

Financial Statements

ARROWHEAD LAKE
ASSOCIATION

MARCH 31, 2016 AND 2015

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of financial position of Arrowhead Lake Association, as of March 31, 2016 and 2015, and the related statements of activities and changes in net assets, 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 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 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.

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

Continued

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, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of lake and marina operating revenue on page 12 and schedules of expenses on pages 13 – 14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Association's 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 audits 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.

Brabo & Carlson, LLP

Palm Springs, California

June 2, 2016

ARROWHEAD LAKE ASSOCIATION
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2016 AND 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash	\$ 629,195	\$ 934,136
Certificates of deposit - undesignated	1,355,868	1,412,027
Certificate of deposit - marina security deposit	101,483	101,177
Accounts receivable, net	136,906	236,865
Inventory	17,912	31,764
Prepaid expenses	84,632	77,988
Construction in progress	11,672	3,130
Total Current Assets	2,337,668	2,797,087
NONCURRENT ASSETS		
Property and equipment	9,779,699	9,649,743
Accumulated depreciation and amortization	(6,384,063)	(5,954,316)
Total Noncurrent Assets	3,395,636	3,695,427
TOTAL ASSETS	\$ 5,733,304	\$ 6,492,514

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 48,570	\$ 55,166
Accrued payroll and related	60,731	54,557
Deferred income	614,015	1,127,700
Security deposit	101,483	101,177
Other current liabilities	5,762	29,422
Total Current Liabilities	830,561	1,368,022
NET ASSETS		
Unrestricted		
Undesignated	3,473,046	4,395,497
Board designated for the Shoreline Beautification	201,176	282,919
Board designated for Capital Improvements	1,228,521	446,076
Total Net Assets	4,902,743	5,124,492
TOTAL LIABILITIES AND NET ASSETS	\$ 5,733,304	\$ 6,492,514

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

ARROWHEAD LAKE ASSOCIATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	2016	2015
UNRESTRICTED NET ASSETS		
UNRESTRICTED REVENUES		
Lake and marina fees	\$ 2,563,048	\$ 2,514,166
Beach club dues and fees	323,211	326,494
Shoreline beautification program fees	25,871	26,580
Fuel sales, gross profit	28,676	46,696
Fireworks contributions	48,164	57,012
Fish contributions	15,286	10,715
Erosion/sediment control cost sharing	63,146	43,943
Gain/(Loss) on disposal of assets	926	(44,085)
Lease income	254,661	253,316
Interest income	7,975	9,471
Excursion boat income	62,440	60,700
Total unrestricted revenues	3,393,404	3,305,008
EXPENSES		
Operating expenses		
Lake and marina maintenance	910,396	983,903
Lake and marina security	257,288	287,606
Beach club operations	103,345	93,224
Gas dock operations	56,511	47,537
General and administrative	1,698,618	1,516,553
Fourth of July show	77,975	94,667
Fish stocking	40,288	38,316
Depreciation	455,841	466,479
Income tax expense	14,891	17,467
Total operating expenses	3,615,153	3,545,752
DECREASE IN UNRESTRICTED NET ASSETS	(221,749)	(240,744)
NET ASSETS - BEGINNING OF YEAR	5,124,492	5,365,236
NET ASSETS - END OF YEAR	\$ 4,902,743	\$ 5,124,492

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

ARROWHEAD LAKE ASSOCIATION

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (221,749)	\$ (240,744)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization expense	455,841	466,479
(Gain)/Loss on disposal of assets	926	44,085
(Increase) decrease in assets:		
Accounts receivable	99,959	(171,986)
Other receivable	-	58,170
Inventory	13,852	4,954
Prepaid expenses	(6,644)	(146)
Construction in progress	(8,542)	17,713
Increase (decrease) in liabilities:		
Accounts payable	(6,596)	22,124
Accrued payroll and related	6,174	7,068
Deferred income	(513,685)	7,375
Security deposit	306	473
Other current liabilities	<u>(23,660)</u>	<u>(7,059)</u>
Net cash provided (used) by operating activities	<u>(203,818)</u>	<u>208,506</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(156,050)	(483,140)
Proceeds from disposal of property and equipment	926	-
Net sale (purchase) of certificates of deposit	<u>55,853</u>	<u>265,852</u>
Net cash used by investing activities	<u>(99,271)</u>	<u>(217,288)</u>
NET DECREASE IN CASH	(303,089)	(8,782)
CASH - BEGINNING OF YEAR	<u>934,136</u>	<u>942,918</u>
CASH - END OF YEAR	<u><u>\$ 631,047</u></u>	<u><u>\$ 934,136</u></u>
SUPPLEMENTAL INFORMATION		
Cash paid during the year for income taxes	<u><u>\$ 17,110</u></u>	<u><u>\$ 6,681</u></u>

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

ARROWHEAD LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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.

Accounting Method

The Association prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method of accounting, revenue is recognized when earned or billed and expenses are recognized when goods or services are received, whether paid or not.

In accordance with accounting principles generally accepted in the United States of America, information regarding its financial position and activities is required to be present within three classes/types of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association does not have net assets that are temporarily or permanently restricted and as such, none are presented.

Revenue Recognition

Member fees are considered available for the Association's general programs unless specifically restricted by the donor. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. However, the Association receives certain contributions for the annual fireworks display and future fish stocking at the end of the fiscal period that are used in the subsequent period. These prepayments are treated as unearned revenue, similar to member dock fees and are reported as Other Current Liabilities in the Statement of Financial Position.

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.

Fair Value of Financial Instruments

The carrying value of the Association's financial instruments is considered to approximate the fair value. Cash, accounts payable and other accrued liabilities are settled so close to the balance sheet date that the fair value does not differ significantly from the stated amounts. Accounts receivable is recorded net of an estimate of uncollectible balances.

Inventory

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

ARROWHEAD LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property improvements and equipment with a cost exceeding \$2,500 are capitalized and are 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.

Deferred Revenue

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

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

Subsequent Events

Subsequent events have been evaluated through June 2, 2016, which is the date the financial statements were available to be issued.

NOTE 1: ACCOUNTS RECEIVABLE

At March 31, 2016 and 2015, accounts receivable consist of the following:

	<u>2016</u>	<u>2015</u>
Accounts receivable	\$ 136,906	\$ 236,865
Allowance for bad debts	-	-
Total	<u>\$ 136,906</u>	<u>\$ 236,865</u>

NOTE 2: 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Fuel sales	\$ 483,464	\$ 591,488
Less cost of fuel	<u>(454,789)</u>	<u>(544,792)</u>
Gross profit	<u>\$ 28,676</u>	<u>\$ 46,696</u>

ARROWHEAD LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 3: PROPERTY AND EQUIPMENT

At March 31, 2016 and 2015, property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 390,333	\$ 390,333
Land improvements	475,201	465,207
Buildings & building improvements	3,224,870	3,493,918
Easement improvements	1,740,739	2,361,671
Fuel facility	574,862	574,862
Dam	30,229	30,229
Rental docks	1,092,392	1,082,564
Vehicles	213,300	213,300
Boats & appurtenances	762,588	755,977
Equipment – field	105,039	78,447
Office & beach club furniture	139,179	164,220
Beach club equipment	<u>1,030,967</u>	<u>39,015</u>
	9,779,699	9,649,743
Less: accumulated depreciation	<u>(6,384,063)</u>	<u>(5,954,316)</u>
Property and equipment, net	<u>\$ 3,395,636</u>	<u>\$ 3,695,427</u>

Construction in progress of \$11,672 at March 31, 2016, consists of costs related to the planning of Burnt Mill Beach Club improvements, fuel dock repairs and a weather station. The projects are expected to be completed during the next fiscal year.

NOTE 4: 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 years ended March 31, 2016 and 2015 was \$254,661 and \$253,316, respectively.

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, 2016 and 2015, including accrued interest was \$101,483 and \$101,177, respectively. 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 \$62,440 and \$60,700 for the years ended March 31, 2016 and 2015, respectively.

ARROWHEAD LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 5: 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, 2016 and 2015, was reduced by the credit for fuel tax, in the amount \$1,756 and \$1,802, respectively, for fuel used by the Association's security and maintenance departments. For the years ended March 31, 2016 and 2015, federal and state taxes are summarized below.

	2016	2015
Federal (net of fuel tax credit)	\$ 9,236	\$ 11,127
State	5,655	6,340
Total	\$ 14,891	\$ 17,467

The Association's policy is to record income tax related interest and penalties in operating expenses. For the years ended March 31, 2016 and 2015 there was no interest or penalties expense recorded and no accrued interest and penalties.

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.

NOTE 6: 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 years ended March 31, 2016 and 2015, the Association contributed \$18,899 and \$18,162, respectively, to the plan.

NOTE 7: 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:

	2016	2015
Shoreline Beautification Program:		
Beginning balance	\$ 282,919	\$ 256,340
Add: revenues/fees	25,871	26,579
Less: expenditures	(107,614)	-
Ending balance	\$ 201,176	\$ 282,919

ARROWHEAD LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 8: 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.

Operating Leases

The Association has a 51 month operating lease for a postage machine that expires in March 2017, 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 \$14,949 and \$8,462 for the years ended March 31, 2016 and 2015, respectively.

Future minimum lease payments under these operating leases as of March 31, 2016 are:

For the years ending March 31:

2017	\$ 14,950
2018	12,778
2019	<u>6,914</u>
	<u>\$ 34,642</u>

NOTE 9: CAPITAL IMPROVEMENTS FUND

During the fiscal year ended March 31, 2015 the Board of Directors established a capital improvements fund in order to set aside funds for future capital asset purchases. The Board designated \$920,881 and \$446,076 to the capital improvement fund for the years ended March 31, 2016 and 2015, respectively. The fund had a balance of \$1,228,521 and \$446,076 at March 31, 2016 and 2015, respectively.

ARROWHEAD LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 10: RELATED PARTY TRANSACTIONS

A former board member is also an employee of a company the Association contracts with for construction and maintenance projects. The board member excused himself from discussions and voting related to these decisions and all transactions with the company are at arm's length. For the year ended March 31, 2015 the Association paid the company \$119,350. There were no related party transactions during the year ended March 31, 2016.

ARROWHEAD LAKE ASSOCIATION
SCHEDULE OF LAKE AND MARINA OPERATING REVENUES
FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
LAKE AND MARINA FEES		
Dock fees	\$ 1,272,000	\$ 1,272,000
Boat fees and boat licensing	644,980	647,253
Dock rental fees	396,825	305,150
General membership fees	91,342	67,674
Transfer fees	139,800	161,709
Other	<u>18,101</u>	<u>60,380</u>
	<u>\$ 2,563,048</u>	<u>\$ 2,514,166</u>

ARROWHEAD LAKE ASSOCIATION

SCHEDULE OF EXPENSES

FOR THE YEARS ENDED MARCH 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
LAKE AND MARINA MAINTENANCE EXPENSES		
Wages - maintenance	\$ 212,006	\$ 227,384
Wages - ramp	25,640	27,735
Payroll taxes	20,237	22,326
Workers compensation	24,381	10,993
Benefits	48,455	58,238
Shop tools	1,578	1,226
Materials and supplies	9,191	10,384
Fuel/automobile and equipment	17,823	25,450
Repair and maintenance/auto and equipment	23,715	26,010
Repair and maintenance/property	18,482	38,795
Dock rental repairs	6,845	3,085
Building repairs	2,611	8,419
Elevator operations	3,922	14,239
DMV registrations	2,671	1,390
Utilities	3,218	4,921
Water/sewer	24,671	26,422
Buoys	20,269	18,376
Contract services	48,906	55,405
Trash removal	26,621	20,397
Miscellaneous	2,123	483
Small office equipment	23	4
Erosion and sediment control	34,549	44,618
Telephone	1,669	1,594
Lake weed abatement	26,292	29,551
Uniforms/safety training	2,341	1,977
New equipment	830	4,207
Trail/access maintenance	8,992	10,604
Tree removal	9,030	17,350
Tree treatment	1,450	1,680
Maintenance	3,467	3,219
Maintenance/landscape - Silt Removal	235,064	227,488
Maintenance/landscape - Marina	7,999	7,139
Maintenance/landscape - Burnt Mill	8,205	6,000
Maintenance/landscape - Tavern Bay	2,521	7,837
Maintenance/landscape - Grass Valley	3,756	3,425
Maintenance/landscape - Demo Garden	123	479
Maintenance/landscape - Village Cove/Orchard Bay	3,039	4,264
Beach sand	7,286	2,058
Janitorial	5,452	4,955
Trash removal	2,894	2,086
Equipment repair	1,356	417
Gate repair	693	1,273
	<u>\$ 910,396</u>	<u>\$ 983,903</u>

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ARROWHEAD LAKE ASSOCIATION

SCHEDULE OF EXPENSES

FOR THE YEARS ENDED MARCH 31, 2016 AND 2015
(continued)

	<u>2016</u>	<u>2015</u>
LAKE AND MARINA SAFETY EXPENSES		
Wages - lake safety	\$ 136,680	\$ 145,914
Wages - shore safety	4,655	12,081
Payroll taxes	18,919	20,263
Workers compensation	9,348	5,995
Fuel	26,141	31,658
Repair and maintenance	38,021	34,150
New equipment	4,372	4,841
Security services and training	2,287	3,565
Benefits	1,062	10,430
Supplies	8,824	10,365
Utilities	5,258	5,618
Uniforms	1,601	1,684
Security patrol service	120	1,042
	<u>\$ 257,288</u>	<u>\$ 287,606</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Wages	\$ 541,961	\$ 504,238
401K contribution	18,899	18,162
Payroll taxes	49,728	47,895
Workers compensation	24,929	12,563
Benefits	127,749	116,546
Bonus	5,600	6,200
Office supplies	28,686	27,600
Utilities	19,336	38,571
Printing and postage	28,753	24,761
Property taxes	75,163	85,413
Audit and accounting	25,202	26,982
Legal	354,885	145,581
Legal - water rights	31,388	41,826
Engineering, planning, survey	19,423	7,313
Insurance	127,635	113,799
Shoreline expenses	1,838	2,968
LA update	-	11,835
Computer and equipment service contracts	41,476	47,998
Security and janitorial	5,921	5,667
Board expense	16,989	52,504
Member relations	32,440	42,200
Bank service fees	4,429	5,995
Professional development	8,792	4,882
Permits, dues, fees and licenses	35,512	43,407
County recorder	237	85
Credit card processing fees	46,306	46,276
New equipment	10,354	17,013
Employee relations	8,480	7,151
Mileage	3,097	4,302
Reserve study	3,410	6,820
	<u>\$ 1,698,618</u>	<u>\$ 1,516,553</u>