

ARROWHEAD LAKE ASSOCIATION

Auditor's Report Financial Statements and Supplemental Information

March 31, 2008 and 2007

PORTER & COMPANY
Certified Public Accountant



PORTER & COMPANY

Certified Public Accountant

3160 Telegraph Road, Suite 203 Ventura, California 93003

Tel: (805) 650-5090 • (800) 304-6700

Fax: (805) 650-0511

Website: www.porterandcompany.com

E-mail: information@porterandcompany.com

Board of Directors and Members

Arrowhead Lake Association
Lake Arrowhead, CA

Independent Auditor's Report

I have audited the accompanying statements of financial position of Arrowhead Lake Association (a California nonprofit corporation), as of March 31, 2008 and 2007 and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arrowhead Lake Association, as of March 31, 2008 and 2007 and the results of its activities and changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

My audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information contained on pages 7 through 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Porter & Company

October 3, 2008

Arrowhead Lake Association

Statement of Financial Position

As of March 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 597,329	\$ 477,723
Investments	2,000,000	1,800,000
Investments - Hardin Marine Security Deposit	76,442	72,893
Accounts and Grant Receivable	53,967	69,603
Inventory	44,311	6,943
Prepaid Expenses	54,207	44,737
Total Current Assets	<u>2,826,256</u>	<u>2,471,899</u>
<u>PROPERTY & EQUIPMENT</u>		
Property and Equipment	7,274,190	7,136,465
Less Accumulated Depreciation	<u>(4,520,789)</u>	<u>(4,262,435)</u>
Total Property & Equipment	<u>2,753,401</u>	<u>2,874,030</u>
Total Assets	<u>\$ 5,579,657</u>	<u>\$ 5,345,929</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable and Accrued Liabilities	\$ 20,217	\$ 46,145
Account Payable - Rental Docks	60,240	125,740
Accrued Payroll and Related Items	80,488	85,600
Income Taxes Payable	18,097	9,423
Deferred Income	1,224,995	1,217,285
Hardin Marine Security Deposit	76,442	72,893
Other Current Liabilities	26,788	24,037
Total Current Liabilities	<u>1,507,267</u>	<u>1,581,123</u>
Net Assets-Unrestricted	<u>4,072,390</u>	<u>3,764,806</u>
Total Net Assets	<u>4,072,390</u>	<u>3,764,806</u>
Total Liabilities and Net Assets	<u>\$ 5,579,657</u>	<u>\$ 5,345,929</u>

*Certain items have been reclassified to conform to current year presentation format

See Auditor's Report

The Notes to Financial Statements Are An Integral Part of This Statement

Arrowhead Lake Association
Statement of Activities and Changes in Net Assets
For the Years Ended March 31, 2008 and 2007

	2008	2007
<u>OPERATING REVENUES (Unrestricted)</u>		
Lake and Marina Fees	\$ 2,557,384	\$ 2,494,465
Beach Club Dues and Fees	137,743	160,129
Fuel Sales, Gross Profit (see Note 8)	81,276	84,342
Firework Contributions	30,210	29,421
Fish Contributions	7,630	6,395
Erosion/Sediment Control Cost Sharing	-	25,396
Total Operating Revenues	2,814,243	2,800,148
<u>OPERATING EXPENSES</u>		
Lake and Marina Operations	1,089,749	1,363,190
Beach Club Operations	48,070	52,094
Gas Dock Operations	42,334	55,435
General and Administrative	1,231,904	1,151,977
4th of July Show	54,164	50,516
Fish Stocking	26,716	25,577
Other Expenses	26,929	22,819
Total Operating Expenses	2,519,866	2,721,608
Excess of Operating Revenues Over Operating Expenses	294,377	78,540
<u>OTHER GAINS AND (LOSSES)</u>		
Interest Income	97,401	65,942
Resort Boat	5,700	-
Boat Excursion	44,000	34,943
Lease Income	270,616	270,670
Shoreline Beautification	(259,823)	33,585
Major Repairs and Replacements	(98,583)	(75,109)
Total Other Gains and (Losses)	59,311	330,031
Changes in Net Assets Before Provison for Income Taxes	353,688	408,571
Income Taxes Expense	46,104	30,163
Change in Net Assets	307,584	378,408
Net Assets, Beginning of Year	3,764,806	3,386,398
Net Assets, End of Year	\$ 4,072,390	\$ 3,764,806

Arrowhead Lake Association
Statement of Cash Flows
For the Years Ended March 31, 2008 and 2007

	2008	2007
<u>Cash Flows From Operating Activities:</u>		
(Deficiency) of Revenues Over Expenses	\$ 307,584	\$ 378,408
<u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u>		
Depreciation	258,354	272,689
<u>Change in Assets and Liabilities:</u>		
Change in Accounts and Grants Receivables	15,636	(47,099)
Change in Prepaid Expenses	(9,470)	5,795
Change in Inventory	(37,368)	2,748
Change in Accounts Payable	(25,928)	40,725
Change in Accounts Payable - Rental Docks	(65,500)	(49,300)
Change in Accrued Expenses	(5,112)	37,270
Change in Deferred Income	7,710	683,221
Change in Security Deposit - Hardin Marine	3,549	4,100
Change in Income Taxes Payable	8,674	9,321
Change in Other Liabilities	2,751	24,037
Total Adjustments	153,296	983,507
Net Cash Provided By Operations	460,880	1,361,915
<u>Cash Flows from Investing Activities:</u>		
Sale (Purchase) of Investments, Net of Maturities	(200,000)	(1,500,000)
Change in Value of Security Deposit - Hardin Marine	(3,549)	(3,815)
Net Cash (Used) By Investing Activities	(203,549)	(1,503,815)
<u>Cash Flows from Financing Activities:</u>		
Additions of Fixed Assets	(137,725)	(23,609)
Net Cash (Used) By Financing Activities	(137,725)	(23,609)
Net Increase (Decrease) In Cash	119,606	(165,509)
Cash, Beginning of Year	477,723	643,232
Cash, End of Year	\$ 597,329	\$ 477,723
<u>Supplemental Information:</u>		
Cash Paid for Income Taxes	\$ 16,684	\$ 15,095

Arrowhead Lake Association

Notes to Financial Statements

For the Years Ended March 31, 2008 and 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

Arrowhead Lake Association was incorporated under the Laws of the State of California on September 4, 1974. The Association was organized pursuant to the General Nonprofit Corporation Laws of the State of California for the purpose of acquiring, operating, and maintaining Lake Arrowhead and other properties within Arrowhead Woods for the social and recreational benefit of Association members. Membership in the Association is voluntary, but is restricted to owners of residential real property in Arrowhead Woods, with the exclusion of Lakewood Tracts A & B.

Accounting Method

The financial statements of the Association have been prepared on the accrual basis in accordance with generally accepted accounting principles. In 1996, the Association adopted Statement of Financial Standards (SFAS) NO. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, the Association is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. In addition, the Association is required to present a statement of cash flows. As permitted by this statement, the Association has discontinued its use of fund accounting and has, accordingly, reclassified its financial statements to present three classes of net assets as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor imposed stipulations.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less. The Association maintains bank accounts at financial institutions within the County of San Bernardino.

Inventory

Inventory consists of gasoline, which is stated at original cost determined on the first-in-first-out method.

Revenue Recognition

The Association adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made" in 1996. The Association previously recorded support and revenue in the period when the appropriate expenses had been incurred in accordance with specific instructions or restrictions. Grant revenues received but not earned are recorded as deferred revenue. In accordance with SFAS No. 116, revenue and support are now recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and /or nature of any donor restrictions. General program revenue from grantors previously reported as restricted revenue is required to be reported as unrestricted support. The adoption had no cumulative effect on net assets at the date of the adoption. In addition, the Association has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets

Property, Equipment and Depreciation

Property and equipment are recorded at historical cost and are depreciated on the straight-line method over their estimated useful lives, ranging from 3 to 45 years. Fully depreciated assets are retained in the accounts until retirement. Building improvements are amortized on the straight-line method over remaining useful life of the building. Property and equipment consist of the following:

	2007/2008	2006/2007
Land	\$ 390,333	\$ 390,333
Land Improvements	972,424	928,644
Buildings and Improvements	3,282,220	3,192,963
Vehicles	201,098	201,098
Equipment	1,665,075	1,660,387
Rental Docks	763,040	763,040
Total	<u>7,274,190</u>	<u>7,136,465</u>
Less: Accumulated		
Depreciation	<u>(4,520,789)</u>	<u>(4,262,435)</u>
Net Property and Equipment	<u>\$ 2,753,401</u>	<u>\$ 2,874,030</u>

Deferred Revenue

Deferred revenue represents dues, fees, and rents received before the period to which they relate. Such revenues are recognized ratably over the applicable period.

Arrowhead Lake Association

Notes to Financial Statements

For the Years Ended March 31, 2008 and 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

(continued):

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. Estimates included in the preparation of these financial statements include estimated bad debts, and estimates of fixed assets relating to useful life. Actual results could differ from those estimates.

Lines of Business

The Association conducts only one line of business, which is providing of recreational services to its members.

NOTE 2 – CONTRIBUTIONS:

Fish and fireworks contributions at March 31, 2008 and 2007 are used to subsidize the Association’s operating expenses for fish stocking and fireworks expenses.

Contributions and the corresponding expenses are summarized below:

	2008	2007
Fish Contributions	\$ 7,630	\$ 6,395
Firework Contributions	30,210	29,421
Total Contributions	\$ 37,840	\$ 35,816
Fish Stocking Expense	\$ 26,716	\$ 25,577
Firework Expenses	54,164	50,516
Total Expense	\$ 80,880	\$ 76,093

NOTE 3 - INCOME TAXES:

Arrowhead Lake Association is exempt from federal taxes under section 501 (c) 7 of the Internal Revenue Code and is classified as a social or recreational organization other than a private foundation. The Association is also exempt from state income taxes under Section 23701 (g) of the California Revenue and Taxation Code. Therefore, the Association only pays tax on investment income and on business income unrelated to its exempt purpose.

NOTE 4 – LEASES AND LEASE DEPOSITS:

The Association leases portions of the Marina and related facilities under operating leases. Under the lease agreements, the lessees are required to pay their proportionate share of property taxes, insurance, utilities, maintenance, and repairs. One lease allows for an increase in rent based on a change in the Consumer Price Index. One lease, which has an initial lease term of five years (with an option to terminate at the end of three years), contains an option to extend the lease term for a period of five years except that the minimum annual rent will be based on the change in the Consumer Price Index. Rental income for the year ended March 31, 2008 was \$270,616.

Minimum future rental income under the operating leases as of March 31, 2008 and 2007 are:

	Year Ended March 31,	
Year	2008	2007
2008		\$ 225,000
2009	225,000	225,000
Total	\$ 225,000	\$ 450,000

At the origination in 1996 of Hardin Marine’s lease of the building at 870 St. Hwy. 173 a security deposit of \$50,000 was made to the Association. This deposit is held in a bank account separate from all other Association funds. Under the lease agreement Hardin Marine has the right to all earned interest on the deposit. The value of the deposit at March 31, 2008 including accrued interest was \$76,442. This amount is due to Hardin Marine upon termination of the lease in accordance with the lease agreement.

NOTE 5 – ACCOUNT PAYABLE – RENTAL DOCKS:

On July 5, 2005 Kiwi Docks, Inc. replaced rental Dock D. Based on an agreement between the Association and Kiwi Docks, Inc. the Association will pay all future rental income from the docks to Kiwi Docks, Inc. until the obligation is fully paid. The docks had an original cost of \$183,040. The balance as of March 31, 2008 is \$60,240. Under the terms of the agreement there is no interest or minimum amount due per year.

NOTE 6 – RESERVE FUNDING:

The Association’s Board of Directors had a study conducted to estimate the amounts needed to repair and replace the major components of plant, property and equipment. The Board began to budget for Reserve Expenditures during the fiscal year ending March 31, 2006. Total expenses in 2008 were \$98,583.

Arrowhead Lake Association
Notes to Financial Statements
For the Years Ended March 31, 2008 and 2007

NOTE 7 – PENSION PLAN:

Effective January 1, 1997, the Association adopted a 401(k) profit sharing plan. The plan covers substantially all qualified employees who meet the plan’s eligibility requirements and provides for a tax deferred profit sharing contribution by the Association and an employee elective contribution, with a discretionary Association matching provision. For the years ended March 31, 2008 and 2007 the Association contributed \$100,000 and \$62,283 respectively to the plan.

NOTE 8 – FUEL SALES:

The Association maintains four fueling stations, which are the only stations on Lake Arrowhead. The Association operates these stations for the convenience and necessity of its members. Fuel sales for the years ending March 31, 2008 and 2007 are summarized below.

	2008	2007
Fuel Sales	\$ 476,651	\$ 500,250
Less COGS	(395,375)	(415,908)
Gross Profit	81,276	84,342
Direct Expenses	(42,334)	(55,435)
Indirect Expenses	(31,300)	(31,150)
Net Income	\$ 7,642	\$ (2,243)

Cost of Goods Sold (COGS) consists of gasoline purchased from wholesalers and recorded at cost. Direct expenses consist of all expenses that can be directly traced to the delivery of gasoline to boaters, and indirect expenses consist of allocated general and administrative time, materials, and utilities.

NOTE 9 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The Association maintains operating bank accounts whose balance may occasionally exceed the federally insured amount of \$100,000.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

Environmental Matters

The operations carried out by the Association and its tenants on Association property require compliance with a variety of federal, state and county environmental laws and regulations. In addition, the Association is required to monitor and report on the status of certain contaminants relating to fuel storage and delivery facilities. While a spill or violation of such laws and regulations could give rise to substantial correction costs and other liabilities, the Association’s management believes its monitoring and programs are in substantial compliance with current requirements.

Concentrations

The Association’s revenues are derived mainly from user fees that the Association charges members for the use of Lake Arrowhead. If the lake level significantly decreases, it could adversely impact the Association’s revenue. The Association at this time relies solely on nature to replenish the water in the lake.

NOTE 11 – SUBSEQUENT EVENTS:

Subsequent to year end a claim arose against the Association. The claim is still in the discovery stage, and future damages, if any, cannot be estimated. The Association believes it has adequate legal counsel to defend this claim.

Arrowhead Lake Association
Supplemental Information
For the Years Ended March 31, 2008 and 2007
Schedule of Lake and Marina Operating Revenues

	2008	2007
<u>Lake, Marina, and Beach Club Fees and Dues</u>		
Dock Fees	\$ 1,279,578	\$ 1,267,693
Boat Fees and Boat Licensing	628,778	594,270
Dock Rental Fees	366,800	311,350
Dock Right Fees	(19,922)	13,200
General Membership Fees	32,705	37,440
Beach Club Dues and Fees	137,743	160,129
Shoreline Fees	36,618	41,585
Transfer Fees	152,635	162,370
Other	80,192	66,557
Low Lake Level Fees	-	-
Total Lake and Marina Fees	\$ 2,695,127	\$ 2,654,594

Arrowhead Lake Association

Supplemental Information

For the Years Ended March 31, 2008 and 2007
Schedule of Lake and Marina Operating Expenses

	<u>2008</u>	<u>2007</u>
<u>Lake and Marina Maintenance Expense</u>		
Wages - Maintenance	\$ 217,621	\$ 221,456
Payroll Taxes	21,320	22,302
Workers Comp	19,346	34,482
Benefits	43,894	41,046
Shop Tools	2,304	2,669
Materials & Supplies	7,887	6,838
Fuel / Auto & Equip	14,116	16,534
Repair & Maint / Auto & Equip	12,632	15,223
Repair & Maint / Property	(80,277)	36,871
Elevator Repair - R	829	35,042
DMV Registrations	1,955	1,521
Utilities Electric	2,532	3,671
Utilities Gas	1,344	995
Water Sewer Restrooms	21,281	11,520
Buoys	-	-
Contract Services	30,513	49,982
Trash Removal	13,043	16,844
Miscellaneous	4,600	4,097
Small Office Equipment	107	144
Erosion & Sediment Control	2,039	28,740
Erosion & Sediment Cntrl LACSD	-	87
Telephone	1,945	1,867
Weed Abatement	103	1,009
Uniforms	2,082	693
New Equipment - C	5,126	1,575
Trail/Access Maintenance	34,250	27,660
Amount Allocated to Reserves	-	-
Tree Removal	66,617	166,940
Tree Treatment	67,259	-
Landscape Maintenance	606	191
Dredging	1,164	-
Well Monitoring	-	-
Special Projects	-	-
Shoreline Beautification C	7,007	6,039
Dock-IT-Tech- C	36,500	79,379
Spillway Gates-C (carry over)	17,079	-
Capital Improvements	-	-
Restroom Repairs C	7,426	1,985
Peninsula Park C	64	73
Tavern Bay BC/Demo Garden C	786	7,495
Equipment Replacement, Major C	-	688
Janitorial	1,975	1,974
Trash Removal	3,582	5,864
Equipment Repair	1,985	-
Gate Repair	2,188	-
Common Area Costs	-	-
Total Lake and Marina Maintenance Expenses	<u>594,830</u>	<u>853,496</u>

See Auditor's Report

The Notes to Financial Statements Are An Integral Part of This Statement

Arrowhead Lake Association
Supplemental Information
For the Years Ended March 31, 2008 and 2007
Schedule of Lake and Marina Operating Expenses

	2008	2007
<u>Safety Expenses</u>		
Wages - Lake Safety	109,535	117,932
Wages - Shore Safety	16,828	2,582
Payroll Taxes - Safety	14,904	13,982
Workers Comp - Safety	11,111	15,950
Fuel	12,348	23,678
Repair & Maintenance	22,571	26,286
Buoys - C	16,410	8,318
New Equipment - C	8,538	5,844
Sheriff Services	1,725	4,797
Benefits	6,820	1,955
Training	2,240	1,457
Supplies	5,902	6,280
Telephone	1,431	1,324
Utilities	4,455	4,688
Uniforms	1,747	1,932
Security Patrol Service	-	-
Total Lake and Marina Safety Expenses	236,565	237,005
 <u>Depreciation and Amortization</u>		
Depreciation and Amortization	258,354	272,689
Total Lake and Marina Operations Expenses	\$ 1,089,749	\$ 1,363,190

Arrowhead Lake Association

Supplemental Information

For the Years Ended March 31, 2008 and 2007
Schedule of General and Administrative Expenses

	<u>2008</u>	<u>2007</u>
<u>General and Administrative Expenses</u>		
Permit	\$ 811	\$ -
Mileage	73	575
Events	677	1,170
Wages - Administrative	452,561	391,417
Employee Profit Sharing	-	45,482
Payroll Taxes	36,900	31,294
Workers Comp	21,835	8,875
Benefits	100,000	62,283
Seasonal Emp. Retention Bonus	4,700	5,200
Office Supplies	9,553	7,061
Electric	29,914	29,129
Telephone	16,456	16,502
Gas	5,353	3,883
Water/Sewer	6,666	10,602
Computer Repair	-	345
Printing	20,412	23,270
Toner & Ink Cartridges	3,109	4,147
Postage	10,108	6,363
Property Taxes	119,144	80,310
Audit & Accounting	8,250	8,250
Bad Checks/Debt	-	(1,507)
Bad Debt Expense	-	5,291
Legal	82,478	74,754
Legal -Water Rights	5,790	22,407
Professional Accounting Service	9,351	7,502
Engineering, Planning, Survey	11,810	11,495
Insurance	129,382	134,491
Shoreline Fuel	1,471	947
Shoreline Supplies	8,717	14,272
Shorline Reimbursables	425	-
Newsletter	9,675	2,685
Equipment Service Contracts	23,807	28,291
Computer Service Maintenance	7,314	7,315
Security & Janitorial	5,882	2,631
Board Expense	9,834	7,908
Public Relations	2,485	17,292
Bank Service Fees	7,552	5,094
Uniforms	1,782	1,629
Professional Development	840	784
Permits, Dues, Fees, Licenses	29,947	29,090
County Recorder	227	2,695
Credit Card Processing Expense	26,865	27,372
New Equipment - C	2,703	8,744
Employee Relations	6,199	4,286
Mileage	846	351
Suspense	-	-
Total General and Administrative Expenses	<u>\$ 1,231,904</u>	<u>\$ 1,151,977</u>

See Auditor's Report

The Notes to Financial Statements Are An Integral Part of This Statement