

LAKEWOOD PRAIRIE HOMEOWNERS ASSOCIATION
INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS
December 31, 2015

LAKWOOD PRAIRIE HOMEOWNERS ASSOCIATION

Table of Contents

	<u>Page</u>
Independent Auditors' Report - Report on Financial Statements	1-2
Financial Statements	
Balance Sheet	3
Statements of Operations	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-9
Supplementary Information	
Statement of Revenue and Expenses - Actual vs. Budget	10-11
Supplementary Schedule of Expenses	12-13



Brian Zabel & ASSOCIATES P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Lakewood Prairie Homeowners Association
Buffalo Grove, Illinois

We have audited the accompanying financial statements of Lakewood Prairie Homeowners Association, which comprise the balance sheet as of December 31, 2015, and the related statement of operations, income, and member's equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Lakewood Prairie Homeowners Association as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary statements of revenue and expenses – actual vs. budget and schedules of expenses, which are the responsibility of the Association’s management, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information, except for the portion marked “unaudited,” was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements and certain additional procedures, including comparing reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or any other form of assurance on it.

Brian Zabel & Assoc.

BRIAN ZABEL & ASSOCIATES, P.C.
Certified Public Accountants

Morris, Illinois
January 30, 2017

LAKEWOOD PRAIRIE HOMEOWNERS ASSOCIATION

BALANCE SHEET

December 31, 2015

<u>Assets</u>	2015			2014
	Operating Fund	Replacement Fund	Total All Funds	
Cash and Cash Equivalents	\$ 194,271	\$ 50,225	\$ 244,496	\$ 252,777
Member Dues Recievable	75,387	-	75,387	36,148
Due from Operating Fund	-	80,461	80,461	92,225
Due to Replacement Fund	(80,461)	-	(80,461)	(92,225)
Prepays and Other Assets	-	-	-	-
Total assets	189,197	130,686	319,883	288,925
 <u>Liabilities and Member's Equity</u>				
Liabilities				
Accounts Payable and Accrued Expenses	\$ 5,198	\$ -	\$ 5,198	\$ 656
Assessments Prepaid	17,778	-	17,778	15,406
Deferred Insurance Income	41,075	-	41,075	-
Total current liabilities	64,051	-	64,051	16,062
 Member's Equity				
Fund Balance				
Operating	125,146	-	125,146	219,692
Reserve for Replacements	-	130,686	130,686	53,171
Total Member's Equity	125,146	130,686	255,832	272,863
Total liabilities and Member's Equity	\$ 189,197	\$ 130,686	\$ 319,883	\$ 288,925

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

LAKEWOOD PRAIRIE HOMEOWNERS ASSOCIATION

STATEMENT OF OPERATIONS
Years Ended December 31, 2015 and 2014

	Operating Fund	2015 Replacement Fund	Total All Funds	2014
Revenues				
Member Assessments	\$ 122,151	\$ 80,461	\$ 202,612	\$ 201,358
Clubhouse Rental Income	7,790	-	7,790	7,132
Legal Fees	4,660	-	4,660	10,607
Late Fees	665	-	665	1,075
Interest Income	-	30	30	105
Miscellaneous	684	-	684	456
Administrative Fees	105	-	105	-
Total Revenues	<u>136,055</u>	<u>80,491</u>	<u>216,546</u>	<u>220,733</u>
Expenses				
Payroll and Benefits	2,315	-	2,315	2,225
Clubhouse Expenses	39,647	-	39,647	44,674
Landscaping and Storm Detention	96,490	-	96,490	47,973
Pool Expenses	56,703	-	56,703	44,608
General and Administrative	38,422	-	38,422	53,123
Total expenses	<u>233,577</u>	<u>-</u>	<u>233,577</u>	<u>192,603</u>
Excess (Deficit) of Revenues Over Expenses	<u>(97,522)</u>	<u>80,491</u>	<u>(17,031)</u>	<u>28,130</u>
<u>Member's Equity</u>				
Transfer to Replacement Fund	2,976	(2,976)	-	(17,619)
Total Change in Member's Equity	<u>(94,546)</u>	<u>77,515</u>	<u>(17,031)</u>	<u>10,511</u>
Member's Equity, beginning of the year	219,692	53,171	272,863	262,352
Member's Equity, end of the year	<u>\$ 125,146</u>	<u>\$ 130,686</u>	<u>\$ 255,832</u>	<u>\$ 272,863</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

LAKWOOD PRAIRIE HOMEOWNERS ASSOCIATION

STATEMENTS OF CASH FLOWS
Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	Operating Fund	2015 Replacement Fund	Total All Funds
Excess (Deficit) of Revenue over Expenditures	\$ (97,522)	\$ 80,491	\$ (17,031)
Adjustments to reconcile excess (deficit) of revenue over expenses to net cash provided by operating activities:			
Decrease (Increase) in Assessments Receivable	(39,239)	-	(39,239)
Decrease (Increase) in Prepaid Expenses	-	-	-
Increase (Decrease) in Accounts Payable	4,542	-	4,542
Increase (Decrease) in Prepaid Assessments	2,372	-	2,372
Increase (Decrease) in Deferred Revenue	41,075	-	41,075
Total adjustments	8,750	-	8,750
Net cash provided by operating activities	(88,772)	80,491	(8,281)
 CASH FLOWS USED BY FINANCING ACTIVITIES			
Interfund Receivable/Payable	80,461	(80,461)	-
Net cash used by financing activities	80,461	(80,461)	-
 NET INCREASE (DECREASE) IN CASH	(8,311)	30	(8,281)
Cash, beginning of the year	202,582	50,195	252,777
Cash, end of the year	\$ 194,271	\$ 50,225	\$ 244,496

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

LAKWOOD PRAIRIE HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1. NATURE OF ORGANIZATION

Lakewood Prairie Homeowners Association is organized under the not-for-profit act for purposes of administering and operating the property pursuant to the provision of the Homeowners Association Declaration of Covenants, Conditions, and Restrictions. The Association was incorporated on January 25, 2006, and consists of 331 residential units located in Buffalo Grove, Illinois.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Association has consistently reported its income and its expenses using the accrual method of accounting. Accordingly, revenue and related assets are recognized when earned and expenses recognized when the obligation is incurred.

Fund Accounting

The Association uses fund accounting to observe the limitations and restrictions placed on its financial resources by its governing documents. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Members pay dues to the Association to cover operating costs and to provide funds for estimated future repairs and replacements for the properties. Members are billed monthly and assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessment are significantly delinquent. Any excess assessments at year end are retained by the association for use in the succeeding year.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not presented in the Association's financial statements since those properties are owned by the individual unit owners in common and not by the Association.

LAKWOOD PRAIRIE HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Association files its income tax return as a homeowners' association in accordance with Internal Revenue Code Section 528 for the year ending December 31, 2015. Under that section, the Association is not taxed on uniform assessments to members and other income received from the Association members solely as a function of their membership in the association. The association is taxed at 30% on its net nonexempt function income, which includes interest income and revenue received from nonmembers, net of related expenses.

Cash and Cash Equivalents

The Association considers cash on hand, cash in banks, time deposits, and U.S. Government and other short-term securities with maturities of three months or less when purchased as cash and cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect (1) reported amounts of assets and liabilities, including the disclosure of contingent assets and liabilities at the financial statement date and (2) reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, cash equivalents, accounts receivable, accounts payable, accrued liabilities, and notes payable, approximate fair value due to the short maturities of these instruments.

NOTE 3. ASSESSMENT CHARGES TO UNIT OWNERS

Assessments for the year ended December 31, 2015 were determined in accordance with budget set forth by the Board of Directors. Allocations were made to unit owners in accordance with their percentage of ownership as recorded on the Declaration.

The amount of assessments allocated to the Replacement Fund totaled \$80,461 and \$ for the years ended December 31, 2015 and 2014, respectively, in accordance with the budgets as adopted by the Board of Directors.

LAKWOOD PRAIRIE HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 4. RESERVE FOR CAPITAL IMPROVEMENTS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for operating expenditures.

Funds are being accumulated in the replacement fund based on the estimated future costs for repairs and replacements of common property components. Actual expenditures and investment income may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, levy special assessments, or delay the major repairs and replacements until funds are available.

NOTE 5. COMMITMENTS AND CONTINGENCIES

The Association has entered into various maintenance, management, and service agreements for the upkeep and operation of the property.

NOTE 6. SUBSEQUENT EVENTS

The Association has evaluated events and transactions occurring subsequent to December 31, 2015. As of January XX, 2017, which is the date these financial statements were available to be issued, no material events have occurred which require recognition or disclosure in the financial statements.

LAKWOOD PRAIRIE HOMEOWNERS ASSOCIATION

STATEMENT OF REVENUE AND EXPENSES - ACTUAL VS. BUDGET

Year Ended December 31, 2015

	Actual	(Unaudited) Budget	Variance - Favorable (Unfavorable)
Revenues			
Member Assessments	\$ 202,612	\$ 210,337	\$ 7,725
Clubhouse Rental Income	7,790	-	(7,790)
Legal Fees	4,660	-	(4,660)
Late Fees	665	-	(665)
Interest Income	30	-	(30)
Miscellaneous	684	-	(684)
Administrative Fees	105	-	(105)
Total Revenues	216,546	210,337	(6,209)
Expenses			
Payroll and Benefits:			
Clubhouse Attendants	2,315	-	(2,315)
Total Payroll and Benefits	2,315	-	(2,315)
Clubhouse Expenses:			
Electric	7,383	7,500	117
Water and Sewer	2,293	4,000	1,707
Gas Usage	2,299	3,800	1,501
Telephone	2,717	2,000	(717)
Cable/Internet	1,225	1,000	(225)
Scavenger Service	2,727	2,500	(227)
Lightbulbs and Fixtures	-	200	200
Irrigation	3,404	1,000	(2,404)
Janitorial	4,946	5,500	554
Furniture/Appliances	413	500	87
Miscellaneous	1,761	750	(1,011)
Painting	765	250	(515)
Building Repairs	8,924	100	(8,824)
Plumbing	-	500	500
Security System	540	800	260
Tot Lots	-	250	250
Tennis & Volleyball Courts	250	200	(50)
Total Clubhouse Expenses	39,647	30,850	(8,797)

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

LAKWOOD PRAIRIE HOMEOWNERS ASSOCIATION

STATEMENT OF REVENUE AND EXPENSES - ACTUAL VS. BUDGET
 Year Ended December 31, 2015

	Actual	(Unaudited) Budget	Variance - Favorable (Unfavorable)
Expenses (Continued)			
Landscaping & Storm Detention:			
Landscape Buffer Areas	56,250	32,000	(24,250)
Landscape Additional	21,266	11,947	(9,319)
Maintenance of Detention Areas	16,864	12,000	(4,864)
Snow Removal	2,110	1,000	(1,110)
Total Landscaping & Storm Detention	96,490	56,947	(39,543)
Pool Expenses:			
Pool Equipment/Repairs	13,345	3,000	(10,345)
Pool Supplies	62	500	438
Lifeguard Service	42,959	43,175	216
Pool Tags	337	500	163
Total Pool Expenses	56,703	47,175	(9,528)
General and Administrative			
Office Expense	9,323	8,000	(1,323)
Management Fees	15,050	15,050	-
Legal	4,849	13,066	8,217
Audit/Financial Cost	350	350	-
Bad Debt Write off	2,653	10,000	7,347
Insurance	6,197	8,000	1,803
Total General and Administrative	38,422	54,466	16,044
Total Expenses	233,577	189,438	(44,139)
Excess (Deficit) of Revenues Over Expenses	\$ (17,031)	\$ 20,899	\$ 37,930

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

LAKWOOD PRAIRIE HOMEOWNERS ASSOCIATION

SUPPLEMENTARY SCHEDULE OF EXPENSES

Years Ended December 31, 2015 and 2014

	2015	2014
Payroll and Benefits:		
Clubhouse Attendants	\$ 2,315	\$ 2,225
Total Payroll and Benefits	2,315	2,225
Clubhouse Expenses:		
Electric	7,383	6,605
Water and Sewer	2,293	5,589
Gas Usage	2,299	4,297
Telephone	2,717	2,151
Cable/Internet	1,225	1,206
Scavenger Service	2,727	2,451
Lightbulbs and Fixtures	-	-
Irrigation	3,404	1,833
Janitorial	4,946	6,614
Furniture/Appliances	413	-
Miscellaneous	1,761	221
Painting	765	-
Building Repairs	8,924	12,130
Plumbing	-	725
Security System	540	852
Tot Lots	-	-
Tennis & Volleyball Courts	250	-
Total Clubhouse Expenses	39,647	44,674
Landscaping & Storm Detention:		
Landscape Buffer Areas	56,250	36,050
Landscape Additional	21,266	7,930
Maintenance of Detention Areas	16,864	990
Snow Removal	2,110	3,003
Total Landscaping & Storm Detention	96,490	47,973
Pool Expenses:		
Pool Equipment/Repairs	13,345	4,415
Pool Supplies	62	62
Lifeguard Service	42,959	40,131
Pool Tags	337	-
Total Pool Expenses	56,703	44,608

See Independent Auditor's Report and Accompanying Notes to the Financial Statements

LAKWOOD PRAIRIE HOMEOWNERS ASSOCIATION

SUPPLEMENTARY SCHEDULE OF EXPENSES

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
General and Administrative		
Office Expense	9,323	7,950
Management Fees	15,050	15,050
Legal	4,849	11,443
Audit/Financial Cost	350	325
Bad Debt Write off	2,653	12,243
Insurance	6,197	6,112
Total General and Administrative	<u>38,422</u>	<u>53,123</u>
Total Expenses	<u>\$ 233,577</u>	<u>\$ 192,603</u>

See Independent Auditor's Report and Accompanying Notes to the Financial Statements