

# **ARROWHEAD LAKE ASSOCIATION**

## **Auditor's Report and Financial Statements**

*March 31, 2007 and 2006*

**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](http://www.porterandcompany.com)

E-mail: [information@porterandcompany.com](mailto: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, 2007 and 2006 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, 2007 and 2006 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*

June 8, 2007

# Arrowhead Lake Association

## Statement of Financial Position

As of March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS</u></b>		
Cash and Cash Equivalents	\$ 477,723	\$ 643,232
Investments	1,800,000	300,000
Investments - Hardin Marine Security Deposit	73,741	69,926
Accounts and Grant Receivable	69,603	22,504
Inventory	6,943	9,691
Prepaid Expenses	44,737	50,532
Total Current Assets	<u>2,472,747</u>	<u>1,095,885</u>
<b><u>PROPERTY &amp; EQUIPMENT</u></b>		
Property and Equipment	7,136,465	7,112,856
Less Accumulated Depreciation	<u>(4,262,435)</u>	<u>(3,989,746)</u>
Total Property & Equipment	<u>2,874,030</u>	<u>3,123,110</u>
Total Assets	<u>\$ 5,346,777</u>	<u>\$ 4,218,995</u>
<b><u>CURRENT LIABILITIES</u></b>		
Accounts Payable and Accrued Liabilities	\$ 46,145	\$ 5,420
Account Payable - Rental Docks	125,740	175,040
Accrued Payroll and Related Items	85,600	48,330
Income Taxes Payable	9,423	102
Deferred Income	1,217,285	534,064
Hardin Marine Security Deposit	73,741	69,641
Other Current Liabilities	24,037	-
Total Current Liabilities	<u>1,581,971</u>	<u>832,597</u>
Net Assets-Unrestricted	<u>3,764,806</u>	<u>3,386,398</u>
Total Net Assets	<u>3,764,806</u>	<u>3,386,398</u>
Total Liabilities and Net Assets	<u>\$ 5,346,777</u>	<u>\$ 4,218,995</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, 2007 and 2006

	<b>2007</b>	<b>2006</b>
<b><u>OPERATING REVENUES (Unrestricted)</u></b>		
Lake and Marina Fees	\$ 2,494,465	\$ 2,163,661
Beach Club Dues and Fees	160,129	163,198
Gas Sales	500,250	415,285
Tree Assessments	-	5,090
Firework Contributions	29,421	14,959
Fish Contributions	6,395	9,240
Erosion/Sediment Control Cost Sharing	25,396	-
Total Operating Revenues	3,216,056	2,771,433
<b><u>OPERATING EXPENSES</u></b>		
Lake and Marina Operations	1,363,190	1,213,896
Beach Club Operations	52,094	53,593
Gas Dock Operations	471,343	478,844
General and Administrative	1,144,637	1,175,199
4th of July Show	50,516	43,135
Fish Stocking	25,577	41,003
Low Lake Level Expenses	7,340	4,678
Other Expenses	22,819	33,876
Total Operating Expenses	3,137,516	3,044,224
(Deficiency) of Operating Revenues Over Operating Expenses	78,540	(272,791)
<b><u>OTHER GAINS AND (LOSSES)</u></b>		
Interest Income	65,942	35,735
Boat Excursion	34,943	35,000
Lease Income	270,670	281,740
Shoreline Beautification	33,585	39,613
Major Repairs and Replacements	(75,109)	(394,322)
Total Other Gains and (Losses)	330,031	(2,234)
Changes in Net Assets Before Provision for Income Taxes	408,571	(275,025)
Income Taxes Expense	30,163	11,312
(Deficiency) of Revenues Over Expenses	378,408	(286,337)
Net Assets, Beginning of Year	3,386,398	3,672,735
Prior Period Adjustment	-	-
Net Assets, Beginning of Year, Restated	3,386,398	3,672,735
Net Assets, End of Year	\$ 3,764,806	\$ 3,386,398

**Arrowhead Lake Association**  
**Statement of Cash Flows**  
For the Years Ended March 31, 2007 and 2006

	<b>2007</b>	<b>2006</b>
<b><u>Cash Flows From Operating Activities:</u></b>		
(Deficiency) of Revenues Over Expenses	\$ 378,408	\$ (286,337)
<b><u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u></b>		
Depreciation	272,689	321,519
Amortization	-	-
<b><u>Change in Assets and Liabilities:</u></b>		
Change in Accounts and Grants Receivables	(47,099)	42,999
Change in Prepaid Expenses	5,795	(9,845)
Change in Inventory	2,748	(6,700)
Change in Accounts Payable	40,725	(9,649)
Change in Accounts Payable - Rental Docks	(49,300)	175,040
Change in Accrued Expenses	37,270	14,826
Change in Deferred Income	683,221	470,124
Change in Security Deposit - Hardin Marine	4,100	1,767
Change in Income Taxes Payable	9,321	(3,803)
Change in Other Liabilities	24,037	(216,698)
Total Adjustments	983,507	779,580
Net Cash Provided By Operations	1,361,915	493,243
<b><u>Cash Flows from Investing Activities:</u></b>		
Sale (Purchase) of Investments	(1,500,000)	200,000
Change in Value of Security Deposit - Hardin Marine	(3,815)	(1,603)
Net Cash Provided (Used) By Investing Activities	(1,503,815)	198,397
<b><u>Cash Flows from Financing Activities:</u></b>		
Additions of Fixed Assets	(23,609)	(313,175)
Net Cash (Used) By Financing Activities	(23,609)	(313,175)
Net Increase (Decrease) In Cash	(165,509)	378,465
Cash, Beginning of Year	643,232	264,767
Cash, End of Year	\$ 477,723	\$ 643,232
<b><u>Supplemental Information:</u></b>		
Cash Paid for Income Taxes	\$ 16,684	\$ 15,095

# Arrowhead Lake Association

## Notes to Financial Statements

For the Years Ended March 31, 2007 and 2006

### **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 Los Angeles.

#### **Inventory**

Inventory consists of gasoline, which is stated at 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:

	<u>2006</u>	<u>2005</u>
Land	\$ 390,333	\$ 390,333
Land Improvements	928,644	928,644
Buildings and Improvements	3,192,963	3,192,963
Vehicles	201,098	201,098
Equipment	1,660,387	1,636,778
Rental Docks	763,040	763,040
Total	<u>7,136,465</u>	<u>7,112,856</u>
Less: Accumulated		
Depreciation	<u>(4,262,435)</u>	<u>(3,989,746)</u>
Net Property and Equipment	<u>\$ 2,874,030</u>	<u>\$ 3,123,110</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, 2007 and 2006

**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, 2007 and 2006 are used to subsidize the Association’s operating expenses for fish stocking and fireworks expenses.

Contributions and the corresponding expenses are summarized below:

	<b>2007</b>	<b>2006</b>
Fish Contributions	\$ 6,395	\$ 9,240
Firework Contributions	29,421	14,959
Total Contributions	\$ 35,816	\$ 24,199
Fish Stocking Expense	\$ 25,577	\$ 41,003
Firework Expenses	50,516	43,135
Total Expense	\$ 76,093	\$ 84,138

**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, 2007 was \$270,670.

Minimum future rental income under the operating leases as of March 31, 2007 and 2006 are:

	<b>Year Ended March 31,</b>	
<b>Year</b>	<b>2007</b>	<b>2006</b>
2007		\$ 225,000
2008	\$ 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, 2007 including accrued interest was \$73,741. 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 \$184,040. The balance as of March 31, 2007 is \$125,740. 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 2007 were \$75,109.

# Arrowhead Lake Association

## Notes to Financial Statements

For the Years Ended March 31, 2007 and 2006

### ***NOTE 7 – PENSION PLAN:***

Effective January 1, 1997, the Association adopted a 401(k) profit sharing plan. The plan covers substantially all full-time permanent 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, 2007 and 2006 the Association contributed \$62,283 and \$34,479 respectively to the plan.

### ***NOTE 8 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:***

The Association maintains bank accounts at financial institutions which are not federally insured or whose balance may occasionally exceed the federally insured amount of \$100,000. Funds held in brokerage accounts are privately insured by the SIPC.

### ***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 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 10 – CONTINGENCIES:***

The Association is a defendant in one lawsuit as of March 31, 2007. It is premature to determine an outcome, but the Association believes it has adequate insurance and legal defenses.

**Arrowhead Lake Association**  
**Supplemental Information**  
For the Years Ended March 31, 2007 and 2006  
Schedule of Lake and Marina Operating Revenues

	<b>2007</b>	<b>2006</b>
<u>Lake, Marina, and Beach Club Fees and Dues</u>		
Dock Fees	\$ 1,267,693	\$ 813,815
Boat Fees and Boat Licensing	594,270	569,979
Dock Rental Fees	311,350	271,240
Dock Right Fees	13,200	228,470
General Membership Fees	37,440	62,477
Beach Club Dues and Fees	160,129	165,634
Shoreline Fees	41,585	41,138
Transfer Fees	162,370	121,115
Other	66,557	55,353
Low Lake Level Fees	-	74
 Total Lake and Marina Fees	 \$ 2,654,594	 \$ 2,329,295

**Arrowhead Lake Association**  
**Supplemental Information**  
For the Years Ended March 31, 2007 and 2006  
Schedule of Lake and Marina Operating Expenses

	<u>2007</u>	<u>2006</u>
<u>Lake and Marina Maintenance Expense</u>		
Wages - Maintenance	\$ 221,456	\$ 236,403
Payroll Taxes	22,302	20,012
Workers Comp	34,482	42,380
Benefits	41,046	47,113
Shop Tools	2,669	735
Materials & Supplies	6,838	2,550
Fuel / Auto & Equip	16,534	14,329
Repair & Maint / Auto & Equip	15,223	16,693
Repair & Maint / Property	36,871	33,795
Elevator Repair - R	35,042	-
DMV Registrations	1,521	726
Utilities Electric	3,671	4,226
Utilities Gas	995	816
Water Sewer Restrooms	11,520	21,667
Buoys	-	200
Contract Services	49,982	23,147
Trash Removal	16,844	20,167
Miscellaneous	4,097	(285)
Small Office Equipment	144	-
Erosion & Sediment Control	28,740	6,797
Erosion & Sediment Cntrl LACSD	87	-
Telephone	1,867	1,290
Weed Abatement	1,009	-
Uniforms	693	2,342
New Equipment - C	1,575	1,700
Trail/Access Maintenance	27,660	51,592
Amount Allocated to Reserves	-	(130,300)
Tree Removal	166,940	175,279
Landscape Maintenance	191	20
Well Monitoring	-	6,930
Shoreline Beautification C	6,039	-
Dock Audit - C	79,379	-
Restroom Repairs C	1,985	-
Peninsula Park C	73	-
Tavern Bay BC/Demo Garden C	7,495	-
Equipment Replacement, Major C	688	-
Janitorial	1,974	6,807
Trash Removal	5,864	3,115
Equipment Repair	-	1,766
Gate Repair	-	2,205
Common Area Costs	-	1,141
<b>Total Lake and Marina Maintenance Expenses</b>	<u><b>853,496</b></u>	<u><b>615,358</b></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, 2007 and 2006  
Schedule of Lake and Marina Operating Expenses

	<u>2007</u>	<u>2006</u>
<u>Safety Expenses</u>		
Wages - Lake Safety	117,932	130,223
Wages - Shore Safety	2,582	20,233
Payroll Taxes - Safety	13,982	17,608
Workers Comp - Safety	15,950	23,316
Fuel	23,678	17,141
Repair & Maintenance	26,286	21,526
Buoys - C	8,318	14,145
New Equipment - C	5,844	11,580
Sheriff Services	4,797	5,905
Benefits	1,955	1,676
Training	1,457	2,503
Supplies	6,280	3,979
Telephone	1,324	1,730
Utilities	4,688	3,565
Uniforms	1,932	1,709
Security Patrol Service	-	180
	<u>237,005</u>	<u>277,019</u>
 <u>Depreciation and Amortization</u>		
Depreciation and Amortization	<u>272,689</u>	<u>321,519</u>
 Total Lake and Marina Operations Expenses	<u><u>\$ 1,363,190</u></u>	<u><u>\$ 1,213,896</u></u>

**Arrowhead Lake Association**  
**Supplemental Information**  
For the Years Ended March 31, 2007 and 2006  
Schedule of General and Administrative Expenses

<u>General and Administrative Expenses</u>	<u>2007</u>	<u>2006</u>
Mileage	\$ 575	\$ -
Events	1,170	-
Wages - Administrative	391,417	367,365
Employee Profit Sharing	45,482	-
Payroll Taxes	31,294	35,765
Workers Comp	8,875	10,216
Benefits	62,283	34,479
Seasonal Emp. Retention Bonus	5,200	-
Office Supplies	7,061	7,519
Electric	29,129	25,982
Telephone	16,502	21,209
Gas	3,883	7,221
Water/Sewer	10,602	4,861
Computer Repair	345	8,022
Printing	23,270	21,872
Toner & Ink Cartridges	4,147	8,095
Postage	6,363	6,727
Property Taxes	80,310	71,219
Audit & Accounting	8,250	8,250
Bad Checks/Debt	(1,507)	2,450
Bad Debt Expense	5,291	27,989
Legal	74,754	44,783
Legal -Water Rights	22,407	129,929
Professional Accounting Service	7,502	13,164
Engineering, Planning, Survey	11,495	11,090
Insurance	134,491	114,822
Shoreline Fuel	947	618
Shoreline Supplies	14,272	17,220
Newsletter	2,685	8,055
Equipment Service Contracts	28,291	30,383
Computer Service Maintenance	7,315	17,329
Security & Janitorial	2,631	2,368
Board Expense	7,908	37,487
Public Relations	17,292	8,417
Bank Service Fees	5,094	2,845
Uniforms	1,629	-
Professional Development	784	280
Permits, Dues, Fees, Licenses	29,090	24,873
County Recorder	2,695	1,600
Credit Card Processing Expense	27,372	21,405
New Equipment - C	1,404	11,159
Employee Relations	4,286	6,060
Cash Short	-	10
Mileage	351	637
Suspense	-	1,424
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Total General and Administrative Expenses	<u>\$ 1,144,637</u>	<u>\$ 1,175,199</u>

See Auditor's Report

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