

Item 7C

PINECREST PERMITTEES ASSOCIATION

Financial Statements

December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pinecrest Permittees Association
Sonora, CA

We have audited the accompanying financial statements of Pinecrest Permittees Association, (a California non-profit organization) which comprise the statements of financial position as of December 31, 2014 and 2013, 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 upon 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 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 and audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an 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 as 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 Pinecrest Permittees Association as December 31, 2014 and 2013, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information to the underlying accounting and other records used to prepare 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.

Thad Scott & Company

May 29, 2015

PINECREST PERMITTEES ASSOCIATION
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31

| | 2014 | 2013 |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 894,480 | \$ 757,044 |
| Short-term investments | 600,000 | 500,000 |
| Accounts receivable | 5,745 | 17,500 |
| Accrued interest receivable | 228 | 290 |
| Prepaid expense | 16,135 | 16,192 |
| Buildings and equipment, net of accumulated depreciation | 1,017,997 | 1,076,449 |
| TOTAL ASSETS | \$ 2,534,585 | \$ 2,367,475 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts payable | \$ 9,903 | \$ 14,651 |
| Accrued payroll and related costs | 49,746 | 57,293 |
| Total Liabilities | 59,649 | 71,944 |
| NET ASSETS, Unrestricted | 2,474,936 | 2,295,531 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 2,534,585 | \$ 2,367,475 |

See accompanying notes to the financial statements.

PINECREST PERMITTEES ASSOCIATION
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDING DECEMBER 31

| | 2014 | 2013 |
|--|--------------|--------------|
| | Unrestricted | Unrestricted |
| REVENUE, GAINS, AND OTHER SUPPORT: | | |
| Member dues for water, fire, and roads | \$ 484,590 | \$ 555,412 |
| Garbage fees | 41,525 | 43,050 |
| Sewer fees | 569,876 | 510,248 |
| Snow removal fees | 27,300 | 27,400 |
| Other revenues | 28,663 | 13,106 |
| Interest income | 1,730 | 1,024 |
| | 1,153,684 | 1,150,240 |
| Expenses | | |
| Program services: | | |
| Water, fire, and roads | 356,578 | 362,425 |
| Wastewater | 446,145 | 483,993 |
| Snow removal | 23,190 | 28,789 |
| Garbage | 33,805 | 30,189 |
| Total Program services | 859,718 | 905,396 |
| Management and general | 114,561 | 104,373 |
| | 974,279 | 1,009,769 |
| Change in Net Assets | 179,405 | 140,471 |
| Net Assets - Beginning of the year | 2,295,531 | 2,155,060 |
| Net Assets - End of the year | \$ 2,474,936 | \$ 2,295,531 |

See accompanying notes to the financial statements.

PINECREST PERMITTEES ASSOCIATION
 STATEMENTS OF CASH FLOWS
 FOR THE YEAR ENDING DECEMBER 31

| | 2014 | 2013 |
|---|------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in Net Assets | \$ 179,405 | \$ 140,471 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 121,814 | 109,565 |
| Change in accounts receivable | 11,755 | (15,416) |
| Change in accrued interest receivable | 62 | 827 |
| Change in prepaid expenses | 57 | 7,108 |
| Change in accounts payable | (4,748) | 4,598 |
| Change in accrued payroll and related costs | (7,547) | 7,609 |
| | 300,798 | 254,762 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Decrease (increase) in short-term investments | (100,000) | (100,000) |
| Purchase of improvements and equipment | (63,362) | (121,872) |
| | (163,362) | (221,872) |
| Net cash provided from investing activities | (163,362) | (221,872) |
| Net Change in Cash and Equivalents | 137,436 | 32,890 |
| CASH AND CASH EQUIVALENTS, BEGINNING | 757,044 | 724,154 |
| CASH AND CASH EQUIVALENTS, ENDING | \$ 894,480 | \$ 757,044 |

See accompanying notes to the financial statements.

Pinecrest Permittees Association
Notes to the Financial Statements
December 31, 2014 and 2013

Note 1 – Organizational Information

Pinecrest Permittees Association (the Association) renders services to its members, the general public and others at Pinecrest, California. The Association was incorporated in January of 1950 as a California non-profit corporation. Membership is limited to holders of special use permits from the United States Forest Service (USFS) and USFS lessees. The Association does not contemplate the distribution of gains, profits or dividends to the members, in accordance with California Code.

The Association is tax-exempt under Internal Revenue Code Section 501(c)(4) and California Revenue and Taxation Code 23701f. The Association does not engage in any activities which would be subject to unrelated business activities income tax.

Association services include installation and maintenance of systems and equipment for water distribution, sanitation, sewage disposal, collection and disposition of garbage, fire prevention/fighting, road maintenance, and snow removal. The Association is subject to the cognizance of the USFS and cooperates with the USFS in the enforcement of all rules and regulations of the Department of Agriculture and with all laws and regulations pertaining to sanitation, fire prevention, public health and recreation.

Note 2 – Summary of Significant Accounting Policies

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

Pinecrest Permittees Association
Notes to the Financial Statements (continued)
December 31, 2014 and 2013

Basis of accounting – The Association reports its revenues and expenses on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized in the accounting year in which the liability is incurred.

Cash and cash equivalents – Cash is held in checking and savings accounts. Certificates of deposit with a term of three months or less are classified as cash equivalents for financial reporting purposes.

Retirement Plan – The Association maintains a Section 401(K) employee retirement plan for eligible employees. For 2013 and 2014, the cost to the Association was \$81,865 and \$76,502, respectively.

Members' Equity – The Association is required to report financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. All of the members' equity of the Association is unrestricted. There is no temporarily or permanently members' equity.

Cost Allocation Plan – The Association allocates indirect costs using a method similar to the Direct Allocation Method as promulgated by *OMB Circular A-122 Revised*. Indirect general and administrative costs are allocated to each fund activity pro rata using total direct costs before depreciation. Indirect depreciation costs are allocated to the General Fund.

Note 3 – Accounts Receivable, Net

As of December 31, 2013 and 2014, the accounts receivable was \$17,500 and \$5,745, respectively, with no allowance for doubtful accounts.

Pinecrest Permittees Association

Notes to the Financial Statements (continued) December 31, 2014 and 2013

Note 4 – Short-Term Investments

All short-term investments at December 31, 2013 and 2014 consisted of Certificates of Deposit, all FDIC insured, with maturity dates of more than 6 months but less than twelve months.

Note 5 – Property and Equipment, Net

| | 2014 | 2013 |
|--------------------------|--------------------|--------------------|
| Buildings | \$ 592,304 | \$ 592,304 |
| Infrastructure | 2,058,415 | 2,058,415 |
| Machinery | 928,727 | 877,303 |
| Vehicles | 146,817 | 146,817 |
| | <u>3,726,263</u> | <u>3,674,839</u> |
| Accumulated depreciation | <u>(2,708,266)</u> | <u>(2,598,391)</u> |
| | <u>\$1,017,997</u> | <u>\$1,076,448</u> |

Depreciation expense was \$121,814 and \$109,565 for 2013 and 2012, respectively. Capital items are depreciated using the straight-line method over their estimated useful lives which range from 5 to 20 years.

Pinecrest Permittees Association

Notes to the Financial Statements (continued)
December 31, 2014 and 2013

Note 6 – Concentration

The USFS contracts with the Association to provide wastewater services for their offices, as well as the Pinecrest Campgrounds, which are operated by a concessionaire of the USFS. Under the current contract, the USFS and its concessionaire pay for 29.9% of the allowable wastewater costs.

Note 7 – Subsequent Events

Management has evaluated subsequent events through the date of the auditors' report.

PINECREST PERMITTEES ASSOCIATION
SUPPLEMENTAL SCHEDULE
SCHEDULE OF EXPENSES BY PROGRAM
FOR THE YEAR ENDING DECEMBER 31, 2013

PROGRAMS

| Expenses | Water, Fire, and Roads | Wastewater | Snow | Garbage | Management and general | Total |
|-----------------------------|---------------------------|--------------------------|-------------------------|-------------------------|------------------------------|----------------------------|
| Accounting and legal | | | | | \$ 33,625 | \$ 33,625 |
| Appraisal costs | | | | | | - |
| Depreciation | 26,781 | 56,171 | 17,414 | | 9,199 | 109,565 |
| Donation | | | | | | - |
| Employee salaries and costs | 252,073 | 300,388 | 3,894 | 18,286 | 18,602 | 593,243 |
| Fire Department Expenses | 8,599 | | | | | 8,599 |
| Fuel and Oil | 4,220 | 8,888 | 5,085 | 124 | | 18,317 |
| Garbage Fees | | | | 11,155 | | 11,155 |
| Insurance | | | | | 27,786 | 27,786 |
| Lab Test | | 14,328 | | | | 14,328 |
| Miscellaneous | 738 | | | | 1,877 | 2,615 |
| NFHA Dues | 13,405 | | | | | 13,405 |
| Office Expenses | | | | | 6,082 | 6,082 |
| Outside Services | | 13,416 | | | 1,746 | 15,162 |
| Regulation Fees | 2,816 | 13,875 | | 180 | | 16,871 |
| Repairs & Maintenance | 6,861 | 14,222 | 2,312 | 342 | | 23,737 |
| Supplies | 31,480 | | | | | 31,480 |
| Tax, Licenses and Permits | 260 | 8,917 | 84 | 102 | 5,009 | 14,372 |
| Telephone | 59 | 3,016 | | | 447 | 3,522 |
| Utilities | 15,133 | 50,772 | - | - | - | 65,905 |
| Total expenses | <u>\$ 362,425</u> | <u>\$ 483,993</u> | <u>\$ 28,789</u> | <u>\$ 30,189</u> | <u>\$ 104,373</u> | <u>\$ 1,009,769</u> |

See accompanying notes to the financial statements.

PINECREST PERMITTEES ASSOCIATION
SUPPLEMENTAL SCHEDULE
SCHEDULE OF EXPENSES BY PROGRAM
FOR THE YEAR ENDING DECEMBER 31, 2014

PROGRAMS

| Expenses | Water, Fire, and Roads | Wastewater | Snow | Garbage | Management and general | Total |
|-----------------------------|---------------------------|--------------------------|-------------------------|-------------------------|------------------------------|--------------------------|
| Accounting and legal | | | | | \$ 33,978 | \$ 33,978 |
| Depreciation | 34,738 | 59,089 | 18,788 | | 9,199 | 121,814 |
| Employee salaries and costs | 223,279 | 249,901 | 2,710 | 18,922 | 27,057 | 521,869 |
| Fire Department Expenses | 8,226 | | | | | 8,226 |
| Fuel and Oil | 13,599 | 6,724 | 1,050 | 666 | | 22,039 |
| Garbage Fees | | | | 14,021 | | 14,021 |
| Insurance | 1,171 | | | | 29,193 | 30,364 |
| Lab Test | | 13,180 | | | | 13,180 |
| Miscellaneous | 1,088 | | | | 1,762 | 2,850 |
| NFHA Dues | 15,280 | | | | | 15,280 |
| Office Expenses | 221 | | | | 8,190 | 8,411 |
| Outside Services | 4,000 | | | | 1,180 | 5,180 |
| Regulation Fees | 2,304 | 15,062 | | | | 17,366 |
| Repairs & Maintenance | 7,372 | 30,925 | 642 | 196 | | 39,135 |
| Supplies | 28,230 | 8,067 | | | | 36,297 |
| Tax, Licenses and Permits | 881 | 4,957 | | | 3,553 | 9,391 |
| Telephone | | 3,379 | | | 449 | 3,828 |
| Utilities | 16,189 | 54,861 | - | - | - | 71,050 |
| Total expenses | <u>\$ 356,578</u> | <u>\$ 446,145</u> | <u>\$ 23,190</u> | <u>\$ 33,805</u> | <u>\$ 114,561</u> | <u>\$ 974,279</u> |

See accompanying notes to the financial statements.