

***LAKE SAINT LOUIS
COMMUNITY ASSOCIATION***

***FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015***

LAKE SAINT LOUIS COMMUNITY ASSOCIATION

LAKE SAINT LOUIS, MISSOURI

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INDEPENDENT AUDITORS' REPORT



To the Board of Directors
LAKE SAINT LOUIS COMMUNITY ASSOCIATION

We have audited the accompanying balance sheets of Lake Saint Louis Community Association as of December 31, 2016 and 2015, and the related statements of revenue and expenses, changes in members' equity, and cash flows for the years 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 of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 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 auditors' 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 Lake Saint Louis Community Association as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 12 through 20 is presented for purposes of additional analysis and not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Batz, Real and Company

April 13, 2017

LAKE SAINT LOUIS COMMUNITY ASSOCIATION

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash - assessment reserve	\$ 1,388,110	\$ 1,308,249
Certificates of deposit - dredging reserve	1,000,000	750,000
Certificates of deposit - emergency reserve	1,000,000	1,000,000
Assessments receivable - net of allowance for doubtful accounts of \$80,000 in 2016 and 2015	1,544,013	1,414,960
Prepaid expenses	15,036	26,608
Inventory	23,108	21,912
TOTAL CURRENT ASSETS	<u>4,970,267</u>	<u>4,521,729</u>
 PROPERTY AND EQUIPMENT		
Land	6,000,333	6,000,333
Dams and lakes	4,615,866	4,578,666
Recreational facilities	4,662,467	4,583,155
Buildings and improvements	4,543,596	4,537,928
Furniture, fixtures and equipment	1,117,340	1,026,425
Total Cost	<u>20,939,602</u>	<u>20,726,507</u>
Less: accumulated depreciation	<u>10,869,642</u>	<u>10,143,578</u>
TOTAL PROPERTY AND EQUIPMENT	<u>10,069,960</u>	<u>10,582,929</u>
 TOTAL ASSETS	 <u>\$ 15,040,227</u>	 <u>\$ 15,104,658</u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts payable	\$ 57,666	\$ 62,044
Deferred assessments revenue	1,745,210	1,701,065
Accrued expenses:		
Wages	28,737	21,489
Vacation	14,648	84,511
Clubhouse deposits	51,138	45,650
TOTAL CURRENT LIABILITIES	<u>1,897,399</u>	<u>1,914,759</u>

MEMBERS' EQUITY

MEMBERS' EQUITY		
Undesignated	9,754,718	10,131,650
Designated for future repairs and replacements - Dredging	1,000,000	750,000
Emergency reserve	1,000,000	1,000,000
Assessment reserve	1,388,110	1,308,249
TOTAL MEMBERS' EQUITY	<u>13,142,828</u>	<u>13,189,899</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 15,040,227</u>	<u>\$ 15,104,658</u>

The accompanying notes are an integral part of these financial statements.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
REVENUE		
Assessments	\$ 1,735,158	\$ 1,703,580
User fees and other income	936,605	906,896
TOTAL REVENUE	2,671,763	2,610,476
 EXPENSES		
Member services and administration	645,565	518,981
Amenity operations and maintenance	2,198,326	2,289,544
TOTAL EXPENSES	2,843,891	2,808,525
 EXCESS OF REVENUE OVER (UNDER)		
EXPENSES FROM OPERATIONS	(172,128)	(198,049)
 OTHER INCOME		
Interest and dividend income	10,998	10,861
Lien, collection, and interest charges	38,291	50,075
Miscellaneous	75,768	85,971
TOTAL OTHER INCOME	125,057	146,907
 EXCESS OF REVENUE OVER		
(UNDER) EXPENSES	(47,071)	(51,142)
 MEMBERS' EQUITY - BEGINNING OF YEAR	13,189,899	13,241,041
 MEMBERS' EQUITY - END OF YEAR	\$ 13,142,828	\$ 13,189,899

The accompanying notes are an integral part of these financial statements.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Total</u>	<u>Undesignated</u>	<u>Dredging Reserve</u>	<u>Emergency Reserve</u>	<u>Assessment Reserve</u>
l, 2014	\$ 13,241,041	\$ 10,281,053	\$ 267,000	\$ 1,000,000	\$ 1,692,988
es	(51,142)	(51,142)	-	-	-
	<u>-</u>	<u>(98,261)</u>	<u>483,000</u>	<u>-</u>	<u>(384,739)</u>
l, 2015	13,189,899	10,131,650	750,000	1,000,000	1,308,249
es	(47,071)	(47,071)	-	-	-
	<u>-</u>	<u>(329,861)</u>	<u>250,000</u>	<u>-</u>	<u>79,861</u>
l, 2016	<u>\$ 13,142,828</u>	<u>\$ 9,754,718</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,388,110</u>

The accompanying notes are an integral part of these financial statements.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from assessments, collection, and lien charges	\$ 1,674,182	\$ 1,665,716
Cash received from operations	936,605	906,896
Cash paid to suppliers and employees	(2,154,597)	(2,114,488)
Interest and dividends received	10,998	10,861
Miscellaneous cash receipts	75,768	85,971
NET CASH PROVIDED BY OPERATING ACTIVITIES	542,956	554,956
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(213,095)	(456,695)
Purchase of certificates of deposit	(250,000)	(500,000)
NET CASH USED BY INVESTING ACTIVITIES	(463,095)	(956,695)
NET INCREASE (DECREASE) IN CASH	79,861	(401,739)
CASH - BEGINNING OF YEAR	1,308,249	1,709,988
CASH - END OF YEAR	\$ 1,388,110	\$ 1,308,249

The accompanying notes are an integral part of these financial statements.

**RECONCILIATION OF EXCESS OF REVENUE OVER (UNDER) EXPENSES
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

	2016	2015
EXCESS OF REVENUE OVER (UNDER) EXPENSES	\$ (47,071)	\$ (51,142)
 ADJUSTMENTS TO RECONCILE EXCESS OF REVENUE OVER (UNDER) EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	726,064	725,893
(Increase) decrease in assets:		
Assessments receivable	(129,053)	(82,797)
Prepaid expenses	11,572	(779)
Inventory	(1,196)	(1,442)
Increase (decrease) in liabilities:		
Accounts payable	(5,025)	(18,536)
Deferred assessment revenue	44,145	(2,815)
Accrued expenses:		
Wages	(62,615)	-
Payroll taxes and withholdings	647	-
Clubhouse deposits	5,488	(13,426)
TOTAL ADJUSTMENTS	590,027	606,098
 NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 542,956	\$ 554,956

The accompanying notes are an integral part of these financial statements.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. DESCRIPTION OF OPERATIONS

Lake Saint Louis Community Association (the Association) is a Missouri not-for-profit homeowners' association. The Association is responsible for the operation and maintenance of common property within the development. The development consists of 3,953 units located in Lake Saint Louis, Missouri.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Concentration of Cash - The Association maintains its cash and certificates of deposit in various accounts at 14 financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation and the National Credit Union Administration. A summary of the insured and uninsured cash balances at December 31, 2016 is as follows:

Total cash on deposit	\$	3,317,098
Less: portion insured		(3,187,362)
)
Uninsured cash balance	\$	<u>129,736</u>

Cash and cash equivalents - The Association considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable - Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association has provided an allowance for doubtful accounts equal to the estimated collection losses that will be incurred in collection of all receivables. The estimated losses are based on historical collection experience coupled with a review of the current status of the existing receivables. It is the Association's policy to place liens on the units of members whose assessments are delinquent. The Association charges a \$50 late fee on all delinquent assessments. Assessments over 30 days past due accrue interest at a rate of .5% per month. In addition, a \$150 lien fee is charged to the account if it is necessary to file a lien against the property. As of December 31, 2016, the Association had \$192,947 in assessments over 30 days past due and still accruing. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Inventory - Inventory is stated at the lower of cost or market.

Advertising - The association follows the policy of charging advertising to expense when incurred. Advertising costs amounted to \$924 and \$1,747 for the years ended December 31, 2016 and 2015, respectively.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

Property and Equipment - The Association capitalizes all property and equipment with an original cost of more than \$5,000 to which it has title or other evidence of ownership with the exception of real property directly associated with the units. According to the Association's governing documents, two-thirds of all members must approve dispositions of any common real property.

Property and equipment acquired by the Association are recorded at cost and property contributed to the Association by the developer was recorded at estimated fair market value at the date of contribution. Major repairs and improvements are capitalized and maintenance and repairs which do not improve or extend the life of the respective assets are charged against operations in the current period.

Fixed assets are depreciated using the straight-line method over their estimated service lives, per asset classification, as follows:

<u>Major Group</u>	<u>Method</u>	<u>Life</u>
Dams and lakes	Straight-line	5 - 50 years
Recreational facilities	Straight-line	5 - 40 years
Buildings and improvements	Straight-line	5 - 40 years
Furniture, fixtures, and equipment	Straight-line	3 - 15 years

Depreciation expense was \$726,064 and \$725,893 for 2016 and 2015, respectively.

Deferred Assessment Revenue - Membership assessments are recognized as revenue in the year earned. Assessments billed prior to the due date are recorded as deferred revenue.

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

Income Taxes - Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. In 2016 and 2015, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

3. **LINE OF CREDIT**

The Association has available a \$500,000 line of credit with First Bank, which bears interest at the prime rate and renews annually in June. The Association did not have any borrowings on the line in 2016 or 2015.

4. RETIREMENT PLAN

The Association has a defined contribution plan which covers all employees who have attained twenty one years of age and completed one year (at least 1,000 hours) of service. Participants may contribute a portion of their salary pursuant to their salary reduction agreements. The Association's matching contribution is a discretionary amount equal to a percentage of the participants' salary reductions. Total pension expense for 2016 and 2015 was \$9,912 and \$22,685, respectively.

5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents were amended in 2012 and require funds to be accumulated for dredging reserves, emergency reserves, and assessment reserves. The dredging reserve had accumulated funds of \$1,000,000 and \$750,000 at December 31, 2016 and 2015, respectively. The emergency reserve had accumulated funds of \$1,000,000 at December 31, 2016 and 2015. The assessment reserves had accumulated funds of \$1,388,110 and \$1,308,249 at December 31, 2016 and 2015, respectively. These reserves are held in separate accounts and the reserves holding the dredging and emergency funds are generally not available for operating purposes. The interest earned on such funds is available for operating purposes.

The Association has not conducted a study to determine the remaining useful lives of components of common property and estimates of the costs of major repairs and replacements that may be required in the future. Future major repairs and replacements may be funded through special assessments or borrowing as the need arises.

6. INCOME TAXES

FASB Accounting Standards Codification Topic 740, Income Taxes, provides for the recognition of tax benefits related to uncertain tax positions. For the years ended December 31, 2016 and 2015, management believes there are no material uncertain tax positions. The Company files income tax returns in the U.S. federal jurisdiction and the state of Missouri. Income tax returns prior to 2013 are closed.

7. RECLASSIFICATION

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation of the current year financial statements.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 13, 2017, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
SCHEDULES OF MEMBER SERVICES AND
ADMINISTRATION EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
EXPENSES		
Salaries	\$ 286,158	\$ 252,553
Advertising	347	1,187
Bad debts	14,359	2,327
Bank charges	23,511	20,519
Collections	50,736	32,078
Depreciation	15,951	15,132
Dues and subscriptions	1,343	578
Election costs	11,979	31,951
Equipment rental, repair and operation	22,422	11,505
Fringe benefits	37,371	33,259
Insurance	12,447	10,430
Interest expense	539	-
Maintenance agreements	2,632	3,859
Meetings, meals, and travel	2,678	3,898
Miscellaneous	5,556	2,331
Office and other supplies	25,592	14,057
Payroll processing fees	15,988	12,281
Payroll taxes	28,866	20,269
Postage	1,226	1,631
Professional fees	75,391	40,226
Staff development	4,079	-
Taxes and licenses	-	893
Telephone and utilities	6,394	8,017
TOTAL DEPARTMENT SUBSIDY REQUIREMENT	<u>\$ 645,565</u>	<u>\$ 518,981</u>

See Independent Auditors' Report.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
SCHEDULES OF AMENITY OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
REVENUE		
Amenities income	\$ 151,537	\$ 153,156
EXPENSES		
Salaries	126,722	116,722
Chemicals and fertilizers	17,323	18,528
Contractual labor	2,130	500
Depreciation	53,566	91,734
Equipment repairs and maintenance	19,887	51,075
Fringe benefits	7,413	7,901
Insurance	16,064	10,200
Interest expense	42	-
Management fees	62,859	64,404
Miscellaneous	7,796	13,610
Payroll taxes	11,603	10,337
Seed, sod, sand, and rock	10,501	8,005
Supplies	13,103	19,399
Telephone and utilities	9,260	10,375
TOTAL EXPENSES	<u>358,269</u>	<u>422,790</u>
TOTAL DEPARTMENT SUBSIDY REQUIREMENT	<u>\$ 206,732</u>	<u>\$ 269,634</u>

See Independent Auditors' Report.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
SCHEDULES OF SPECIAL EVENT OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
EXPENSES		
Programs	<u>41,112</u>	<u>31,109</u>
 TOTAL DEPARTMENT SUBSIDY REQUIREMENT	 <u>\$ 41,112</u>	 <u>\$ 31,109</u>

See Independent Auditors' Report.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
SCHEDULES OF LAKES AND MARINAS OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
REVENUE		
Boat registration, docks and storage	\$ 468,501	\$ 451,981
Gasoline and oil sales	70,201	77,596
Miscellaneous	1,740	1,570
TOTAL REVENUE	540,442	531,147
 EXPENSES		
Salaries	85,572	86,793
Auto stickers	-	776
Boat dock materials	9,019	6,558
Boat parts and repairs	4,112	5,872
Contract labor	275	180
Depreciation	481,077	434,658
Equipment rental and repair	31,074	21,098
Fringe benefits	1,367	1,873
Hardware and supplies	13,586	30,147
Insurance	81,695	83,813
Interest expense	149	-
Lake maintenance and clean up	21,175	31,916
Marina gasoline and oil	57,243	57,695
Miscellaneous	18,343	37,321
Payroll taxes	8,014	8,323
Telephone and utilities	24,963	20,030
Uniforms	-	1,005
Water quality testing	1,380	512
TOTAL EXPENSES	839,044	828,570
 TOTAL DEPARTMENT SUBSIDY REQUIREMENT		
	\$ 298,602	\$ 297,423

See Independent Auditors' Report.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
SCHEDULES OF MAINTENANCE OF PARKS AND COMMON GROUND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
EXPENSES		
Salaries	\$ 276,879	\$ 285,222
Fringe benefits	75,184	54,830
Payroll taxes	23,222	24,175
Common grounds	1,859	1,275
Contract labor	7,465	-
Depreciation	34,203	33,945
Equipment rental, maintenance, and operation	28,202	46,183
Hardware and supplies	2,965	6,157
Insurance	11,211	12,209
Miscellaneous	3,010	7,394
Taxes and licenses	1,684	2,630
Telephone and utilities	10,005	10,920
Uniforms	7,518	5,410
TOTAL DEPARTMENT SUBSIDY REQUIREMENT	\$ 483,407	\$ 490,350

See Independent Auditors' Report.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION

**SCHEDULES OF CLUBHOUSE AND
BEVERAGE AGENCY OPERATIONS**

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
REVENUE		
Clubhouse rental	\$ 32,209	\$ 23,850
Beverage and food	401,829	376,714
Direct costs of liquor, beer, soda and food	<u>(190,512)</u>	<u>(179,271)</u>
GROSS MARGIN	<u>243,526</u>	<u>221,293</u>
EXPENSES		
Salaries	146,836	153,310
Advertising	426	560
Bar supplies	14,763	2,945
Contract labor	64	-
Depreciation	141,267	150,424
Equipment rental and repair	13,712	408
Fringe benefits	14,441	16,453
Insurance	15,399	15,600
Janitorial service	3,868	5,397
Miscellaneous	9,580	10,172
Payroll taxes	19,602	20,225
Repairs and maintenance	23,792	46,682
Supplies	13,325	34,089
Taxes and licenses	3,463	1,036
Uniforms	1,358	1,320
Telephone and utilities	<u>54,598</u>	<u>58,104</u>
TOTAL EXPENSES	<u>476,494</u>	<u>516,725</u>
TOTAL DEPARTMENT SUBSIDY REQUIREMENT	<u>\$ 232,968</u>	<u>\$ 295,432</u>

See Independent Auditors' Report.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
SCHEDULES OF ARCHITECTURAL CONTROL COMMITTEE OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
REVENUES		
Fees	\$ 1,100	\$ 1,300
EXPENSES		
Miscellaneous	<u>-</u>	<u>-</u>
 TOTAL DEPARTMENT SUBSIDY REQUIREMENT	 <u>\$ (1,100)</u>	 <u>\$ (1,300)</u>

See Independent Auditors' Report.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
SCHEDULES OF DEPARTMENTAL SUBSIDY REQUIREMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016		2015	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
Member services and administration	\$ (645,565)	36.2 %	\$ (518,981)	29.6 %
Amenities	(206,732)	11.6	(269,634)	15.4
Special events	(41,112)	2.3	(31,109)	1.8
Lakes and marinas operations	(298,602)	16.8	(297,423)	16.9
Maintenance of parks and common grounds	(483,407)	27.1	(490,350)	27.9
Clubhouse and beverage agency operations	(232,968)	13.1	(295,432)	16.8
Architectural Control Committee	1,100	(0.1)	1,300	(0.1)
Other income	125,057	(7.0)	146,907	(8.3)
NET OPERATING REQUIREMENTS	(1,782,229)	100.0 %	(1,754,722)	100.0 %
Assessments	1,735,158		1,703,580	
EXCESS OF ASSESSMENTS OVER (UNDER) NET OPERATING REQUIREMENTS	\$ (47,071)		\$ (51,142)	

See Independent Auditors' Report.

LAKE SAINT LOUIS COMMUNITY ASSOCIATION
SCHEDULES OF UNIT MEMBER EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Single Unit Member Equity	\$ 3,331	\$ 3,331
Number Of Units	3,960	3,960

See Independent Auditors' Report.

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED – UPON PROCEDURES**

Lake Saint Louis Community Association
100 Cognac Court
Lake Saint Louis, Missouri 63367



We have performed the procedures enumerated below, which were agreed to by the Board of Directors of Lake Saint Louis Community Association, on compliance with specific by-law requirements for the year ended December 31, 2016. Lake Saint Louis Community Association's management is responsible for the accounting records. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings for the period ended December 31, 2016 were as follows:

1. We verified separate accounts have been established for the Dredging Reserve, Emergency Reserve, and Assessment Reserve as required in the Association bylaws. We reviewed activity within these accounts for the year ended December 31, 2016 and noted no commingling of funds throughout the year.
2. We reviewed the Dredging Reserve Balance to ensure it has increased by a minimum of 1/7th of the estimated dredge expense for the next full lake dredge.
 - Due to the difficulty for the Association in estimating the future costs of dredging management has requested the evaluation of the two options as listed below:
 - Option 1: The last dredge was completed in 2013 at a cost of \$1.5 million. Therefore, the dredge reserve would increase yearly by a minimum of 1/7th of \$1.5 million or \$214,286 per year.
 - Option 2: The financial forecast prepared by the Association includes an estimated cost for the dredge of \$2.5 million. Therefore, the dredge reserve would increase yearly by a minimum of 1/7th of \$2.5 million or \$357,143 per year.

Year	Option 1: Required Balance	Option 2: Required Balance	Actual Balance
2014	\$214,286	\$357,143	\$500,000
2015	428,572	714,286	750,000
2016	642,858	1,071,429	1,000,000
2017	857,144	1,428,572	
2018	1,071,430	1,785,715	
2019	1,285,716	2,142,858	
2020	1,500,000	2,500,000	

3. We reviewed the balance in the Emergency Reserve Fund and verified it meets the requirement as defined by the Association by-laws. We also noted there were no loans made using the emergency reserve funds during the year ended December 31, 2016.

- Required Minimum Balance: \$1,000,000
- Actual Balance: \$1,000,000

4. We obtained the ten-year financial forecast prepared by the General Manager and verified it had been updated for the current year. The forecast included a 3% increase for annual expenses, a 10% increase for capital spending, and a 1% annual fee increase.

5. We reviewed the assessment reserve at December 31, 2016 to ensure it is adequate to cover revenue shortfalls based on the Association’s financial forecast for the next two years.

- Assessment Reserve Balance: \$1,388,110
- Two-year Revenue Shortfall: (369,844)
- Reserve balance is adequate at December 31, 2016 based upon management’s financial forecast.

Data below derived from the Association financial forecast

	2017	2018
Revenues	\$ 2,902,230	\$ 2,921,502
Expenses & Capital Items	(2,710,274)	(2,783,302)
Dredge Reserve Funding	(350,000)	(350,000)
Forecasted Revenue Shortfall	<u>\$ (158,044)</u>	<u>\$ (211,800)</u>

6. We reviewed capital spending as a percentage of total revenue to ensure compliance with Association Bylaws.

- Per Association By-Laws, up to 10% of total revenue may be used for capital maintenance and improvements, but not more than the amount of revenue remaining after funding Administrative and Operating Costs and Dredging and Emergency Reserves.

Capital Spending Max, lesser of:

- 10% of Total Revenue \$ 298,733
- Net Revenue after expenses and funding reserves (see calculation below) 428,993

Actual Capital Spending 213,095
 Capital spending within guidelines Yes

	2016
Total Revenues	\$ 2,987,332
Administrative and Operating Expenses (not including depreciation)	(2,308,339)
Funding of Reserves	(250,000)
Maximum Capital Spending Limit	<u>\$ 428,993</u>

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accuracy of the by-law compliance for the year ended December 31, 2016. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Lake Saint Louis Community Association and is not intended to be and should not be used by anyone other than those specified parties.

Botz, Deal and Company

St. Charles, Missouri
April 13, 2017