, beginning of year	11,396,188	7,217,470	18,613,658
NET ASSETS, end of year	<u>\$13,996,721</u>	<u>\$ 6,546,752</u>	<u>\$20,543,473</u>

	Year Ended March 31, 2018		
	Without Donor Restriction	With Donor Restriction	Total
REVENUE AND OTHER SUPPORT			
Program revenue	\$ 8,225,009		\$ 8,225,009
Contributions and bequests	630,121	\$ 982,989	1,613,110
Burial fees	16,500		16,500
Investment income, net	182,941	472,594	655,535
Gain on sale of property and equipment	925		925
Change in annuity agreements, net		7,075	7,075
Endowment appropriation	275,423	(275,423)	-0-
Total revenue and other support	9,330,919	1,187,235	10,518,154
Net assets released from restrictions	1,149,408	(1,149,408)	-0-
	10,480,327	37,827	10,518,154
EXPENSES			
Program - Chautauqua	7,406,059		7,406,059
General and administrative	1,608,481		1,608,481
Fundraising	281,633		281,633
Total expenses	9,296,173	-0-	9,296,173
Changes in net assets	1,184,154	37,827	1,221,981
Net assets, beginning of year	10,212,034	7,179,643	17,391,677
NET ASSETS, end of year	\$11,396,188	\$7,217,470	\$18,613,658

THE LAKESIDE ASSOCIATION AND AFFILIATES

Consolidated Statements of Functional Expenses

	Year Ended March 31, 2019			
	Chautauqua Program	General and Administrative	Fundraising	Total
Salaries and wages	\$ 1,858,397	\$ 642,681	\$ 195,519	\$ 2,696,597
Payroll taxes	197,804	54,661	15,743	268,208
Employee benefits	177,833	144,210	17,927	339,970
Pension expense	69,510	56,078	13,826	139,414
Program contracts	1,074,088	73,471		1,147,559
Supplies	267,415	20,474	5,124	293,013
Depreciation	829,739	7,356	5,807	842,902
Amortization of goodwill	10,000			10,000
Utilities and rubbish removal	475,506	15,231	178	490,915
Maintenance and repairs	469,001	19,474	14,112	502,587
Advertising and publications	112,867			112,867
Telephone	19,512	47,614	1,647	68,773
Postage	4,692	3,836	4,763	13,291
Travel and auto	49,708	26,606	22,933	99,247
Food and lodging	401,938	31,607	15,726	449,271
Professional fees	70,893	92,022	1,300	164,215
Bank charges	46,080	175,899		221,979
Dues and subscriptions	1,559	2,375	655	4,589
Insurance	127,114	13,258		140,372
Real estate taxes	103,402	4,891		108,293
Sales and use taxes	15,240			15,240
Conferences and seminars	7,754	8,273	2,664	18,691
Lease payments	154,028	52,067	2,646	208,741
Promotional	82,357		33,344	115,701
Interest expense	7,136	45,747		52,883
Taxes		6,026		6,026
Miscellaneous	70,176	28,696	796	99,668
Cottage rental owner commissions	928,853			928,853
Real estate sales commissions	248,302			248,302
Total expenses reported by function	<u>\$ 7,880,904</u>	<u>\$ 1,572,553</u>	<u>\$ 354,710</u>	<u>\$ 9,808,167</u>

	Year Ended March 31, 2018			
	Chautauqua Program	General and Administrative	Fundraising	Total
Salaries and wages	\$ 1,755,033	\$ 641,334	\$ 143,382	\$ 2,539,749
Payroll taxes	175,410	51,660	11,516	238,586
Employee benefits	157,256	128,526	20,365	306,147
Pension expense	67,384	51,025	8,665	127,074
Program contracts	822,862	187,862		1,010,724
Supplies	241,513	15,463	4,473	261,449
Depreciation	772,861	7,837	6,163	786,861
Amortization of goodwill	10,000			10,000
Utilities and rubbish removal	441,754	17,188	326	459,268
Maintenance and repairs	341,487	16,757	13,442	371,686
Advertising and publications	107,285			107,285
Telephone	17,443	49,378	1,283	68,104
Postage	3,934	4,876	4,704	13,514
Travel and auto	40,532	17,100	19,891	77,523
Food and lodging	417,000	30,821	10,690	458,511
Professional fees	186,077	96,632	1,500	284,209
Bank charges	39,260	151,146		190,406
Dues and subscriptions	2,934	990	1,775	5,699
Insurance	127,930	13,862		141,792
Real estate taxes	99,395	4,143		103,538
Sales and use taxes	14,374			14,374
Conferences and seminars	3,092	3,594	72	6,758
Lease payments	144,317	44,628	4,355	193,300
Promotional	94,934		28,590	123,524
Interest expense	7,045	39,658		46,703
Taxes		18,318		18,318
Miscellaneous	77,621	15,683	441	93,745
Cottage rental owner commissions	935,086			935,086
Real estate sales commissions	302,240			302,240
Total expenses reported by function	<u>\$ 7,406,059</u>	<u>\$ 1,608,481</u>	<u>\$ 281,633</u>	<u>\$ 9,296,173</u>

THE LAKESIDE ASSOCIATION AND AFFILIATES

Consolidated Statements of Cash Flows

	Years Ended March 31,	
	2019	2018
Cash Flows From Operating Activities:		
Changes in net assets:	\$ 1,929,815	\$ 1,221,981
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	842,902	786,861
Amortization of goodwill	10,000	10,000
Decrease in allowance for doubtful accounts	(4,547)	(2,580)
Realized/unrealized gain on investments	(152,146)	(558,902)
Gain on the sale of property and equipment	(630)	(925)
Contributions restricted for long-term investment	(239,044)	(222,332)
Contribution of property	-0-	(49,000)
Change in annuity agreements, net	7,652	(7,075)
(Increase) decrease in assets:		
Accounts receivable	(17,150)	(15,715)
Pledges receivable	(195,121)	502,379
Supplies inventory	106	(2,134)
Prepaid expenses	(33,760)	23,760
Increase (decrease) in liabilities:		
Accounts payable	227,781	(427,820)
Accrued salaries and wages	22,025	44,822
Deferred revenue	88,191	(65,209)
Accrued expenses	(550)	(1,530)
Net cash provided by operating activities	<u>2,485,524</u>	<u>1,236,581</u>
Cash Flows From Investing Activities:		
Purchases of property and equipment	(1,648,378)	(3,761,453)
Proceeds from sale of equipment	630	925
Purchases of investments	(1,480,808)	(477,291)
Payments to annuitants	(7,652)	(7,651)
Proceeds from sale of investments	1,367,915	550,028
Net cash used in investing activities	<u>(1,768,293)</u>	<u>(3,695,442)</u>
Cash Flows From Financing Activities:		
Contributions restricted for long-term investment	239,044	222,332
Proceeds from line of credit	385,000	1,028,835
Repayments on line of credit	(740,000)	(50,000)
Payments on notes payable	(42,610)	(45,383)
Net cash provided by (used in) financing activities	<u>(158,566)</u>	<u>1,155,784</u>
Net increase (decrease) in cash and cash equivalents	558,665	(1,303,077)
Cash and cash equivalents at beginning of year	<u>1,376,510</u>	<u>2,679,587</u>
Cash and cash equivalents at end of year	<u>\$ 1,935,175</u>	<u>\$ 1,376,510</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	<u>\$ 52,883</u>	<u>\$ 46,703</u>
Income taxes	<u>\$ 19,000</u>	<u>\$ 22,400</u>

See Notes to Consolidated Financial Statements

THE LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Basis of Accounting

The consolidated financial statements of the Lakeside 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 Entities* issued by the American Institute of Certified Public Accountants.

Consolidated Financial Statements

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

Basis of Presentation

The Association is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

Net Assets without Donor Restriction

Net assets not subject to donor imposed restrictions. This includes net assets endowment funds designated by the board of directors, which are subject to the spending policy as further described in Note E. This also includes net assets designated to an endowment in accordance with Ohio Revised Code 1721.21. The Association's regulatory restricted - perpetual care endowment is described in Note M to the consolidated financial statements.

THE LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Net Assets with Donor Restriction

Net assets subject to donor imposed restriction. Some donor imposed restrictions are temporary in nature, such as those that will be met by passage of time or other events specified by the donor. Donor imposed restrictions temporary in nature are included in the Association's development fund and fiduciary fund. The development fund represents donor-restricted contributions that have not yet been used for the donor specified purpose. 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 restricted until the death of the annuitant or trust beneficiaries, at which time the remaining trust assets are available to the Association. Other donor imposed restrictions are perpetual in nature, where the donor stipulates resources be maintained in perpetuity, as further described in Note E.

Changes in Accounting Principles

In 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in type of information provided about expenses and investment return. The Association has implemented ASU 2016-14 on a retrospective basis except for the disclosures related to liquidity and availability of resources. The retrospective application has the effect of presenting net assets previously reported as unrestricted net assets as net assets without donor restriction and temporarily restricted and permanently restricted net assets as net assets with donor restriction.

Use of Estimates

The preparation of consolidated 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 Association 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. The Association's cash balances may exceed the insured amount from time to time.

THE LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable 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 reflecting management's best estimate of the amounts not to be collected. Management individually reviews all accounts receivable balances exceeding 60 days from invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance not to be collected. Accounts are written off when deemed uncollectible. At March 31, 2019 and 2018, the allowance for doubtful accounts was \$11,062 and \$15,609, respectively. Bad debt expense was (\$2,294) and (\$2,062), respectively, for the years ended March 31, 2019 and 2018.

Supplies Inventory

Supplies inventory consists of maintenance supplies and is stated at the lower of cost, determined by the first-in, first-out method (FIFO) or 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 Association's 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, 2019 and 2018 was \$842,902 and \$786,861, respectively.

Goodwill

The Association evaluates impairment of goodwill whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. The Association amortizes goodwill over 9 years. The cost of the goodwill at March 31, 2019 and 2018 was \$90,000. Accumulated amortization for the years ended March 31, 2019 and 2018 was \$60,000 and \$50,000, respectively. Amortization expense for the years ended March 31, 2019 and 2018 was \$10,000. The annual amortization expense recognized over the next 3 years will be \$10,000, per year.

Deferred Revenue

Deferred revenue represents various deposits received from hotel guests and cottage rentals received in advance of their stay. Deferred revenue also represents burial placement fees received in advance of placing the remains of loved ones in the Memorial Garden LLC.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 campground, restaurant operations, and other accommodations.

Contributions

The Association recognizes contribution revenue in the period in which the pledge is received. Contributions with donor-imposed restrictions that are met in the same period are reported as unrestricted contributions.

Donated Services and Materials

The Association receives volunteer services and materials 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 Association's program and fundraising efforts. However, these services are not reflected in the consolidated financial statements because they have not met standards required by accounting principles generally accepted in the United States of America.

Collections

The primary focus of the collection is to maintain, exhibit, interpret, and engage visitors with works of art. Collections acquired either through purchase or donations are not capitalized. Purchases of collection items are recorded as decreases in net assets without donor restrictions if purchased with unrestricted assets and as decreases in net assets with donor restrictions if purchased with donor-restricted funds. Contributions of collection items are not recognized in the consolidated statement of activities. Proceeds from deaccessions or insurance recoveries are reflected on the consolidated statements of activities and changes in net assets based on the absence or existence and nature of donor-imposed restrictions.

Advertising

Advertising costs are charged to expense in the period the advertising first takes place. Advertising expense was \$112,867 and \$107,285, respectively, for the years ended March 31, 2019 and 2018.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The consolidated financial statements report certain categories of expenses attributed to more than one program or supporting function. Expenses identified with a specific program or supporting function are recorded directly according to their natural expense classification. Certain expenses relate to more than one function and require allocation on a reasonable basis consistently applied. The expenses allocated include salaries and wages, payroll taxes, employee benefits, depreciation, utilities and rubbish, maintenance and repairs, telephone, and miscellaneous, which are allocated based on an analysis by management of employee time spent within each functional area.

Subsequent Events

Subsequent events have been evaluated through August 2, 2019, which is the date the consolidated financial statements were available to be issued.

NOTE B - LIQUIDITY AND AVAILABILITY

The Association regularly monitors the availability of resources required to meet its operating needs while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing programs and support services to be general expenditures. The Association also has access to a line of credit, making up to \$500,000 available for immediate cash needs, see Note G for further details.

The Association's board has designated a portion of its resources without donor restriction as a board designated endowment fund. These funds are invested for long-term appreciation and current income but remain available and may be spent for general expenditures at the discretion of the board.

As of March 31, 2019, the following table shows financial assets held by the Association which could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$ 1,533,502
Accounts receivable, net	325,523
Contributions for general expenditures due in one year or less (Note C)	300,000
Endowment spending rate distributions and appropriations over the next 12 months	<u>258,512</u>
	<u>\$ 2,417,537</u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE C - PLEDGES RECEIVABLE

During 2016, the Association began its capital campaign to raise funds for the Grindley Aquatic and Wellness Campus. See Note N for further details on the capital campaign. During 2017, the Association collected pledges to fund the construction of pickleball courts. Pledges consist of the following at March 31, 2019:

	Grindley Aquatic and Wellness Campus	Pickleball Courts	General Purpose	Total Pledges Receivable
Pledges receivable - less than one year	\$ 105,378	\$ 10,600	\$ 300,000	\$ 415,978
Pledges receivable - one to five years	15,500	-0-	300,000	315,500
	<u>\$ 120,878</u>	<u>\$ 10,600</u>	<u>\$ 600,000</u>	<u>\$ 731,478</u>

The Association has not recorded a provision for doubtful pledges or present value discount, since it is the opinion of management the pledges receivable are collectible in full and the present value discount is not material.

NOTE D - 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.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE D - FAIR VALUE MEASUREMENTS (CONTINUED)

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.

The Association's investments accounted at fair value as of March 31, 2019 are summarized below:

	<u>Fair Value</u>	<u>Level 1</u>
Money market funds	\$ 336,521	\$ 336,521
Equity mutual funds	5,612,329	5,612,329
Fixed income mutual funds	<u>1,154,981</u>	<u>1,154,981</u>
Total	<u>\$ 7,103,831</u>	<u>\$ 7,103,831</u>

The Association's investments accounted at fair value as of March 31, 2018 are summarized below:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Money market funds	\$ 207,459	\$ 207,459	
Equity mutual funds	5,312,800	5,312,800	
Common/collective equity funds	109,260		\$ 109,260
Fixed income mutual funds	1,146,299	1,146,299	
Alternative Mutual Funds	<u>62,974</u>	<u>62,974</u>	
Total	<u>\$ 6,838,792</u>	<u>\$ 6,729,532</u>	<u>\$ 109,260</u>

The following is a description of the valuation methodologies used to measure the investments at fair value as of March 31, 2019 and 2018. There have been no changes in the methodologies used as of March 31, 2019 and 2018.

Money market funds, equity mutual funds, fixed income mutual funds, real estate investment trusts, and alternative mutual funds are valued at the net asset value of shares held by the Association at year end.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE D - FAIR VALUE MEASUREMENTS (CONTINUED)

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.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

The table below sets forth a summary of changes in fair value of the Association's level 3 assets for the years ended March 31, 2019 and 2018:

Balance as of April 1, 2017	\$	99,310
Purchases and (sales), net		11,358
Unrealized and realized gains (losses), net	(<u>1,408</u>)
Balance as of March 31, 2018	\$	109,260
Purchases and (sales), net	(100,512)
Unrealized and realized gains (losses), net	(<u>8,748</u>)
Balance as of March 31, 2019	\$	<u><u>-0-</u></u>

Beneficial interest in remainder trusts were 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 a discount rate of 3.8%. Management has determined the beneficial interest in remainder trusts to be Level 3 assets.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE E - 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 Association retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 is classified as donor 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 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 the Association 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% 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 placing 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, 2019 and 2018

NOTE E - 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% of the endowment assets average fair value at the end of the three years proceeding 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 an average 4% annually. This is consistent with the Association'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, 2019:

	Without Donor Restriction	With Donor Restricted	Total
Board-designated			
Board-designated endowment funds	\$ 1,847,105		\$ 1,847,105
Regulatory-restricted endowment funds	64,992		64,992
Donor restricted			
Original donor-restricted gift		\$ 3,559,457	3,559,457
Accumulated investment gains		1,391,714	1,391,714
Total	<u>\$ 1,912,097</u>	<u>\$ 4,951,171</u>	<u>\$ 6,863,268</u>

Changes in endowment net assets for the year ended March 31, 2019:

	Without Donor Restriction	With Donor Restricted	Total
Endowment net assets, beginning of year	\$ 1,902,549	\$ 4,696,005	\$ 6,598,554
Investment return:			
Interest and dividends, net	30,295	75,822	106,117
Net depreciation (realized and unrealized)	42,013	107,482	149,495
Total investment return	72,308	183,304	255,612
Contributions		239,042	239,042
Burial fees	1,350		1,350
Appropriation	(64,110)	(167,180)	(231,290)
Endowment net assets, end of year	<u>\$ 1,912,097</u>	<u>\$ 4,951,171</u>	<u>\$ 6,863,268</u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE E - ENDOWMENT (CONTINUED)

Endowment net asset composition by type of fund as of March 31, 2018:

	Without Donor Restriction	With Donor Restricted	Total
Board-designated endowment funds	\$ 1,840,931		\$ 1,840,931
Regulatory-restricted endowment funds	61,618		61,618
Donor restricted			
Original donor-restricted gift		\$ 3,320,415	3,320,415
Accumulated investment gains		1,375,590	1,375,590
Total	<u>\$ 1,902,549</u>	<u>\$ 4,696,005</u>	<u>\$ 6,598,554</u>

Changes in endowment net assets for the year ended March 31, 2018:

	Without Donor Restriction	With Donor Restricted	Total
Endowment net assets, beginning of year	\$ 1,823,045	\$ 4,292,502	\$ 6,115,547
Investment return:			
Interest and dividends, net	27,236	65,133	92,369
Net appreciation (realized and unrealized)	155,731	391,461	547,192
Total investment return	<u>182,967</u>	<u>456,594</u>	<u>639,561</u>
Contributions	5,192	222,332	227,524
Burial fees	1,650		1,650
Appropriation	<u>(110,305)</u>	<u>(275,423)</u>	<u>(385,728)</u>
Endowment net assets, end of year	<u>\$ 1,902,549</u>	<u>\$ 4,696,005</u>	<u>\$ 6,598,554</u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE F - SPLIT INTEREST AGREEMENTS

Charitable Gift Annuities

The Association is the beneficiary of several charitable gift annuities. The assets are recorded at fair value at the date of initial recognition. At March 31, 2019 and 2018, total assets of \$240,563 and \$240,238, respectively, were held by the Association, which are included in fiduciary investments on the consolidated statements of financial position.

Under the terms of the trust agreements, designated beneficiaries receive regular payments from the trust assets for the beneficiaries remaining lives. Upon death of the beneficiaries, the assets are to be retained for the Association's unrestricted use. At March 31, 2019 and 2018, liabilities of \$31,315 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 beneficiaries and a discount rate. The discount rate used to calculate the present value was 5%.

NOTE G - LINES 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 (5.50% at March 31, 2019). At March 31, 2019 and 2018, the Association had borrowings outstanding of \$385,000 and \$100,000, respectively. The line of credit renews on an annual basis.

The Association had a demand line of credit secured by certain investments of the Association with a bank with maximum borrowings of \$2,000,000 at the LIBOR (1.70% at March 31, 2018) plus 1.50%. The revolving line of credit was set to expire in September 2018. In September 2018, the Association and the bank amended and restated the revolving line of credit. The amended and restated demand line of credit is secured by certain investments of the Association with maximum borrowings of \$1,000,000 at LIBOR (2.40% at March 31, 2019) plus 1.50% maturing in September 2019. At March 31, 2019 and 2018, the Association had borrowings outstanding of \$388,835 and \$1,028,835, respectively.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE H - NOTES PAYABLE

Notes payable at March 31, 2019 and 2018 include the following:

	March 31,	
	2019	2018
Note payable to Huntington National Bank, payable in monthly installments of \$1,421 including interest at a rate of 4.75%, balance due October 2018. The note is secured by real property known as the Smith Building.	\$ -0-	\$ 141,552
Note payable to Huntington National Bank, payable in monthly installments of \$1,469 including interest at a rate of 5.35%, balance due December 2023. The note is secured by real property known as the Smith Building.	134,736	-0-
Note payable to Huntington National Bank, payable in monthly installments of \$1,873 including interest at a rate of 5.00%, balance due January 2034. The note is secured by real property located on Walnut Street.	234,146	244,427
Note payable to Huntington National Bank, payable in monthly installments of \$1,823, including interest at a rate of 4.67%, balance due December 2019. The note is secured by real property located at the Memorial Garden and Lakeside Chautauqua Park.	186,690	199,397
Note payable to Huntington National Bank, payable in monthly installments of \$869, including interest at a rate of 4.58%, balance due December 2019. The note is secured by real property located on Vine Street.	53,819	61,556
Note payable to Huntington National Bank, payable in monthly installments of \$452, including interest at a rate of 4.32%, balance due December 2021. The note is secured by a specific vehicle.	13,893	18,656
Note payable to Huntington National Bank, payable in monthly installments of \$262, including interest at a rate of 7.02%, balance due November 2023. The note is secured by a specific vehicle.	12,893	-0-
	<u>636,177</u>	<u>665,588</u>
Less current-portion	269,372	410,646
Long-term portion of notes payable	<u>\$ 366,805</u>	<u>\$ 254,942</u>

During the year ending March 31, 2020, the Association intends to refinance both loans maturing in the upcoming fiscal year.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE H - NOTES PAYABLE (CONTINUED)

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

<u>Years Ending March 31,</u>	<u>Amount</u>
2020	\$ 269,372
2021	30,433
2022	30,553
2023	28,179
2024	102,114
Thereafter	<u>175,526</u>
	<u><u>\$ 636,177</u></u>

Interest expense was \$52,883 and \$46,703 during the years ended March 31, 2019 and 2018, respectively.

NOTE I - NET ASSETS WITH DONOR RESTRICTION

Net assets were restricted by donors for the following purposes:

	March 31,	
	<u>2019</u>	<u>2018</u>
Development fund		
Building and Grounds	\$ 549,211	\$ 2,122,108
Programming	237,122	185,433
Available for subsequent years' activities	<u>600,000</u>	<u>5,000</u>
	1,386,333	2,312,541
Fiduciary fund: Charitable gift annuities, net	209,248	208,923
Endowment:		
Original donor-restricted gift	3,559,457	3,320,415
Accumulated investment gains	<u>1,391,714</u>	<u>1,375,590</u>
	4,951,171	4,696,005
Total net assets with donor restriction	<u><u>\$ 6,546,752</u></u>	<u><u>\$ 7,217,469</u></u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE J - EMPLOYEE BENEFIT PLANS

The Association maintains two employee benefit plans, a defined contribution profit-sharing plan and a 401(k) 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 \$61,992 and \$54,328, respectively, under the plan during the years ended March 31, 2019 and 2018.

Under the 401(k) 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% of the employee's gross salary. The Association contributed \$77,422 and \$72,746, respectively, to the plan during the years ended March 31, 2019 and 2018.

NOTE K - OPERATING LEASES

The Association leases certain office equipment and a vehicle under operating lease agreements that expire at various dates through December 2020. Total rent expense from the leases for the years ended March 31, 2019 and 2018 was \$28,842 and \$26,109, respectively.

The Association leases submerged land under an operating lease agreement that expires in April 2046. Total rent expense on the lease for the years ended March 31, 2019 and 2018 was \$402.

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

<u>Years Ending March 31,</u>	<u>Amount</u>
2020	\$ 25,578
2021	17,907
2022	1,884
2023	1,513
2024	402
Thereafter	8,870
	<u>\$ 56,154</u>

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE L - 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(a)(2) of the Internal Revenue Code.

Lakeside Chautauqua Realty, LLC and The Memorial Garden LLC, wholly owned subsidiaries of the Lakeside Association, are disregarded entities for tax purposes. Therefore, all activity of Lakeside Chautauqua Realty, LLC and The Memorial Garden LLC are reported on the tax returns of The Lakeside Association. Because the activity of Lakeside Chautauqua Realty, LLC and The Memorial Garden LLC are 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.

Income tax expense for the years ended March 31, 2019 and 2018 was \$6,026 and \$18,318, respectively. 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, 2019 and 2018, 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 M - REGULATORY RESTRICTED – PERPETUAL CARE ENDOWMENT

The Memorial Garden LLC is considered a cemetery under Ohio state laws. Ohio state cemetery and funeral laws (Laws) mandate cemetery owners establish an endowment care trust fund, segregated from other assets, and initially deposit \$50,000 in the fund. Laws mandate cemeteries further designate a certain percentage of burial site sales to this fund. The Association established a policy of allocating 10% of cash receipts from placement fees will be designated into the endowment care trust for perpetual care and maintenance.

The balance in this endowed fund at March 31, 2019 and 2018 was \$64,992 and \$61,618, respectively.

LAKESIDE ASSOCIATION AND AFFILIATES

Notes to Consolidated Financial Statements Years Ended March 31, 2019 and 2018

NOTE N - COMMITMENTS

During the year ended March 31, 2019, the Association entered into several construction contracts totaling \$1,159,295 for several renovation and construction projects within the Association's gates. As of March 31, 2019, \$463,306 was remaining on the contracts. Construction is in progress as of March 31, 2019 and is scheduled to be completed during the year ending March 31, 2020.

NOTE O - SUPPLEMENTAL DISCLOSURE NON CASH FINANCING ACTIVITIES

During the year ended March 31, 2019, the Association purchased a vehicle with debt of \$13,199.