

ARROWHEAD LAKE ASSOCIATION

AUDIT REPORT

**For the Fiscal Year Ended
March 31, 2017**



ARROWHEAD LAKE ASSOCIATION
For the Fiscal Year Ended March 31, 2017
Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Statement of Functional Expenses	5
Notes to Financial Statements	6

Financial Section

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Arrowhead Lake Association
Lake Arrowhead, California

We have audited the accompanying statement of financial position of Arrowhead Lake Association (A California Non-Profit Corporation) as of March 31, 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

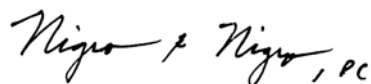
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Arrowhead Lake Association as of March 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Murrieta, California
June 24, 2017

ARROWHEAD LAKE ASSOCIATION*Statement of Financial Position**March 31, 2017*

ASSETS

Cash	\$	470,570
Investments - undesignated		1,928,474
Investments - marina security deposit		102,000
Accounts receivable		72,853
Prepaid expenses		30,652
Fuel inventory		24,342
Workers compensation deposit		5,807
Capital assets, net		<u>3,271,566</u>
Total Assets	\$	<u><u>5,906,264</u></u>

LIABILITIES AND NET ASSETS**Liabilities**

Accounts payable	\$	51,313
Accrued payroll and related expenses		61,060
Deferred revenue		352,277
Security deposits		102,000
Other current liabilities		<u>17,911</u>
Total Liabilities		<u>584,561</u>

Net Assets

Unrestricted:		
Undesignated		3,755,264
Designated:		
Board designated for Shoreline Beautification		225,957
Board designated for Contingency		23,352
Board designated for Capital Improvements		<u>1,317,130</u>
Total Net Assets		<u>5,321,703</u>
Total Liabilities and Net Assets	\$	<u><u>5,906,264</u></u>

ARROWHEAD LAKE ASSOCIATION
Statement of Activities and Changes in Net Assets
For the Fiscal Year Ended March 31, 2017

	<u>Unrestricted</u>
REVENUES, GAINS, AND OTHER SUPPORT	
Lake and marina fees	\$ 2,968,268
Beach club dues and fees	360,986
Shoreline beautification program fees	24,781
Fuel sales, net of fuel cost	38,682
Fireworks contributions	42,579
Fish contributions	13,598
Erosion/sediment control cost sharing	30,827
Gain/(loss) on disposal of assets	3,772
Lease income	271,053
Excursion boat income	81,694
Interest income	<u>13,442</u>
Total Revenues, Gains, and Other Support	<u>3,849,682</u>
EXPENSES	
Program Services:	
Safety	325,806
Common area	14,311
Gas service	64,772
Maintenance	987,061
Beach clubs	183,432
General and Administrative:	
Management and general	<u>1,855,340</u>
Total Expenses	<u>3,430,722</u>
Change in unrestricted net assets	418,960
Unrestricted net assets at beginning of year	<u>4,902,743</u>
Unrestricted net assets at end of year	<u><u>\$ 5,321,703</u></u>

ARROWHEAD LAKE ASSOCIATION
Statement of Cash Flows
For the Fiscal Year Ended March 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 418,960
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating:	
Depreciation expense	461,947
(Increase) decrease in operating assets:	
Accounts receivable	64,053
Prepaid expenses	53,980
Inventory	(6,430)
Other current assets	5,865
Increase (decrease) in operating liabilities:	
Accounts payable	2,743
Accrued payroll and related	329
Deferred income	(261,738)
Security deposit	517
Other current liabilities	<u>12,149</u>
<i>Net cash provided (used) by operating activities</i>	<u>752,375</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of furniture and equipment	(305,659)
Purchase of leasehold improvements	(32,218)
Purchase of certificates of deposit	<u>(573,123)</u>
<i>Net cash provided (used) by investing activities</i>	<u>(911,000)</u>
Net increase (decrease) in cash	(158,625)
Beginning cash	<u>629,195</u>
Ending cash	<u>\$ 470,570</u>

SUPPLEMENTAL DISCLOSURE

Income Taxes	<u>\$ 10</u>
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ARROWHEAD LAKE ASSOCIATION

Statement of Functional Expenses

For the Fiscal Year Ended March 31, 2017

	Program Services					Management and General	Total Expenses
	Safety	Common Area	Gas Service	Maintenance	Beach Clubs		
EXPENSES							
Salaries and Benefits							
Salaries and other compensation	\$ 174,629	\$ -	\$ 25,975	\$ 222,013	\$ 49,640	\$ 550,554	\$ 1,022,811
Payroll taxes	20,698	-	3,717	22,411	6,666	53,950	107,442
Pension plan accruals and contributions	790	-	-	3,222	-	16,226	20,238
Other employee benefits	1,144	-	-	55,475	-	161,564	218,183
Services and Supplies							
Depreciation	42,287	-	12,475	322,072	81,853	3,260	461,947
Repairs and maintenance	35,035	2,916	4,096	255,353	1,451	87,513	386,364
Legal services	-	-	-	-	-	318,157	318,157
Other expenses	39,481	-	14,824	3,691	22,980	118,785	199,761
Insurance	6,910	-	3,685	16,123	2,117	157,900	186,735
Contract services	860	7,060	-	43,201	8,508	40,079	99,708
Fireworks and lake events	384	-	-	-	-	91,570	91,954
Property taxes	-	-	-	-	-	78,411	78,411
Utilities	3,588	4,335	-	43,500	10,217	7,275	68,915
Credit card processing	-	-	-	-	-	48,903	48,903
Permits, dues, fees, and licenses	-	-	-	-	-	43,501	43,501
Income taxes	-	-	-	-	-	30,364	30,364
Accounting and audit	-	-	-	-	-	28,125	28,125
Advertising and promotion	-	-	-	-	-	19,021	19,021
Penalties	-	-	-	-	-	182	182
Totals	<u>\$ 325,806</u>	<u>\$ 14,311</u>	<u>\$ 64,772</u>	<u>\$ 987,061</u>	<u>\$ 183,432</u>	<u>\$ 1,855,340</u>	<u>\$ 3,430,722</u>

ARROWHEAD LAKE ASSOCIATION

Notes to Financial Statements

March 31, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Business

Arrowhead Lake Association (the “Association”) was incorporated under the laws of the State of California on September 4, 1974. The Association was organized pursuant to the General Nonprofit Laws of the State of California for the purposes 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 and B.

B. Basis of Accounting

The Association’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

The Association follows FASB ASC 958-210-45. Under paragraphs 9-11, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At March 31, 2017, the Association had no temporarily or permanently restricted net assets, and as such, none are presented.

C. Cash and Investments

Cash consists of cash held in financial institutions. The Association considers certificates of deposit with a maturity date of 90 days or longer to be investments. At year-end and throughout the year, the Association’s cash balances were deposited in two financial institutions.

Cash balances are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). Amounts above the FDIC limit are secured by the financial institution. At March 31, 2017, a balance of \$199,931 was above the FDIC limit.

D. Fair Value Measurements

In accordance with fair value measurements, the Association categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

ARROWHEAD LAKE ASSOCIATION

Notes to Financial Statements

March 31, 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fair Value Measurements (continued)

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The Association has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the Association’s own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

E. Inventory

Inventory is based on year-end cost of recorded products on hand. Inventory is comprised of marina fuel that is used in connection with the carrying out of the exempt purpose of the Association. Inventory is monitored on the first-in, first-out basis.

F. Property and Equipment

Property improvements and equipment with a cost exceeding \$2,500 are capitalized and depreciated on the straight-line method over their estimated useful lives, ranging from 3 to 45 years. Building improvements are amortized on the straight-line method over the remaining useful life of the building.

G. Deferred Revenue

Deferred revenue represents dues, fees, and rents received before the period to which they relate. Such revenue is recognized in the applicable period.

H. 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 estimates of depreciation relating to useful life. Actual results could differ from those estimates.

I. Prepaid Expenses and Other Current Assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

ARROWHEAD LAKE ASSOCIATION

Notes to Financial Statements

March 31, 2017

NOTE 2 – ACCOUNTS RECEIVABLE

At March 31, 2017, accounts receivable consisted of the following:

Dock membership receivable	\$	42,026
Erosion/sediment control cost sharing receivable		<u>30,827</u>
	\$	<u>72,853</u>

NOTE 3 – 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, 2017 were:

Fuel Sales	\$	395,943
Less, cost of fuel		<u>(357,261)</u>
Gross profit	\$	<u>38,682</u>

ARROWHEAD LAKE ASSOCIATION
Notes to Financial Statements
March 31, 2017

NOTE 4 – PROPERTY AND EQUIPMENT

Capital asset activity during the year consisted of the following:

	Balance, April 1, 2016	Additions	Retirements	Balance, March 31, 2017
Capital assets not being depreciated:				
Land	\$ 390,333	\$ -	\$ -	\$ 390,333
Capital assets being depreciated:				
Land improvements	475,201	12,858	-	488,059
Buildings and building improvements	3,224,870	19,360	-	3,244,230
Easement improvements	1,740,739	-	-	1,740,739
Fuel facility	574,862	40,416	-	615,278
Dam	30,229	-	-	30,229
Rental docks	1,092,392	110,355	-	1,202,747
Vehicles	213,300	-	-	213,300
Boats and appurtenances	762,588	104,056	-	866,644
Equipment - field	105,039	50,832	-	155,871
Office and beach club furniture	139,179	-	-	139,179
Beach club equipment	1,030,967	-	-	1,030,967
Total capital assets being depreciated	<u>9,389,366</u>	<u>337,877</u>	<u>-</u>	<u>9,727,243</u>
Accumulated depreciation for:				
Land improvements	(157,898)	(43,755)	-	(201,653)
Buildings and building improvements	(2,442,521)	(94,341)	-	(2,536,862)
Easement improvements	(1,240,269)	(109,936)	-	(1,350,205)
Fuel facility	(518,192)	(12,475)	-	(530,667)
Dam	(30,229)	-	-	(30,229)
Rental docks	(619,093)	(60,137)	-	(679,230)
Vehicles	(211,950)	(432)	-	(212,382)
Boats and appurtenances	(569,232)	(42,287)	-	(611,519)
Equipment - Field	(79,491)	(13,472)	-	(92,963)
Office and beach club furniture	(134,414)	(3,259)	-	(137,673)
Beach club equipment	(380,774)	(81,853)	-	(462,627)
Total accumulated depreciation	<u>(6,384,063)</u>	<u>(461,947)</u>	<u>-</u>	<u>(6,846,010)</u>
Total capital assets being depreciated, net	<u>3,005,303</u>	<u>(124,070)</u>	<u>-</u>	<u>2,881,233</u>
Capital assets, net	<u>\$ 3,395,636</u>	<u>\$ (124,070)</u>	<u>\$ -</u>	<u>\$ 3,271,566</u>

ARROWHEAD LAKE ASSOCIATION

Notes to Financial Statements

March 31, 2017

NOTE 5 – DESCRIPTION OF LEASING ARRANGEMENTS AND LEASE SECURITY DEPOSIT

The Association's leasing operations consist principally of the leasing of the marina and other lakeside related facilities. Under the lease agreements, the lessees are required to pay their proportionate share of property taxes, insurance, utilities, maintenance, and repairs. Rental income for the year ended March 31, 2017, was \$271,053.

At the origination in May 2012 of the Inland Auto, Boat, and RV, (Inland) Inc. lease, a security deposit of \$100,000 was made to the Association. This deposit is held in a bank account separate from all other Association funds. Under the lease agreement, Inland has the right to all earned interest on the deposit. The value of the deposit at March 31, 2017, including accrued interest was \$102,000. This amount is due to Inland upon termination of the lease in accordance with the lease agreement.

The Association also allows use of the lake for boat excursions under two lease agreements. Rental income from these leases was \$81,694 for the year ended March 31, 2017.

NOTE 6 – 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. The Association is taxed on investment income and on business income unrelated to its exempt purpose.

Federal income tax for the years ended March 31, 2017, was reduced by the credit for fuel tax, in the amount of \$758 for fuel used by the Association's security and maintenance departments. For the year ended March 31, 2017, federal and state taxes are summarized below:

Federal (net of fuel tax credit)	\$	21,518
State		8,846
Total		<u>\$ 30,364</u>

The Association's policy is to record income tax related interest and penalties in operating expenses. For the year ended March 31, 2017, there was a penalty accrued of \$182 payable to the Internal Revenue Service for the underpayment of Federal taxes.

The Association's Forms 990, Return of Organization Exempt from Income Tax, and Forms 990-T, Exempt Organization Business Income Tax Return, are subject to examination by the IRS, generally for three years after they are filed. The Association's Forms 199, California Exempt Organization Annual Information Return, and Forms 109, California Exempt Organization Business Income Tax Return, are subject to examination by the Franchise Tax Board, generally for four years after they are filed.

ARROWHEAD LAKE ASSOCIATION

Notes to Financial Statements

March 31, 2017

NOTE 7 – PENSION PLAN

Effective January 1, 1997, the Association adopted a 401(k) profit-sharing plan. The plan covers certain qualified employees who meet the plan's eligibility requirements. The Association contributes 4% of the qualified employees' annual wages. For the year ended March 31, 2017, the Association contributed \$20,238 to the plan.

NOTE 8 – SHORELINE BEAUTIFICATION PROGRAM

The Association utilizes a portion of user fees to support its Shoreline Beautification Program. The program is tracked separately to account for the use of the funding and is reflected as a component of Unrestricted Net Assets on the Statement of Financial Position as a Board Designation of Net Assets. Below is a reconciliation of the ending balance.

Beginning balance	\$	201,176
Add: revenues/fees		24,781
Less: expenditures		<u>-</u>
Ending balance	\$	<u><u>225,957</u></u>

NOTE 9 – 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 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.

During the year, the Association had on deposit with a local bank amounts in excess of \$250,000. Deposits in excess of \$250,000 are not insured by the Federal Depository Insurance Company. Given the existing size of operations it is not unusual for this limit to be exceeded on a periodic basis. The Association is aware of this matter and evaluates alternatives for safeguarding cash while at the same time maximizing operational performance.

ARROWHEAD LAKE ASSOCIATION
Notes to Financial Statements
March 31, 2017

NOTE 9 – COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases

The Association has a 51 month operating lease for a postage machine that expires in June 2021, a 60 month operating lease for a copier that expires in December 2017, and a 60 month lease for a printer that expires in April 2019. Rental expense was \$14,907 for the year ended March 31, 2017.

Future minimum lease payments under these operating leases as of March 31, 2017, are:

For the years ending March 31:

2018	\$	11,379
2019		7,781
2020		2,364
2021		468
		<u>468</u>
	\$	<u>21,992</u>

NOTE 10 – NET ASSETS

Net assets are defined as the excess of assets over liabilities of the Association, which are further classified into three mutually exclusive classes according to the existence or absence of donor-imposed restrictions. Net assets are classified as either unrestricted, temporarily restricted, or permanently restricted. At March 31, 2017, the Association only has *unrestricted* net assets.

In order to further clarify its intended use of those *unrestricted* net assets, the Association has established the following three designations:

1. Shoreline beautification identifies an amount set aside for beautiful of lake shoreline areas.
2. Contingency identifies the amount set aside according to Board by-laws of 10% of the net income from each year.
3. The Board of Directors established a capital improvements fund in order to set aside funds for future capital asset purchases.

These “set aside” amounts represent only the Board’s intended use of funds and do not represent actual cash balances held in banks for those purposes.

NOTE 11 – SUBSEQUENT EVENTS

Events subsequent to March 31, 2017 have been evaluated through June 24, 2017, the date at which the Company’s financial statements were available to be issued.