

2018 - 2019 ANNUAL REPORT

May 1, 2018 - April 30, 2019



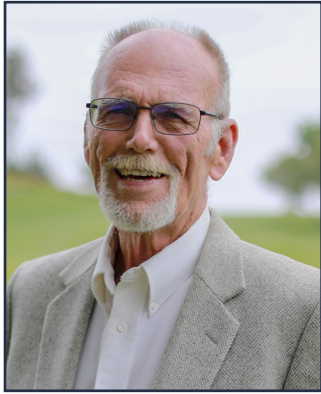
CANYON LAKE
PROPERTY OWNERS ASSOCIATION

CANYON LAKE

PROPERTY OWNERS ASSOCIATION

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PRESIDENT'S REPORT

It has been a pleasure to serve on the Board. It was very informative learning how the California Civil Code and the Davis/Stirling Act regulates property owners associations.

I served on the Board of Directors for two years, 2017-2019. In 2017-2018 term Paul Queen was the President, the remaining four directors were Dale Welty, Tom Nathan, Phil Hawgood, and myself. During the 2018-2019 term Jim Barringham was elected to fill the seat of Paul Queen and I was elected President. During both years the five individuals blended together to become a cohesive board that agreed 90-95% of the time to accomplish numerous improvements to the community. The complete list for projects is available at www.clpoa.com/projects.

During the last year we were able to form a joint meeting with the City of Canyon Lake. This was a momentous undertaking. We (Canyon Lake POA) and the City Council are now diligently working to resolve several issues that are now being addressed jointly. Three cheers for the City Council and the Board for coming together.

As a Board we agreed to tackle the projects that have been on the wish list for some time. A few of the noteworthy projects that have been completed or in the process are: Main Gate Monument & Water Feature, Happy Camp Remodel (with upgraded 50-amp electrical service, new sewer and pump lift station, water lines, and wi-fi), Mailbox Replacement Project, New Pool Furniture & Shade Added, Martins Landing Historical Marker, Purchase of Two Speed Trailers, Country Club Remodel, 22 New Rental Docks, Electronic Message Boards at Gates, Main Gate Patrol Office Windows Added, and last but not least, through a very generous donation from the Fine Arts Guild we were able to construct an amphitheater.

Projects in the process are: Eastport/Goetz Road Block Wall, Repaving All Parking Lots (RFP issued), Roadrunner Park Restroom (at City for plan check), Lodge Remodel (with outdoor dining and fireplace, drawings in progress), Pump Track (in design), and

East Bay Electronic Boat Speed Monitoring.

I personally wish to thank staff for the support, many helpful suggestions, answering emails and working tirelessly to accomplish our common goals. To Eric Kazakoff, Lynn Jensen, Susan Dawood, Carrie Pratt, Lisa Rogers, Cory Gorham, Val Raboin, Steve Schneider, Cheryl Mitchell, and restaurant management, please convey my gratitude to your staff for all that they do. I would like to thank the many volunteers that assist the Board with suggestions for improving our community. Appeals, ACC, Estates, Facilities Review, Finance, Green, Recreation, Rules & Regulations, Security Advisory, Fiesta Day, EVMWD Litigation, Senior Work Group and Tuesday Work Group. I also want to thank the many clubs that work to provide members with entertainment, family gatherings, travel, camping, golf, skiing, wakeboarding, golf carts, youth and many more.

Communication remains a difficult task to conquer with small participation from the owners. We have just over 30% of members receiving email notifications, a little over 2,000 followers on the Canyon Lake POA Facebook page, and voting participation only at 33%. Members can subscribe to Canyon Lake POA news online at www.clpoa.com/notifyme and look for news in the Friday Flyer. I wish to remind residents to obtain their RFID before we convert the decal lanes to RFID only.

Finally, it has been a pleasure to serve on the board. It was very informative learning how the California Civil Code and the Davis/Stirling Act regulates property owners associations. Congratulations to the new Board, Dale, Chris, Jeanne, Jim and Tom.

Mike Harris,
2018/19 Board President
Canyon Lake Property Owners Association

MANAGEMENT REPORT

The Canyon Lake POA's mission is to provide exceptional services that enhance the quality of life and sense of community, which make Canyon Lake a desirable place to live and enjoy." This is our purpose and goal everyday when we come to work here.



This last year has been another productive one for us. As the Canyon Lake POA turned 50 years old in 2018, a high priority of ours is to bring our community up to modern standards and keep our property values in line with our neighboring communities. As Mike Harris mentioned in his President's Report, we hit a lot of goals towards this effort this past year.

I would like to also take this opportunity to remind our members where our name comes from. Many Canyon Lake residents think of "The POA" as that government-like place that takes their money and sends them bills, letters, citations, and makes tons of rules, etc. I would like to remind all of you that our name is the Canyon Lake **Property Owners Association**. Yes, we are a corporation, but we exist to serve as an **Association of and for** all of our property owners. This is your company. Our annual operating budget is mostly funded by you, the Property Owners, in the form of your annual assessments. The purpose of the Canyon Lake POA is to "promote the recreation, benefit, and enjoyment of the homeowners in Canyon Lake. The Canyon Lake POA's mission is to provide exceptional services that enhance the quality of life and sense of community, which make Canyon Lake a desirable place to live and enjoy." This is our purpose and goal everyday when we come to work here.

This large company, with a 20 million-dollar annual budget, and 140+ hardworking employees was formed to maintain and improve the common area assets owned by all of you. All 4,800 members of the Association - the Property Owners - are represented by the five elected directors on our Board of Directors, and all of the employees of the Association are here every day working hard on all aspects of our mission statement. All of the Board members, and many of the employees live here and are also Property Owners.

The Davis-Stirling Act requires that common interest developments like ours are governed and managed in this manner, with good reason. All of our rules, regulations, assessments, fines and fees were put in

place by Board members and Committees, which are comprised of residents and members of the Association. The community collectively made and created our rules and standards, and one of our charters is to enforce those, to ensure that our community is an attractive and safe place to live.

As we continue moving forward with our priorities set on modernizing our community, we have a full plate of projects coming up in the next year. Most notably, we look forward to the completion of the new Eastport Block Wall which will not only update the appearance of the east side of our community, but will also provide much more security and better sound attenuation for nearby residents. This project was planned years ago and has finally come to fruition and construction started this summer. Another, large project we look forward to embarking on this year is the Parking Lot Pavement Project. All 15 of our large parking lots and Canyon Lake Drive North are badly deteriorated and long overdue for upgrades and replacements. All will feature new asphalt surfaces, and many areas will be upgraded with additional parking, retaining walls, planters, etc. In particular, the lodge parking lot will be completely re-configured, including a new ADA ramp and staircase down to the rental docks and walking path. These are just a couple of projects we have coming up, to view all our projects visit www.clpoa.com/projects.

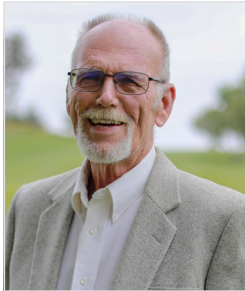
Last but not least, I want to take this opportunity to thank our Board, committee members, and staff members who all come together to serve this community and make it the best that it can be.

A handwritten signature in black ink, appearing to read "Eric Kazakoff". The signature is stylized and fluid, with a long horizontal line extending to the right.

Eric Kazakoff, CCAM®
General Manager
Canyon Lake Property Owners Association

2018 - 2019 BOARD OF DIRECTORS

The Canyon Lake Property Owners Association is governed by a five-member Board of Directors who are elected by the membership for two-year staggered terms at the Annual Members' Meeting in May.



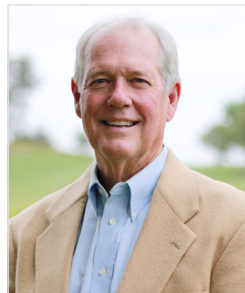
MIKE HARRIS

Board President

Mike joined the Board in 2017. Mike has more than 20 years of experience in management, budgeting, and logistical project planning. He had an extensive career in the HVAC industry both as a business owner and working for large organizations. Mike has lived in Canyon Lake since 2009.

2018-19 Committee Board Liaison:

- Architectural Control Committee
- Fiesta Day Committee
- Rules & Regulations Review Committee
- Security Advisory Committee



PHIL HAWGOOD

Board Vice President

Phil joined the Board in 2017. Phil has made a career out of real estate investment and construction management. During his career, he routinely completed projects efficiently and under budget. This allowed him to build a real estate company that owns multiple high-value properties all throughout Southern California.

2017-18 Committee Board Liaison

- Appeals
- Green Committee



TOM NATHAN

Board Treasurer

Tom joined the Board in 2017. He has a background in Business Administration, with a Masters in Financial Management. He has over 30 years of experience in healthcare, restaurant, and marine industries. Most recently he was the Controller for a global leader in direct marketing. Tom has been a Canyon Lake resident for more than 15 years. He has been a member of multiple clubs and committees.

2018-19 Committee Board Liaison

- Finance Committee
- Tuesday Work Group



DALE WELTY

Board Secretary

Dale joined the Board in 2016. He has been a resident of Canyon Lake since 1988 and his focus has been contributing to the betterment of the community. Dale has advocated for more family oriented recreation in Canyon Lake and has also helped to improve communication amongst the members and Canyon Lake POA.

2018-19 Committee Board Liaison

- Dredge Committee
- Estates Committee
- Facilities Review Committee



JIM BARRINGHAM

Board Director

Jim joined the Board in 2018. He had 40-year career specializing in the field of Information Technology. Beyond his professional experience, Jim and his wife Gyan have been Canyon Lake homeowners since 2009. They are both active members of multiple clubs and committees.

2018-19 Committee Board Liaison

- Recreation Committee
- Senior Work Group



MICHAEL J. BRABO, CPA
WAYNE E. CARLSEN, CPA

*Member of the Private Companies
Practice Section of the American Institute
of Certified Public Accountants*

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Canyon Lake Property Owners' Association
Canyon Lake, California

Report on the Financial Statements

We have audited the accompanying financial statements of Canyon Lake Property Owners' Association, which comprise the balance sheet as of April 30, 2019, and the related statement of comprehensive income, changes in fund balance, and cash flows 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 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 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.

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Board of Directors and Members
Canyon Lake Property Owners' Association
Canyon Lake, California

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canyon Lake Property Owners' Association as of April 30, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Brabo & Carlson, LLP

July 30, 2019

Palm Springs, California

CANYON LAKE PROPERTY OWNERS' ASSOCIATION

BALANCE SHEET

APRIL 30, 2019

ASSETS

	Operating Fund	Community Facilities Fund	Capital Improvement Fund	Repair Replacement Fund	Road Reserve Fund	Total
ASSETS						
Cash	\$ 6,310,826	\$ 179,975	\$ 12,489	\$ 283,073	\$ 817,186	\$ 7,603,549
Investments, net of unrealized gain	-	-	1,007,342	7,701,978	3,206,659	11,915,979
Assessments and fines receivable, net of allowance for doubtful accounts of \$720,842	755,908	-	-	-	-	755,908
Interest receivable	-	-	4,476	31,327	16,516	52,319
Inventory	47,433	-	-	-	-	47,433
Prepaid expenses	324,114	-	-	-	-	324,114
Other assets	189,388	-	-	-	-	189,388
Inter-fund receivable/(payable)	(1,068,689)	(108,545)	(147,820)	(75,585)	1,400,639	-
Property and equipment, net of accumulated depreciation of \$7,452,951	4,427,127	-	-	-	-	4,427,127
	<u>\$ 10,986,107</u>	<u>\$ 71,430</u>	<u>\$ 876,487</u>	<u>\$ 7,940,793</u>	<u>\$ 5,441,000</u>	<u>\$ 25,315,817</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	\$ 557,105	\$ -	\$ -	\$ -	\$ -	\$ 557,105
Accrued payroll	439,861	-	-	-	-	439,861
Prepaid assessments	1,716,816	-	-	-	-	1,716,816
Other accrued liabilities	157,542	-	-	-	-	157,542
Refundable member deposits	334,495	-	-	-	-	334,495
Sales tax payable	18,073	-	-	-	-	18,073
	<u>3,223,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,223,892</u>

FUND BALANCES

Fund balance	7,762,215	71,430	877,190	7,982,521	5,454,096	22,147,452
Accumulated other comprehensive income	-	-	(703)	(41,728)	(13,096)	(55,527)
	<u>7,762,215</u>	<u>71,430</u>	<u>876,487</u>	<u>7,940,793</u>	<u>5,441,000</u>	<u>22,091,925</u>
	<u>\$ 10,986,107</u>	<u>\$ 71,430</u>	<u>\$ 876,487</u>	<u>\$ 7,940,793</u>	<u>\$ 5,441,000</u>	<u>\$ 25,315,817</u>

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

CANYON LAKE PROPERTY OWNERS' ASSOCIATION

**STATEMENT OF REVENUES, EXPENSES, COMPREHENSIVE INCOME AND
CHANGES IN FUND BALANCES**

YEAR ENDED APRIL 30, 2019

	Operating Fund	Community Facilities Fund	Capital Improvement Fund	Repair Replacement Fund	Road Reserve Fund	Total
REVENUES						
Member assessments	\$ 10,393,600	\$ -	\$ 300,000	\$ 1,500,000	\$ 1,400,000	\$ 13,593,600
Interest income	11,232	2,494	14,013	77,209	54,115	159,063
Administrative fees	849,769	-	-	-	-	849,769
Architectural and building fees	155,088	-	-	-	-	155,088
Sales and user fees	4,081,340	-	-	-	-	4,081,340
Other income	628,994	-	-	-	-	628,994
	<u>16,120,023</u>	<u>2,494</u>	<u>314,013</u>	<u>1,577,209</u>	<u>1,454,115</u>	<u>19,467,854</u>
EXPENSES						
Salaries and related expenses	5,673,534	-	-	-	-	5,673,534
Outside services	3,323,660	-	-	-	-	3,323,660
Lake lease	1,461,679	-	-	-	-	1,461,679
Utilities	1,208,324	-	-	-	-	1,208,324
Repairs and maintenance	1,523,343	-	-	-	-	1,523,343
Supplies	604,048	-	-	-	-	604,048
Rental equipment	16,405	-	-	-	-	16,405
Property taxes	33,536	-	-	-	-	33,536
Income taxes	12,520	-	-	-	-	12,520
Cost of goods sold	779,968	-	-	-	-	779,968
General and administrative	482,707	389	1,335	10,057	4,616	499,104
Insurance	440,348	-	-	-	-	440,348
Legal fees	813,375	-	-	-	-	813,375
Bad debt recovery	(431,140)	-	-	-	-	(431,140)
Events	183,183	-	-	-	-	183,183
Contingency	1,293	-	-	-	-	1,293
Capital improvement expenses	-	-	447,821	-	-	447,821
Major repairs and replacements	-	-	-	1,349,936	-	1,349,936
	<u>16,126,783</u>	<u>389</u>	<u>449,156</u>	<u>1,359,993</u>	<u>4,616</u>	<u>17,940,937</u>
Excess (deficiency) of revenues over expenses before depreciation	<u>(6,760)</u>	<u>2,105</u>	<u>(135,143)</u>	<u>217,216</u>	<u>1,449,499</u>	<u>1,526,917</u>
Depreciation	251,674	-	-	-	-	251,674
Realized gain (loss) on investments	-	1,492	(3,049)	3,080	6,683	8,206
Excess (deficiency) of revenues over expenses	<u>(258,434)</u>	<u>3,597</u>	<u>(138,192)</u>	<u>220,296</u>	<u>1,456,182</u>	<u>1,283,449</u>
OTHER COMPREHENSIVE INCOME						
Unrealized gain on investments	-	3,637	16,617	144,604	41,413	206,271
TOTAL COMPREHENSIVE INCOME	<u>\$ (258,434)</u>	<u>\$ 7,234</u>	<u>\$ (121,575)</u>	<u>\$ 364,900</u>	<u>\$ 1,497,595</u>	<u>\$ 1,489,720</u>
FUND BALANCES, beginning of the year	\$ 7,745,640	\$ 64,196	\$ 998,062	\$ 7,850,902	\$ 3,943,405	\$ 20,602,205
COMPREHENSIVE INCOME						
Excess (deficiency) of revenues over expenses	(258,434)	3,597	(138,192)	220,296	1,456,182	1,283,449
Unrealized gain on investments	-	3,637	16,617	144,604	41,413	206,271
TOTAL COMPREHENSIVE INCOME	<u>(258,434)</u>	<u>7,234</u>	<u>(121,575)</u>	<u>364,900</u>	<u>1,497,595</u>	<u>1,489,720</u>
Inter-fund transfers	275,009	-	-	(275,009)	-	-
FUND BALANCES, end of the year	<u>\$ 7,762,215</u>	<u>\$ 71,430</u>	<u>\$ 876,487</u>	<u>\$ 7,940,793</u>	<u>\$ 5,441,000</u>	<u>\$ 22,091,925</u>

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

CANYON LAKE PROPERTY OWNERS' ASSOCIATION
STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED APRIL 30, 2019

	Fund Balances, Beginning of the Year		Year Ended April 30, 2019			Fund Balances, End of the Year	
	Fund Balances	Accumulated Other Comprehensive Income	Excess (Deficiency) of Revenues Over expenses	Unrealized Gains	Inter-fund Transfers	Fund Balances	Accumulated Other Comprehensive Income
Operating Fund	\$ 7,745,640	\$ -	\$ (258,434)	\$ -	\$ 275,009	\$ 7,762,215	\$ -
Community Facilities Fund	67,833	(3,637)	3,597	3,637	-	71,430	-
Capital Improvement Fund	1,015,382	(17,320)	(138,192)	16,617	-	877,190	(703)
Repair Replacement Fund	8,037,234	(186,332)	220,296	144,604	(275,009)	7,982,521	(41,728)
Road Reserve Fund	3,997,914	(54,509)	1,456,182	41,413	-	5,454,096	(13,096)
	<u>\$ 20,864,003</u>	<u>\$ (261,798)</u>	<u>\$ 1,283,449</u>	<u>\$ 206,271</u>	<u>\$ -</u>	<u>\$ 22,147,452</u>	<u>\$ (55,527)</u>
							<u>\$ 22,091,925</u>

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

CANYON LAKE PROPERTY OWNERS' ASSOCIATION

STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30, 2019

	Operating Fund	Community Facilities Fund	Capital Improvement Fund	Repair Replacement Fund	Road Reserve Fund	Total
NET CASH FLOW FROM OPERATING ACTIVITIES						
Excess (deficiency) of revenues over expenses	\$ (258,434)	\$ 7,234	\$ (121,575)	\$ 364,900	\$ 1,497,595	\$ 1,489,720
Adjustments to reconcile net revenues over expenses to net cash flow from operating activities:						
Depreciation	251,674	-	-	-	-	251,674
Unrealized (gain) on investments	-	(3,637)	(16,617)	(144,604)	(41,413)	(206,271)
(Increase) Decrease in:						
Assessments and fines receivable	(697,828)	-	-	-	-	(697,828)
Interest receivable	-	953	748	5,429	(3,051)	4,079
Inventory	2,626	-	-	-	-	2,626
Prepaid expenses	(75,923)	-	-	-	-	(75,923)
Other assets	(36,268)	-	-	-	-	(36,268)
Inter-fund receivable/payable	2,563,891	(240,000)	(155,442)	(1,325,256)	(843,193)	-
Increase (Decrease) in:						
Accounts payable	(198,057)	-	-	-	-	(198,057)
Accrued payroll	38,468	-	-	-	-	38,468
Prepaid assessments	(232,301)	-	-	-	-	(232,301)
Other accrued liabilities	(2,580)	-	-	-	-	(2,580)
Refundable member deposits	(84,711)	-	-	-	-	(84,711)
Income taxes payable	(25,667)	-	-	-	-	(25,667)
Sales tax payable	1,350	-	-	-	-	1,350
Net cash provided (used) by operating activities	1,246,240	(235,450)	(292,886)	(1,099,531)	609,938	228,311
CASH FLOWS FROM INVESTING ACTIVITIES						
Sale (purchase) of certificates of deposit	-	385,764	292,449	955,451	174,388	1,808,052
Purchase of property and equipment	(364,744)	-	-	-	-	(364,744)
Net cash provided (used) by investing activities	(364,744)	385,764	292,449	955,451	174,388	1,443,308
CASH FLOWS FROM FINANCING ACTIVITIES						
Inter-fund transfers	275,009	-	-	(275,009)	-	-
Net cash provided (used) by financing activities	275,009	-	-	(275,009)	-	-
Net increase (decrease) in cash	1,156,504	150,314	(437)	(419,089)	784,326	1,671,618
CASH, beginning of the year	5,154,322	29,661	12,926	702,162	32,860	5,931,931
CASH, end of the year	<u>\$ 6,310,826</u>	<u>\$ 179,975</u>	<u>\$ 12,489</u>	<u>\$ 283,073</u>	<u>\$ 817,186</u>	<u>\$ 7,603,549</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION						
Cash paid during the year for:						
Income taxes						<u>\$ 67,253</u>

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

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Canyon Lake Property Owners' Association was organized as a not-for-profit corporation for purposes of maintaining and preserving common property within the development. The development consists of 4,800 residential lots located in Canyon Lake, California. The Association began its operations in May 1968.

Accounting Method

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This is used to account for financial resources available for the general operations of the Association.

Community Facilities Fund - This fund is used to accumulate financial resources related for projects designated by the Board of Directors for parks and recreation facilities. This fund will be eliminated once the existing funds are expended.

Capital Improvement Fund - This fund is used to accumulate financial resources for projects designated by the Board of Directors, primarily for parks and recreation facilities.

Repair and Replacement Fund - This fund is used to accumulate financial resources designated for future repairs and replacements.

Road Reserve Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements for the common streets within the Association.

Investments

Investments consist of municipal bonds, corporate bonds and U. S. treasury notes that are held for an indefinite period and thus classified as available for sale and recorded at market value.

Inventory

Inventory consists of food and beverage and gasoline at the campground, stated at the lower of cost or market using the average cost method.

Assessments Received in Advance

Assessments received in advance are treated as a current liability. The amounts are recognized as income in the appropriate period.

Common Area Property

Real property and common areas acquired from the developer and related improvements to the Association property are not recognized as assets, in conformity with industry standards. Expenditures for major repairs and replacements are accounted for as replacement fund expenditures for purposes of financial reporting.

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Purchased personal property and equipment are stated at cost. All assets are depreciated using the straight-line method over the estimated useful lives of the various classes of assets. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is computed over the following estimated useful lives:

Land and Improvements	5 - 30 years
Buildings	5 - 40 years
Machinery and equipment	3 - 10 years
Pool	7 - 30 years
Furniture and fixtures	5 - 40 years
Vehicles	5 years

Cash Equivalents

The Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Income Taxes

The Association is classified as a nonexempt membership organization for both Federal and California income tax purposes for the year ended April 30, 2019. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, non-membership transactions and capital transactions.

For Federal tax purposes, the Association is taxed on all net income from non-membership activities reduced only by losses from non-membership activities for which a profit motive exists. Non-membership income may not be offset by membership losses, and excess membership deductions may be carried forward to offset membership income of future periods. Any net membership income not applied to the subsequent year is subject to taxation. The Association files Form 1120, which had a tax rate of 21% in 2019 that was applied to net taxable income.

For California tax purposes, the Association also is taxed on all net income from non-membership activities reduced only by losses from non-membership activities for which a profit motive exists. Non-membership income may not be offset by membership losses. Any net membership income is not subject to taxation. The tax rate that is applied to net taxable income is 8.84%.

The Association's policy is to record income tax related interest and penalties in the replacement fund expenses. For the year ended April 30, 2019, there were no interest or penalties expense recorded and no accrued interest or penalties.

Management has considered its tax positions and believes that the positions taken by the Association on its Federal and State tax returns are more likely than not to be sustained upon examination. The Association's Forms 1120, US Corporation Tax Returns, are subject to examination by the IRS, generally for three years after they are filed. The Association's Forms 100, Corporation Franchise or Income Tax Returns and Forms 199, California Exempt Organization Annual Information Return, are subject to examination by the Franchise Tax Board, generally for four years after they are filed.

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The Association's investments are measured using fair value measurements, which, among other things, establish a hierarchical framework for disclosure of and measurement of investments at fair value defined as Level I, II, and III inputs. These inputs are based on a number of factors, including the type of investment and the characteristics specific to the investment. The Association's investments are all considered to be Level I inputs as they are based on quoted market prices.

Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses, including depreciation and the allowance for doubtful accounts. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Subsequent Events

Subsequent events have been evaluated through July 30, 2019, which is the date the financial statements were available to be issued.

NOTE 1: OWNERS' ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Association members are subject to paying assessments to fund the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at April 30, 2019 represent assessments and other fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments, including liens on the owner's unit, foreclosing on the unit owner, or obtaining a judgment on other assets of the unit owner. The Association uses the allowance method for estimating uncollectable assessments.

Monthly assessments to the owners were \$236 in 2019, Of that amount, \$26 was designated to the replacement fund, \$24 to the road reserve fund and \$5 to the capital fund.

The annual budget and owner's assessments are determined and approved by the Board of Directors. The Association retains excess operating funds, if any, at the end of the operating year for use in future operating periods.

NOTE 2: INVENTORY

Inventory at April 30, 2019 are as follows:

Food and beverage	\$ 44,078
Gasoline - campground	<u>3,355</u>
	<u>\$ 47,433</u>

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2019

NOTE 3: INVESTMENTS

Investments are stated at market value based on quoted market prices and are considered to be available for sale. The investments are comprised of corporate bonds, municipal bonds and municipal bond mutual funds.

The Association's investments consisted of the following at April 30, 2019:

Municipal bonds	\$ 1,733,075
Corporate bonds	9,333,795
U.S. Treasury notes	<u>849,109</u>
Total investments	<u>\$11,915,979</u>

Included in investment income are realized gains of \$8,206 in 2019, resulting from sales and bond redemptions. Included in other comprehensive income are unrealized gains of \$206,271 for the year ended April 30, 2019. Included in accumulated other comprehensive income are unrealized losses of \$55,527 as of April 30, 2019.

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at April 30, 2019:

Land and improvements	\$ 5,676,017
Building	3,725,216
Machinery and equipment	1,249,095
Pool	394,913
Furniture and fixtures	623,076
Vehicles	211,761
Less: Accumulated depreciation	<u>(7,452,951)</u>
Net property and equipment	<u>\$ 4,427,127</u>

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

The Board of Directors engaged an outside consultant to conduct a study in August 2014 and updated in 2018 to estimate the remaining useful lives and the replacement costs of the components of common property. The study is based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 2.2 percent, interest of 1%, and a tax rate of 30%, on amounts funded for future major repairs and replacements.

A separate study was conducted to estimate the timing and cost of future repairs and replacements for 36 miles of 2-way common streets within the Association to estimate the remaining useful lives of the common streets.

The table included on page 12 in the unaudited supplementary information on future major repairs and replacements is based on the study.

**CANYON LAKE
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FINANCIAL STATEMENTS

APRIL 30, 2019

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

The Board is funding for major repairs and replacements including roads over the remaining useful lives of the components based on the Association's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, \$2,765,000 has been included in the 2019/2020 budget. Because actual expenditures may vary from the estimated future expenditures and the variations may be material, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 6: RETIREMENT PLAN

The Association sponsors a 401(k) plan which allows eligible employees to defer a portion of their salaries. The Association may make a discretionary matching contribution up to 4.0% of compensation. The Association made matching contributions of \$86,149 during the year ended April 30, 2019.

NOTE 7: OPERATING LEASE

The Association leases the Canyon Lake Reservoir for water recreation purposes. The agreement was implemented in March 2017 and extended through December 31, 2066. According to the agreement, the annual base lease amount in March 2017 of \$1,403,850 is to be paid with an annual cost increase calculation based on the Consumer Price Index (CPI).

Future minimum lease expense, excluding the annual CPI increase for the next 47 years is \$65,980,950. For the year ended April 30, 2019 the lake lease expense was \$1,461,679.

NOTE 8: INTER-FUND TRANSFER

During the year ended April 30, 2019, interfund transfers of \$275,009 consisted of personal property and equipment purchased by the replacement fund and capitalized in the operating fund.

NOTE 9: CONTINGENCIES

The Association is involved in various legal matters, however in the opinion of legal counsel, the likelihood of an unfavorable outcome cannot be determined with any degree of certainty. Accordingly, the Association has not accrued any potential loss contingency for those matters.

NOTE 10: CONCENTRATION OF CREDIT RISK

The Association maintains accounts with banks and brokerage firms. Interest bearing accounts at banks are insured by the Federal Deposit Insurance Corporation for up to \$250,000 at each institution and accounts at brokerage firms are insured up to \$500,000 (with a limit of \$250,000 for interest bearing cash accounts) by the Securities Investor Protection Corporation. 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.

**CANYON LAKE
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**SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS**

APRIL 30, 2019

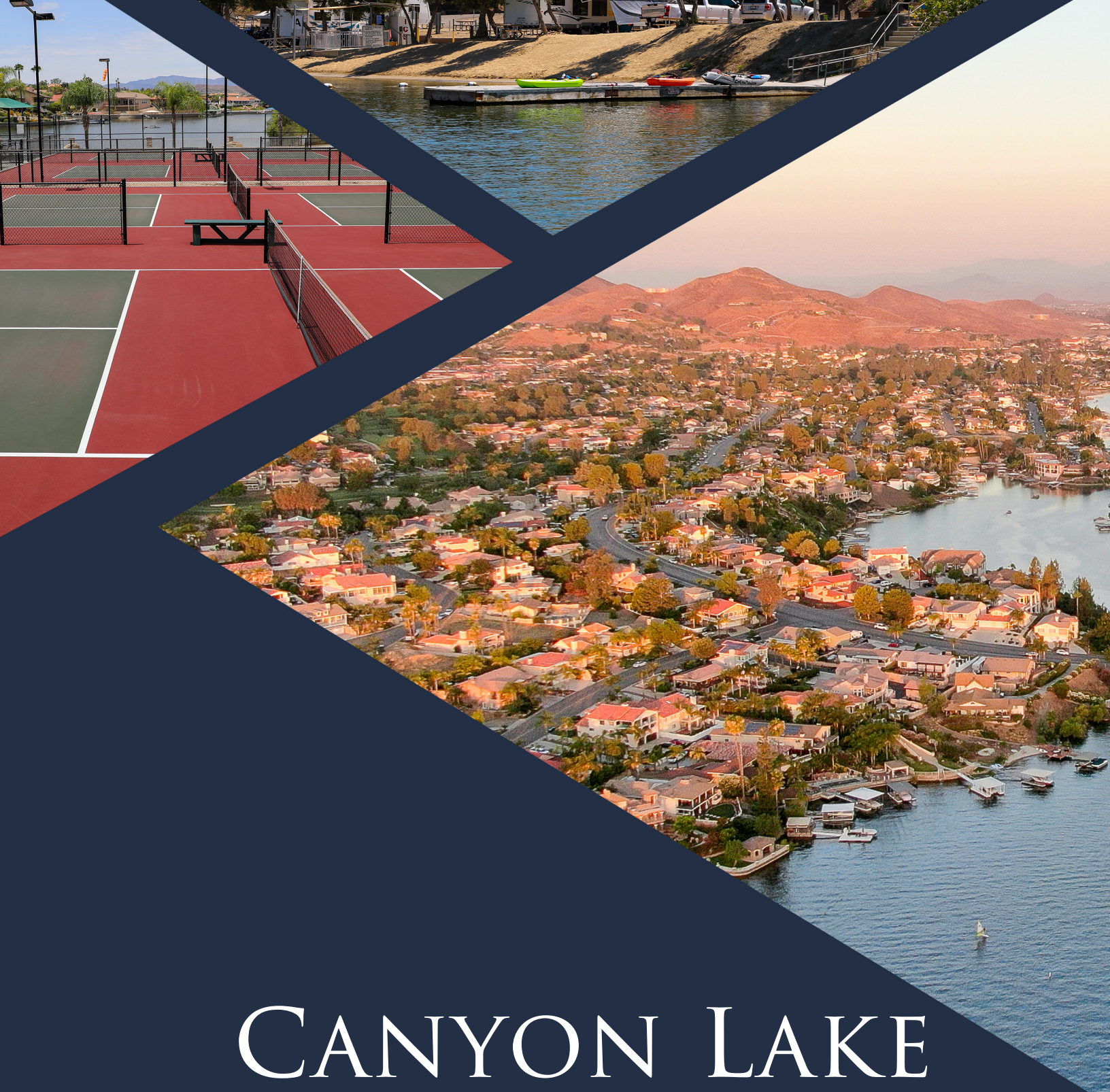
(UNAUDITED)

The Board of Directors engaged an outside consultant to conduct a study in August 2018, to estimate remaining useful lives and the replacement costs of the components of common property. The study is based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 2.2 percent, interest of 1%, and a tax rate of 30%, on amounts funded for future major repairs and replacements.

A separate study was conducted to estimate the timing and cost of future repairs and replacements of miles of 2-way common streets within the Association to estimate the remaining useful lives of common streets.

The following table is based on the study and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Remaining Useful Lives (In Years)</u>	<u>Estimated Current Replacement Costs</u>
Administration	0 - 27	\$ 1,553,299
Bluebird Hall	0 - 15	91,956
Country Club	0 - 24	948,823
Lodge	0 - 33	2,339,484
Docks	0 - 22	1,255,310
Operations	0 - 28	236,289
Senior Center	0 - 18	290,581
Vehicles	0 - 16	1,304,974
Gates	0 - 29	995,630
Lakes	0 - 30	4,507,315
Gault Field	0 - 27	556,721
Campground	0 - 35	811,090
Equestrian Center	0 - 27	741,091
Golf Course	0 - 30	6,688,069
Pools and Spas	0 - 25	701,749
Fairway Estates	0 - 8	106,677
Grounds	0 - 32	4,642,286
General Common Area	0 - 34	1,955,187
Roads	0 - 26	36,921,659
		<u>\$ 66,648,190</u>
Replacement Fund Balance - April 30, 2019		<u>\$ 13,381,793</u>



CANYON LAKE

PROPERTY OWNERS ASSOCIATION

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