

HIDDEN VALLEY LAKE  
PROPERTY OWNERS' ASSOCIATION, INC.  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018



TABLE OF CONTENTS

Report of Independent Accountants ..... 1-2

Consolidated Balance Sheets ..... 3

Consolidated Statements of Revenues, Expenses  
and Changes in Members' Equity ..... 4

Consolidated Statements of Cash Flows ..... 5

Notes to Financial Statements .....6-12

DONLIN &  
ASSOCIATES, P.S.C.  
CERTIFIED  
PUBLIC  
ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Hidden Valley Lake Property  
Owners' Association, Inc.  
Lawrenceburg, IN

We have audited the accompanying consolidated financial statements of Hidden Valley Lake Property Owners' Association, Inc. which comprise the consolidated balance sheets as of December 31, 2019 and 2018 and the related consolidated statements of revenues, expenses and 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Hidden Valley Lake Property Owners Association, Inc. as of December 31, 2019 and 2018, 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.

*Danlin & Associates P.S.C.*

March 30, 2020

Hidden Valley Lake Property  
 Owners' Association, Inc.  
 Consolidated Balance Sheets  
 As of December 31, 2019 and 2018

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash	\$553,669	\$1,021,939
Cash, restricted	24,000	19,000
Membership Fees and Assessments Receivable	47,206	40,804
Accounts Receivable	1,543	6,130
Inventories	62,864	36,293
Prepaid Expenses	52,465	57,130
 Property and Equipment		
Land	1,186,269	1,186,269
Land Improvements	342,230	342,230
Community Center & Other Buildings	1,779,783	1,691,675
Streets and Roads	2,423,484	2,205,473
Recreational Facilities	1,177,422	843,778
Equipment, Furniture and Fixtures	1,217,114	1,083,403
Dam rehabilitation	334,599	334,599
Construction in Progress	9,290	31,167
	8,470,191	7,718,594
Less Accumulated Depreciation	(4,203,479)	(3,832,814)
	4,266,712	3,885,780
 Other Assets	1,000	1,000
<b>Total Assets</b>	<b>\$5,009,459</b>	<b>\$5,068,076</b>
 <b>Liabilities and Members'</b>		
Accounts Payable	\$49,379	\$40,478
Accrued Expenses	55,177	56,422
Deferred Income	234,313	132,572
Road Bond Deposits	24,000	19,000
Long- term Debt	1,203,505	1,318,282
<b>Total Liabilities</b>	<b>1,566,374</b>	<b>1,566,754</b>
 Members' Equity	3,443,085	3,501,322
<b>Total Liabilities and Members' Equity</b>	<b>\$5,009,459</b>	<b>\$5,068,076</b>

The accompanying notes are an integral  
 part of the financial statements

Hidden Valley Lake Property  
 Owners' Association, Inc.  
 Consolidated Statements of Revenues, Expenses  
 and Changes in Members' Equity  
 For the Years Ended December 31, 2019 and 2018

<u>Revenues</u>	<u>2019</u>	<u>2018</u>
Membership Fees and Assessments	\$2,072,457	\$2,069,608
Golf Course Revenues	842,725	790,133
Building Permit Fees	10,500	9,000
Fitness Center Revenues	32,332	42,055
Rental Income	37,119	37,554
Interest Income	9,684	9,309
Other Revenues	264,933	255,170
	<u>3,269,750</u>	<u>3,212,829</u>
<u>Expenses</u>		
Security	429,456	376,802
Golf Course Expenses	843,618	779,809
Streets and Parks	544,826	458,294
Lakes, Pool, Beach and Woodlands	214,867	358,609
Fitness Center	14,664	16,544
General and Administrative	858,823	769,381
Interest Expense	57,017	61,543
Depreciation and Loss on Retirements	364,716	357,442
	<u>3,327,987</u>	<u>3,178,424</u>
Excess (deficiency) of Revenues Over Expenses	(58,237)	34,405
Members' Equity, January 1	<u>3,501,322</u>	<u>3,466,917</u>
Members' Equity, December 31	<u><u>\$3,443,085</u></u>	<u><u>\$3,501,322</u></u>

The accompanying notes are an integral  
 part of the financial statements

Hidden Valley Lake Property Owners' Association, Inc.  
Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2019 and 2018

Cash Flow From Operating Activities:	2019	2018
Operations:		
Excess (deficiency) of revenues over expenses	(\$58,237)	\$34,405
Adjustments to reconcile net earnings to net cash provided by operations		
Depreciation	378,477	326,635
(Increase) decrease in:		
Fees and assessments receivable	(6,402)	(1,374)
Accounts Receivable	4,587	(3,840)
Inventory	(26,571)	(4,318)
Prepaid expenses	4,665	4,915
Increase (decrease) in:		
Accounts payable and accrued expenses	7,656	17,743
Deferred Revenue	101,741	21,374
Deposits	5,000	(4,000)
<b>Net Cash Flow From Operating Activities</b>	<b>410,916</b>	<b>391,540</b>
<b>Cash Flow From Investing Activities:</b>		
Additions to property and equipment	(751,597)	(75,303)
Other	(7,812)	
	(759,409)	(75,303)
<b>Cash Flow From Financing Activities</b>		
Principal payments, Installment loan	(29,058)	(27,781)
Principal payments, Mortgage loan	(85,719)	(82,566)
	(114,777)	(110,347)
<b>Net Increase (Decrease) In Cash</b>	<b>(463,270)</b>	<b>205,890</b>
<b>CASH:</b>		
At beginning of year	1,040,939	835,049
At end of year	\$577,669	\$1,040,939
<b>Interest paid</b>	<b>\$57,017</b>	<b>\$61,543</b>

The accompanying notes are an integral  
part of the financial statements



Hidden Valley Lake  
Owners' Association, Inc.  
Notes to Financial Statements

ORGANIZATION AND ACCOUNTING POLICIES

ORGANIZATION

The Hidden Valley Lake Property Owners Association, Inc. (Association) is a not-for-profit corporation formed under the laws of the State of Indiana on February 26, 1972 for the purpose of operating and maintaining the common property of the Hidden Valley Lake development in eastern Indiana near the Ohio and Kentucky borders. The Development consists of 3,363 lots, 140 are owned by the Association and considered greenspace. Of the remaining 3,223 lots, 8 are owned by the local utility company for equipment purposes and 3,215 lots are owned by 2041 members. The common property also includes a community center, streets and roads, lakes, dams, parks, recreational and maintenance facilities. The Association provides security services to the residents of the development and regulates access to and use of pools and lakes. In addition, the Association owns Hidden Valley Lake Golf Course, Inc. (HVLGC), acquired in 2015, which operates a semi-private golf course.

ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of the Association and its wholly owned subsidiaries, Hidden Valley Lake Golf Course, Inc. and Chalet, Inc. Chalet, Inc. was incorporated to operate a restaurant within the development and is currently dormant. It has had no assets, liabilities or operations for many years. As previously noted, the Association acquired all of the assets of the Hidden Valley Lake Golf Course in 2015 and has since operated as a semi-private golf course under Hidden Valley Golf Course, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Estimates

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

Member Assessments

Association members are subject to semi-annual (January 1 and July 1) assessments (fees) to provide funds for the Association's operating expenses, maintenance and repairs, capital expenditures and the debt service of the golf course acquisition loan.

Hidden Valley Lake  
Owners' Association, Inc.  
Notes to Financial Statements

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES, continued

Member Assessments, continued

Assessments are also made, when and as needed, to fund refurbishments and replacements. In 2015; the Membership voted a special 15 year \$90 per year assessment to enable the acquisition of substantially all the assets of the Hidden Valley Golf Course.

Membership fees and assessments receivable at the balance sheet dates represent unpaid fees and assessments net of an allowance for collectibility. Late charges are assessed on delinquent accounts. Further, the Association's policy is to use collection agencies and retain legal counsel, as necessary, and place liens and foreclose on the properties of the members whose fees and assessments are delinquent and unpaid.

Inventories

Inventories consist of golf associated merchandise and food and beverage products held for sale at HVLGC. Inventories are stated at the lower of cost and net realizable value using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The cost and related accumulated depreciation for assets retired or otherwise disposed of are removed from the related accounts, and any resulting gains or losses are reflected in income. The lives used in computing depreciation were based upon the applicable lives permitted by the Internal Revenue Service at the date acquired. Management believes these lives reasonably approximate the normal estimated useful lives of the assets.

Land improvements	25 years
Buildings and Lodge Improvements	10 to 39 years
Streets and Roads	5 to 20 years
Recreational Facilities	5 to 19 years
Equipment	3 to 15 years
Furniture and Fixtures	5 to 15 years

Hidden Valley Lake  
Owners' Association, Inc.  
Notes to Financial Statements

**NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES, continued**

Income Taxes

Homeowner's Associations may be taxed either as homeowner's association or as a regular corporation. Historically, the Association has elected to be taxed as a homeowner's association. Under this election, the Association is taxed on its non-exempt function income, such as interest earned. Exempt function income, such as member assessments, is not taxable.

Hidden Valley Lake Golf Course Inc. is a separate entity and files separate tax returns from the Association. As such it will pay taxes on its profits similar to other for profit corporate entities. Income taxes are recognized for the amount of taxes payable for the current year and for the impact of deferred tax assets and liabilities which represent the future tax consequences of events that have been recognized differently in the financial statements than for tax purposes. The Company uses the asset and liability method for determining deferred income taxes. The tax consequences of "temporary differences" are recognized by applying enacted statutory tax rates to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. HVLGC has approximately \$353,375 of net operating loss carryforwards. The future tax benefits of the loss carryforwards have not been recognized due to the uncertainty of HVLGC's future profitability.

The Association's income tax filings are subject to audit by various taxing authorities. The Association's open audit periods are 2015 through 2019. In evaluating the Association's and HVLGC's tax provisions and accruals, future taxable income, interpretations and tax planning strategies are considered. The Association and HVLGC believe their estimates are appropriate based on current facts and circumstances. While the Association and HVLGC do not expect material changes to their tax liabilities, it is possible that final settlement upon examination could be greater than expected.

**NOTE 2 - RESTRICTED CASH**

At December 31, 2019 and 2018, restricted cash consists of funds held for:

	<u>2019</u>	<u>2018</u>
Road bond deposits	<u>\$ 24,000</u>	<u>\$ 19,000</u>

Road bond deposits represent deposits from contractors to pay for any road damage which sometimes occurs during construction. The deposits are refundable.

Hidden Valley Lake  
Owners' Association, Inc.  
Notes to Financial Statements

NOTE 3 - MEMBERSHIP FEES AND ASSESSMENTS RECEIVABLES

Membership fees and assessments receivable are presented net of an allowance for uncollectible accounts as follows:

	<u>2019</u>	<u>2018</u>
Membership fees and assessments receivable	\$ 174,412	\$144,804
Allowance for uncollectible accounts	<u>(129,746)</u>	<u>(104,000)</u>
Net	<u>\$ 47,206</u>	<u>\$ 40,804</u>

NOTE 4 - DEBT

The Association has a \$300,000 line of credit arrangement with a bank with no outstanding borrowings at December 31, 2019 and 2018. The line of credit is collateralized by all accounts receivable, inventory, furniture and equipment now owned or hereafter acquired per the Commercial Security Agreement dated January 30, 2015. The line of credit expired January 30, 2020. At March 30, 2020, the Association is negotiating with the bank to renew the line of credit.

In connection with the acquisition of the golf course, the Association obtained a mortgage loan of \$1,500,000 from a bank to finance the acquisition. The membership approved an annual \$90 assessment to repay the debt and for the operation of the golf course. The mortgage loan bears interest at a fixed rate of 4.5%, matures January 30, 2030 and is repayable in 180 installments of \$11,477 which began March 1, 2015. The outstanding balances at December 31, 2019 and 2018 were \$1,108,075 and \$1,193,794, respectively. The loan is collateralized by substantially all of the assets of the Association including the golf course land, buildings and equipment, and the land and related community and chalet buildings and other acreage owned by the Association.

In December 2016, Hidden Valley Lake Golf Course, Inc. acquired 60 golf carts for \$263,870. The purchase was financed through an installment loan for the same amount reduced by a down payment of \$85,000. The loan bears interest at 4.5% and requires monthly payments of \$2,839 which began January 2017 through December 2022. The outstanding balances at December 31, 2019 and 2018 were \$95,430 and \$124,488, respectively.

Hidden Valley Lake  
Owners' Association, Inc.  
Notes to Financial Statements

NOTE 4 - DEBT, continued

Annual principal payments required under the mortgage and installment loans for the next five years are as follows:

2020	\$119,337
2021	\$124,961
2022	\$130,702
2023	\$101,930
2024	\$106,520

NOTE 5 - MAJOR REPAIRS AND REPLACEMENTS

The Association follows the practice of funding major repairs and replacements of common property except streets and roads through special assessments. No study, designed to estimate the remaining useful lives and the replacement costs of the major components of common property, other than streets and roads, has been performed. In addition, no specific funds are being accumulated currently to fund these future costs although the Association has accumulated funds in excess of current operating requirements that could be used for such purposes. The Association rotates the repair, maintenance and replacement of its streets and roads in order to minimize overall costs. Annually, the Association assesses for road repairs and maintenance.

Various capital expenditures were authorized throughout 2019 and 2018 and funded through accumulated cash funds.

NOTE 6 - LEASED FACILITIES

Effective April 25, 2018, the Association renegotiated the Chalet lease with the entity that operates a bar and restaurant on the premises. The lease includes the building, adjacent dock space and parking facilities for customers. The lease term is for five years with four five year renewal options with sixty day notice. Rents are payable two months in arrears and include a base rent of \$500 plus 2% of reported monthly sales through the lease term including renewal periods. The base rent increases each year by \$100 through the initial lease term. Minimum monthly rental under the lease agreement is \$2,500. The lessee is responsible for required maintenance and repairs to the inside and outside of the leased premises, taxes, insurance and utilities. If costs per occurrence for repairs to the outside exceed \$15,000, lessee will be responsible for 20% and the Association 80%. The Association is responsible for maintenance and repairs to the structure and foundation of the premises.

During 2019 and 2018 rents totaled \$37,119 and \$37,554, respectively.

Hidden Valley Lake  
Owners' Association, Inc.  
Notes to Financial Statements

Note 7 - INCOME TAXES

At the end of 2019, Hidden Valley Lake Golf Course had a net operating loss (NOL) carryforward of \$353,375. During 2019 and 2018, HVLGC incurred net operating losses of \$89,192 and \$95,692, respectively. The deferred tax benefit of the unused NOL's has not been recorded due to the uncertainty of profitable operations in future years.

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

The Association's credit risks are concentrated principally in cash and accounts receivable. The Association maintains cash balances in various local financial institutions which can exceed FDIC insured limits of \$250,000. The Association considers these institutions financially sound and does not believe any loss will be sustained. The Association's accounts receivable are concentrated within the membership due to the nature of the organization. Liens are filed and foreclosures pursued where members are delinquent in paying their dues and assessments.

NOTE 9 - RETIREMENT PLAN

The Association has a defined contribution retirement plan which covers all full-time employees (including the full-time employees of the golf course), earning \$5,000 in any two previous years and who are expected to earn at least \$5,000 in the current year. Employees can contribute a percentage of their compensation not to exceed \$10,500 plus a catch-up contribution for participants 50 years and older. The Association has agreed to match 100% of the employee's elective deferrals not to exceed 3% of the employee's compensation. Participants are immediately 100% vested in all account contributions. Total expense was \$12,230 for 2019 and \$13,078 for 2018.

NOTE 10 - LITIGATION

At December 31, 2019, HVLPOA is not involved in any significant litigation or claims. However, the Association can become involved with legal proceedings, demands etc. that arise in the normal course of its business. The ultimate outcome of any litigation, claim etc. is uncertain and unfavorable outcomes could have a negative impact on the Association because of defense costs, diversion of management resources, and other factors.

NOTE 11 - SUBSEQUENT EVENTS

The Association evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. In March, 2020 The accompanying financial statements consider events through March 30, 2020.

Hidden Valley Lake  
Owners' Association, Inc.  
Notes to Financial Statements

NOTE 11 - Subsequent Events, continued

In late 2019 and early 2020, the world became aware of a developing pandemic disease known as Covid-19. The United States declared a national emergency to combat Covid-19 which included stay at home orders for most states, the closing of substantially all schools, restrictions on travel, business, social and sports gatherings, and increased testing of those potentially infected. This resulted in a severe contraction of the United States economy including closings of various businesses and significant unemployment. On March 27, 2020, Congress passed a \$2 trillion stimulus bill to respond to the pandemic. At March 30, 2020, the extent of the impact to the United States, regional and local economies is unknown. No prediction can be made as to the future effects the pandemic will have on the operation of Hidden Valley Lake Property Owners Association and golf course. However, management will continue to monitor the situation and will respond in a manner appropriate to the circumstances.