

# 2017 – 2018 ANNUAL REPORT



**CANYON LAKE PROPERTY OWNERS ASSOCIATION**

**MAY 1, 2017 – APRIL 30, 2018**

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## 2017 - 2018 BOARD OF DIRECTORS

The Canyon Lake Property Owners 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.



### PAUL QUEEN

#### Board President

Paul Queen joined the Board in 2016. His primary focus is being the voice for the community and working for the membership. Paul has more than 20 years in the field of information technology. His experience has been useful in relation to the many technological projects that have occurred this past year.

2017-18 Committee Board Liaison:

- Facilities Review Committee
- Security Advisory Committee



### DALE WELTY

#### Board Vice President

Dale Welty 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 CLPOA.

2017-18 Committee Board Liaison

- Recreation Committee
- Tuesday Work Group



### 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.

2017-18 Committee Board Liaison

- Finance Committee
- Green Committee
- Rules & Regulations Review Committee



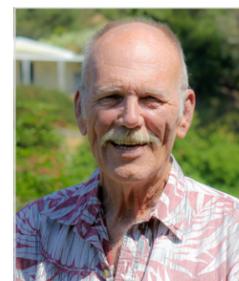
### PHIL HAWGOOD

#### Board Secretary

Phil Hawgood joined the CLPOA's 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

- Fiesta Day Committee
- Senior Work Group



### MIKE HARRIS

#### Board Director

Mike joined the CLPOA's 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.

2017-18 Committee Board Liaison

- Architectural Control Committee
- Appeals Committee
- Estates



# PRESIDENT'S REPORT

*Serving on the CLPOA's Board for the last two years was a challenging, yet very rewarding experience.*

Serving on the CLPOA's Board for the last two years was a challenging, yet very rewarding experience. This past year I was privileged enough to serve the community as the CLPOA's Board President with fellow Board members Dale Welty, Tom Nathan, Phil Hawgood, and Mike Harris. Collectively, I feel we collaborated successfully to continue moving Canyon Lake forward in so many ways. Below are some of the accomplishments we've made this last year.

## FISCAL RESPONSIBILITY

Fiscal responsibility is always a high priority at the CLPOA. I am proud to say that this past year was very successful in this regard. While accomplishing several major projects, we were still able to perform \$850,000 under budget. As we prepared for our 2018/19 fiscal year this allowed us to reduce the Operating Budget by \$725,000. Additionally, as our reserve funds are significant to the long-term health of the CLPOA we continued funding our reserves at the budgeted amount of \$1.9 million.

## COMMUNITY RELATIONS

When I first made the decision to run for the Board it was primarily because the community had lost faith in the CLPOA Board and I wanted to work towards rebuilding that relationship. I feel that this past year the Board and CLPOA's management have created more transparent communications which has greatly improved the community's faith in the CLPOA's Board. I am proud to say that our Board served without personal agendas and that the best interest of the community was the driving force in every decision we made.

## COMMUNITY PATROL SERVICE

Besides the beautiful lake and all the amenities in Canyon Lake, security is one of the top reasons many of us chose to live here. To assist in community access and security the CLPOA provides community patrol services. For several years, the CLPOA contracted with Securitas for these services. However, this past year we chose to reevaluate our patrol services and made the switch to U.S. Security who has been providing Canyon Lake with quality patrol service.

## LAKE LEASE LITIGATION

After several years of negotiations, the CLPOA and EVMWD entered into a 5th Amendment in the Lake Lease in March 2017. This past year, we have been working with EVMWD to settle a second matter that outlines the types of improvements that may be maintained in the shorezone. Both the CLPOA and EVMWD are communicating and cooperating together resolve these remaining issues.

## COMMUNITY PROJECTS

This last year I am proud to say we completed several high profile projects including the completing the Main Gate entrance, upgrading the entire infrastructure at Happy Camp, remodeling the Country Club Bar & Grill and adding more rental docks at the Lodge, just to name a few.

Paul Queen  
2017/18 Board President  
Canyon Lake Property Owners Association



# MANAGEMENT REPORT

*I am very proud of all the projects and improvements we accomplished and I largely attribute this to our more than 130 amazing staff members who went above and beyond their daily function to step up our level of service to the community.*

This last year was a very productive year as we focused on community improvements and beautification. I am very proud of all the projects and improvements we accomplished and I largely attribute this to our more than 130 amazing staff members who went above and beyond their daily function to step up our level of service to the community. Below are some of our most notable accomplishments this past year.

## PROJECTS

- Main Gate Entrance**  
 The Main Gate entrance in Canyon Lake has been one of our most visible projects in recent years. The project, originally started in 2015, completely redesigned the entrance. This past year we focused on the aesthetics by adding beautiful water feature monument signs on each side.
- Country Club Bar & Grill Remodel**  
 During the fall of 2017 we remodeled the Country Club Bar & Grill and it now truly integrates nicely with the golf course and creates a much more inviting atmosphere. Since the remodel, we have seen a significant increase in guests and revenue. We also plan to remodel and update the Lighthouse Restaurant & Bar this year.
- Rental Docks Addition**  
 Due to high demand and a long-standing wait list, our Board approved redesigning the Lodge courtesy dock to create additional rental dock spaces. This project, completed in the winter, added 22 more rental dock spaces that provide additional income for the CLPOA.
- Happy Camp Renovation**  
 Happy Camp received a massive redesign this past year that added 21 more campsites with RV hookups and easier in-and-out diagonal sites that accommodate modern-sized RVs. Additionally, all the roads and pathways were either repaired or replaced. The not so noticeable (but equally significant) underground work completed included a total electrical system upgrade and new sewer system and water laterals. Work was completed just in time for our 2018 Memorial Day weekend and CLPOA members have been enjoying Happy Camp all summer.

- Lighthouse Refurbishment**  
 Our Operations staff renovated the iconic lighthouse on our lake. The 50-year old structure was noticeably aging and Operations completely rebuilt a new blue top, the door and lower roof, and painted the entire structure.
- Shade Initiative**  
 To make our outdoor amenities more enjoyable for all-day fun new shade structures were added at the Lodge, Dog Park and Pool. Additionally, trees were added to the Dog Park, Indian Beach, and East Port Park.

## CLPOA BRANDING INITIATIVE

With the CLPOA turning 50, we felt it was time to address our brand. This branding initiative is aimed at creating a defined identity and brand for the CLPOA, one that reflects its commitment to key relationships - members, staff, and other affiliations. To this effect, we unveiled a new modern logo that showcases our iconic lighthouse as a focal point of the logo with gentle waves below to represent the unique lifestyle of this lake community.

## COMING UP

I strongly feel we have an obligation to maintain the aesthetics of the community, which in turn adds appeal to Canyon Lake and increases our property values. With this in mind, we continue to have many projects in the pipeline. Most notably, we will be focusing on repaving all 16 of the CLPOA amenity parking lots and moving forward with the Goetz Road sound wall. We will also continue to make operational improvements throughout the community.

Last but not least, we just received our 2018 - 2019 Reserve Study which will be available to the membership online.

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

# INDEPENDENT AUDITORS' REPORT

## 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, 2018, and the related statements of operations and 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.

## AUDITORS' 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.

## OPINION

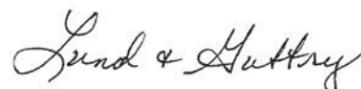
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canyon Lake Property Owners' Association as of April 30, 2018, and the results of its operations and comprehensive income and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## REPORT ON SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The supplementary information on operating fund functional expenses is presented for purposes of additional analysis and is not a required part of the basic 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 audit 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.

## DISCLAIMER OF OPINION ON REQUIRED SUPPLEMENTARY INFORMATION

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 15 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.



Lund & Guttry LLP/Certified Public Accountants  
August 6, 2018

# BALANCE SHEET

For Year Ended April 30, 2018

	ASSETS					Total Funds
	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	
Cash and cash equivalents	\$ 5,154,322	\$ 702,162	\$ 32,860	\$ 29,661	\$ 12,926	\$ 5,931,931
Investments, net of unrealized loss	-	8,512,825	3,339,634	382,127	1,283,174	13,517,760
Assessments and fines receivable, net of allowance	58,080	-	-	-	-	58,080
Interest receivable	-	36,756	13,465	953	5,224	56,398
Inventory	50,059	-	-	-	-	50,059
Prepaid expenses	248,191	-	-	-	-	248,191
Other assets	153,120	-	-	-	-	153,120
Due to/ from other funds	1,495,202	(1,400,841)	557,446	(348,545)	(303,262)	-
Capital assets, net of accumulated depreciation	<u>4,314,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,314,057</u>
Total assets	<u>\$ 11,473,031</u>	<u>\$ 7,850,902</u>	<u>\$ 3,943,405</u>	<u>\$ 64,196</u>	<u>\$ 998,062</u>	<u>\$ 24,329,596</u>
	LIABILITIES AND FUND BALANCES					
Accounts payable	\$ 755,163	\$ -	\$ -	\$ -	\$ -	\$ 755,163
Accrued payroll and related items	401,393	-	-	-	-	401,393
Prepaid assessments / deferred revenue	1,949,117	-	-	-	-	1,949,117
Other accrued liabilities	160,122	-	-	-	-	160,122
Refundable member deposits	419,206	-	-	-	-	419,206
Income tax payable	25,667	-	-	-	-	25,667
Sales tax payable	<u>16,723</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,723</u>
Total liabilities	<u>3,727,391</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,727,391</u>
Total fund balances	<u>7,745,640</u>	<u>7,850,902</u>	<u>3,943,405</u>	<u>64,196</u>	<u>998,062</u>	<u>20,602,205</u>
Total liabilities and members' equity	<u>\$ 11,473,031</u>	<u>\$ 7,850,902</u>	<u>\$ 3,943,405</u>	<u>\$ 64,196</u>	<u>\$ 998,062</u>	<u>\$ 24,329,596</u>

[The accompanying notes are an integral part of these financial statements]

# STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME

For Year Ended April 30, 2018

	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	Total Funds
<b>REVENUES</b>						
Assessments	\$ 11,687,625	\$ 750,000	\$ 900,000	\$ -	\$ 300,000	\$ 13,637,625
Interest income	6,753	251,795	65,883	6,020	29,379	359,830
Administrative fees	855,376	-	-	-	-	855,376
Architectural and building fees	104,401	-	-	-	-	104,401
Sales and user fees	3,971,484	-	-	-	-	3,971,484
Other income	535,612	-	-	-	-	535,612
Total revenues	<u>17,161,251</u>	<u>1,001,795</u>	<u>965,883</u>	<u>6,020</u>	<u>329,379</u>	<u>19,464,328</u>
<b>EXPENSES</b>						
Salaries and related expenses	5,537,646	-	-	-	-	5,537,646
Outside services	3,153,359	-	-	-	-	3,153,359
Lake lease	1,326,814	-	-	-	-	1,326,814
Utilities	1,428,091	-	-	-	-	1,428,091
Repairs and maintenance	1,441,596	-	-	-	-	1,441,596
Supplies	550,803	-	-	-	-	550,803
Rental equipment	13,906	-	-	-	-	13,906
Property taxes	13,280	-	-	-	-	13,280
Income taxes	53,322	-	-	-	-	53,322
Cost of goods sold	766,918	-	-	-	-	766,918
General and administrative	404,655	11,656	3,784	495	1,554	422,144
Insurance	455,217	-	-	-	-	455,217
Legal fees	917,822	-	-	-	-	917,822
Uncollectible assessments	66,093	-	-	-	-	66,093
Events	179,620	-	-	-	-	179,620
Major repairs and replacements	-	1,711,115	42,552	329,929	294,991	2,378,587
Total expenses	<u>16,309,142</u>	<u>1,722,771</u>	<u>46,336</u>	<u>330,424</u>	<u>296,545</u>	<u>18,705,218</u>
Excess (deficit) over (under) expenses before depreciation and interfund transfers	<u>852,109</u>	<u>(720,976)</u>	<u>919,547</u>	<u>(324,404)</u>	<u>32,834</u>	<u>759,110</u>
Depreciation	(225,834)	-	-	-	-	(225,834)
Realized loss on sale of investments	-	(15,798)	(4,532)	(524)	(2,465)	(23,319)
Net excess (deficit) or revenues over (under) expenses	<u>626,275</u>	<u>(736,774)</u>	<u>915,015</u>	<u>(324,928)</u>	<u>30,369</u>	<u>509,957</u>
Other comprehensive income						
Net unrealized loss on investments, before tax	-	(186,332)	(54,509)	(3,637)	(17,320)	(261,798)
Total comprehensive income	<u>\$ 626,275</u>	<u>\$ (923,106)</u>	<u>\$ 860,506</u>	<u>\$ (328,565)</u>	<u>\$ 13,049</u>	<u>\$ 248,159</u>

# STATEMENT OF CHANGES IN FUND BALANCES

For Year Ended April 30, 2018

	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	Total Funds
Fund balances, beginning of year	\$ 7,119,365	\$ 8,745,783	\$ 3,069,429	\$ 392,757	\$ 981,730	\$ 20,309,064
Comprehensive income						
Net excess (deficit) or revenues over (under) expenses	626,275	(736,774)	915,015	(324,928)	30,369	509,957
Net unrealized losses on investments	-	(186,332)	(54,509)	(3,637)	(17,320)	(261,798)
Total comprehensive income	626,275	(923,106)	860,506	(328,565)	13,049	248,159
Accumulated other comprehensive income	-	28,225	13,470	4	3,283	44,982
Fund balances, ending of year	<u>\$ 7,745,640</u>	<u>\$ 7,850,902</u>	<u>\$ 3,943,405</u>	<u>\$ 64,196</u>	<u>\$ 998,062</u>	<u>\$ 20,602,205</u>

[The accompanying notes are an integral part of these financial statements]

# STATEMENT OF CASH FLOWS

For Year Ended April 30, 2018

	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	Total Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Excess (deficit) of revenues over (under) expenses	\$ 626,275	\$ (736,774)	\$ 915,015	\$ (324,928)	\$ 30,369	\$ 509,957
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:						
Depreciation	225,834	-	-	-	-	225,834
Changes in operating assets and liabilities						
Assessments and fines receivable	(26,830)	-	-	-	-	(26,830)
Interest receivable	-	(1,877)	(5,155)	399	(1,392)	(8,025)
Inventory	(1,549)	-	-	-	-	(1,549)
Prepaid expenses	81,563	-	-	-	-	81,563
Other assets	21,665	-	-	-	-	21,665
Accounts payable	132,608	-	-	-	-	132,608
Accrued payroll and related items	67,796	-	-	-	-	67,796
Prepaid assessments/ deferred revenue	980,759	-	-	-	-	980,759
Refundable member deposits	123,118	-	-	-	-	123,118
Income tax payable	6,020	-	-	-	-	6,020
Sales tax payable	2,956	-	-	-	-	2,956
Other accrued liabilities	(6,379)	-	-	-	-	(6,379)
Net cash provided (used) for operating activities	<u>2,233,836</u>	<u>(738,651)</u>	<u>909,860</u>	<u>(324,529)</u>	<u>28,977</u>	<u>2,109,493</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of available-for-sale debt securities, net	-	(381,438)	(1,677,803)	(111,003)	(722,607)	(2,892,851)
Purchase of property and equipment	(10,706)	-	-	-	-	(10,706)
Net cash provided (used) by investing activities	<u>(10,706)</u>	<u>(381,438)</u>	<u>(1,677,803)</u>	<u>(111,003)</u>	<u>(722,607)</u>	<u>(2,903,557)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Inter-fund receivable (payable)	(1,062,869)	695,398	42,551	329,929	(5,009)	-
Net cash provided for (used by) financing activities	<u>(1,062,869)</u>	<u>695,398</u>	<u>42,551</u>	<u>329,929</u>	<u>(5,009)</u>	<u>-</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,160,261	(424,691)	(725,392)	(105,603)	(698,639)	(794,064)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>3,994,061</u>	<u>1,126,853</u>	<u>758,252</u>	<u>135,264</u>	<u>711,565</u>	<u>6,725,995</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 5,154,322</u>	<u>\$ 702,162</u>	<u>\$ 32,860</u>	<u>\$ 29,661</u>	<u>\$ 12,926</u>	<u>\$ 5,931,931</u>

# NOTES TO FINANCIAL STATEMENTS

## Note 1 - Organization

Canyon Lake Property Owners' Association (the Association) was incorporated May 3, 1968 as California nonprofit corporation. The Association is responsible for the operation and maintenance of the common areas of a 4,800 lot planned development in Canyon Lake, California. Association activities are governed by the Association's governing documents. The Association is controlled by a member-elected Board of Directors, all of whom serve on a voluntary basis.

## Note 2 - Summary of Significant Accounting Policies

### Fund Accounting

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 fund is used to account for all current operating transactions of the Association.
- **Repair & Replacement Reserve Fund** - This fund is used to account for member capital contributions and Association disbursements necessary to provide for the future repair, replacement and improvement of Association property, facilities and common areas.
- **Road Reserve** - This fund is used to account for disbursements necessary to provide for the future repairs and replacement for common streets within the Association.
- **Community Facilities Fund** - This fund is used to account for the accumulation and expenditure of funds for projects designated by the Board of Directors, consisting primarily of parks and recreation facilities. This account will be eliminated once the existing funds are expended.
- **Capital Improvement Fund** - This fund is used to account for the accumulation and expenditure of funds for projects designated by the Board of Directors, consisting primarily of parks and recreation facilities. Funds can only be used on capital projects approved by the Board of Directors.

#### Member Assessments

Each property owner is subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments are determined annually during the budget process based on the Association's year.

#### Accounts Receivable

Accounts receivable as reflected in the financial statements are from members whose units are located within the City of Canyon Lake. Accounts receivable is primarily made up of assessments, fines, dock, and equestrian space rentals. A provision has been made for bad debts, using the allowance method. The Association has the right to levy liens on a member's property to insure payment of amounts due to the Association. At April 30, 2018, the Association had delinquent receivables of \$1,434,371. Management states that these receivables are likely to be uncollectible and therefore, an allowance for uncollectible accounts has been made in the amount of \$1,375,497.

#### Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash includes 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 counties of Riverside and Los Angeles.

#### Investments

Accounting for investments depends on (a) the type of security- either debt or equity- and (b) the Association's intent and ability to hold it to maturity. At acquisition, investments should be classified into one of the following categories:

- **Held to Maturity** - Debt securities for which the Association has both the positive intent and ability to hold to maturity. Securities for which an entity has an intent to hold for an indefinite time or a lack of an intent to sell should not be classified in this category.
- **Trading** - Debt securities that do not meet the "intent to hold" criterion and equity securities that have readily determinable fair values, both of which are bought and held *principally* for the purpose of selling them in the near term (e.g., the Association's normal operating cycle) and thus *generally* are held for only a short period of time.
- **Available for Sale** - Debt securities that do not meet the criterion to be classified as held to maturity or trading.

The Association classifies its investments as available for sale debt securities.

#### Inventories

Inventories consist primarily of food and beverage at the restaurants and gasoline at the campground. Inventory is stated at the lower of first-in, first-out cost or market, using a standard cost method.

#### Property and Equipment

Common areas are restricted to use by Association members, their tenants, and guests. The Association is responsible for the preservation and maintenance of the common areas. Personal property acquired by the Association is capitalized at cost and depreciated over the estimated useful life of the item purchased, ranging from three to forty years, using the straight line method of depreciation. Real property capitalized on the balance sheet of the Association includes the golf course and related improvements, buildings, the equestrian center, campground improvements, and the marina and related improvements. These assets are related either to the production of income to the Association or are severable and saleable at the Board of Directors' discretion. Real property not capitalized on the balance sheet of the Association includes the roads, administrative and maintenance buildings, parks, and greenbelts. Replacements and improvements to this property and common areas are not capitalized, as they are either not directly related to the production of income to the Association, or are not severable and saleable at the Board of Directors' discretion.

The following summarizes capital assets recorded as of April 30, 2018:

<b>Description</b>	<b>Amount</b>
Land and Improvements	\$ 5,676,017
Buildings	\$ 3,720,132
Machinery and Equipment	\$ 1,125,755
Pool	\$ 394,913
Furniture and Fixtures	\$ 507,822
Vehicles	\$ 329,967
Total Cost of Property and Equipment	\$ 11,754,606
Less Accumulated Depreciation	\$ (7,440,549)
Net Property and Equipment	\$ 4,314,057

#### Construction Deposits

The Association collects deposits from Property Owners' of contractors (builders) when builders apply for a building permit. The purpose of the deposit is to ensure compliance with Association rules and regulations. The deposit is refunded when the builders apply for the refund and the Association verifies compliance.

#### Income Taxes

The Association is classified as a non-exempt membership organization for both federal and state income tax purposes. Under this method of taxation, the Association is required to classify its taxable income and deductions between member activities, non-member activities, and capital transactions (for capital replacement fund components). The Association is subject to specific rulings and regulations applicable to non-exempt membership organizations. For federal tax purposes, the Association is taxed on all net income from non-member activities reduced only by net losses from non-member activities for which a profit motive exists. Non-member income may not be offset by member losses, and any net member losses may only be carried forward to offset member income of future tax periods. The Association files Form 1120, with tax rates applicable to Association net taxable income based on a graduated rate table of 15% to 39% for the time period of May 1, 2017 through December 31, 2017. Due to Federal tax law changes, the tax rate used for the time period of January 1, 2018 through April 30, 2018. For California income tax purposes, the Association is taxed on all net income from non-member activities reduced only by net losses from non-member activities for which a profit motive exists. Non-member income may not be offset by member losses. The tax rate for Association net taxable income is 8.84%. For the year ended April 30, 2018, the Association's provision for income taxes of \$53,322 consisted of \$26,240 for federal and \$27,082 in state income taxes.

#### 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.

#### Basis of Accounting

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

#### Lines of Business

The Association conducts only one line of business, which is providing management and recreation services to its members. This consists primarily of maintenance of the common areas and related administrative functions.

#### **Note 3 - Investments**

Investments consist of corporate bonds, municipal bonds and certificates of deposit held in an account with Charles Schwab. The following disclosures are required for these securities:

	Amortized Cost Basis	Aggregate Fair Value	Net Unrealized Loss
Corporate Bonds	\$ 10,804,242	\$ 10,719,878	\$ (84,360)
Municipal Bonds	\$ 3,856,314	\$ 2,792,878	\$ (63,436)
Other	\$ 5,000	\$ 5,000	---
	\$ 13,665,556	\$ 13,517,760	\$ (147,796)

**Note 4 - Fair Value Measurements**

The Association applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- **Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. At April 30, 2018, all certificates of deposit and bonds were measured at fair value on a recurring basis and were valued at Level 1 inputs (quoted prices in active markets for identical assets).

**Note 5 - Due To/From Other Funds**

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund, and reduces its related cost as reimbursement. All other interfund transactions are treated as transfers.

Individual interfund receivable and payable balances as of April 30, 2018 were as follows:

Operating Fund due from Other Funds	\$	1,495,202
Repair Replacement Reserve Fund due to Operating Fund	\$	(1,400,841)
Road Reserve Fund due from Operating Fund	\$	557,446
Community Facilities Fund due to Operating Fund	\$	(348,545)
Capital Improvement Fund due to Operating Fund	\$	(303,262)
Total due to/from Other Funds	-	

**Note 6 - Significant Group Concentrations of Credit Risk**

The Association maintains bank accounts at various financial institutions. Some accounts are not federally insured or have balances which exceed the federally insured amount of \$250,000. This is considered necessary due to the high volume of operating transactions. The majority of the Association's investments are in long term local government bonds of governmental entities within the state of California. The brokerage account is insured by the Securities Investors Protection Corporation (SIPC).

**Note 7 - Employee Benefit Plan**

The Association has a 401(k) defined contribution plan (the "Plan") which covers all employees who have completed at least 1,000 hours of service within a 12 consecutive month period. Employees qualify for benefits upon reaching the age of 65. For the employer portion, employees become 100% vested immediately. The Association may make a discretionary matching contribution not to exceed 4% of an employee's gross pay per pay period. The Association made matching contributions of \$73,996 during the year ended April 30, 2018.

**Note 8 - Operating Lease**

The Association leases the Canyon Lake Reservoir (the "Reservoir") for water recreation purposes. In an agreement implemented on March 9, 2017, the lease term was extended through December 31, 2066. Effective September 1, 2017, an annual base amount of \$1,403,850 is to be paid along with an annual cost increase calculation based on the Consumer Price Index (CPI).

Future minimum lease expenses for the operating lease, excluding the annual CPI cost increase, (which is not determinable for future years at this time), are \$67,384,800. The Association has accrued a prepaid expense for one month of the lease covering May 1, 2018 through May 31, 2018. For the year ending April 30, 2018 the total lake lease expense amounted to \$1,326,814.

**Note 9 - Contingencies**Litigation

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

**Note 10 - Future Major Repairs and Replacements**

The Association's governing documents require that funds be accumulated for the replacement and improvements of its common areas and for general operations. Such funds are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such items are needed.

It is the Association's policy to fund its reserves on a monthly basis. The Association annually reviews its reserve funding program. The last review was performed as part of the budget process for the current year. California Civil Code Section 5300 et. seq. mandates certain requirements for disclosure of the reserve funding program by the Association to its members. The Association believes that it has complied in all material respects with these requirements.

The Association engaged an independent engineer who conducted an "update with-site-visit" reserve study in August 2014 to estimate the remaining useful lives and the replacement costs of the common property components. The reserve study information continues to be reported based on the August 2014 study and management feels that there have been no indications that these estimates are not still accurate.

The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures may vary from estimated amounts and variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. The Association updates cost data annually. If additional funds are needed, however, the Association has the right, subject to Board of Directors, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available. The Association intends to obtain updated reserve study during the 2018/2019 fiscal year.

Cash and investment balances in amounts equal to the designated capital reserves represent cash and investments designated for this purpose only.

**Note 11 - Subsequent Events**

The Association evaluated all potential subsequent events as of August 6, 2018, when the financial statements were authorized and available to be issued. No subsequent events or transactions, were identified after April 30, 2018 or as of August 6, 2018 that require disclosure to the financial statements.

## SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

Components	Summary per Reserve Study	
	Estimated Remaining Useful Lives (Years)	Future Average Replacement Cost
Administration	0-13	\$ 1,602,690
Bluebird Hall	0-27	\$ 102,971
Country Club	0-22	\$ 919,765
Fire Station	0-21	\$ 201,815
Lodge	0-16	\$ 2,654,188
Operations	0-14	\$ 242,438
Senior Center	0-19	\$ 337,301
Vehicles	0-26	\$ 1,654,166
Entries	0-18	\$ 132,023
Lakes	0-26	\$ 7,152,627
Gault Field	0-14	\$ 786,622
Campground	0-29	\$ 1,311,602
Equestrian Center	0-23	\$ 1,477,475
Golf Course	0-22	\$ 7,154,776
Parks	0-22	\$ 1,873,981
Pools and Spas	0-13	\$ 351,469
Tennis Courts	0-14	\$ 171,028
Fairway Estates	0-11	\$ 193,882
General Common Area	0-18	\$ 1,522,222
Road	1-27	\$ 36,921,659
<b>Totals</b>		<b>\$ 66,764,700</b>
Designated Repairs and Replacements at April 30, 2018		\$ 11,794,307

## SUPPLEMENTARY INFORMATION ON

## OPERATING FUND FUNCTIONAL EXPENSES

	Corporate	Operations	Lakes	Member Services	Planning & Compliance	Community Patrol	Activities	Equestrian Center	Campground	Golf Course	Lighthouse	Meeting Rooms - Lodge	Country Club	Total
<b>REVENUES</b>														
Interest income	\$ 6,753	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,753
Administrative fees	760,214	-	-	95,162	-	-	-	-	-	-	-	-	-	855,376
Architectural and building fees	-	-	-	-	104,401	-	-	-	-	-	-	-	-	104,401
Sales and user fees	-	19,900	476,003	200,946	-	-	45,346	159,011	229,132	937,808	1,030,331	22,316	850,691	3,971,484
Other income	106,853	36,972	22,325	100	160,541	119,016	20,509	3,282	873	-	64,035	-	1,106	535,612
<b>Total revenue</b>	<b>873,820</b>	<b>56,872</b>	<b>498,328</b>	<b>296,208</b>	<b>264,942</b>	<b>119,016</b>	<b>65,855</b>	<b>162,293</b>	<b>230,005</b>	<b>937,808</b>	<b>1,094,366</b>	<b>22,316</b>	<b>851,797</b>	<b>5,473,626</b>
<b>EXPENSES</b>														
Salaries and related expenses	1,237,458	1,521,215	-	341,726	371,220	48,263	282,541	125,634	88,743	86,875	783,699	-	650,272	5,537,646
Outside services	323,640	204,408	244,672	21,963	249	1,953,325	13,960	16,932	13,975	241,045	49,355	23,210	46,625	3,153,359
Lake lease	-	-	1,326,814	-	-	-	-	-	-	-	-	-	-	1,326,814
Utilities	117,503	394,122	-	634	1,173	18,198	59,335	49,054	41,254	556,680	75,630	63,843	50,665	1,428,091
Repairs and maintenance	10,857	395,058	12,043	-	1,589	33,375	9,254	10,318	13,615	887,711	12,812	39,049	15,915	1,441,596
Supplies	56,435	134,907	18,628	36,155	13,755	21,144	45,876	11,166	4,523	64,676	62,756	25,817	54,965	550,803
Rental equipment	-	5,485	3,167	-	-	533	-	1,189	72	-	3,460	-	-	13,906
Property taxes	13,280	-	-	-	-	-	-	-	-	-	-	-	-	13,280
Income taxes	53,322	-	-	-	-	-	-	-	-	-	-	-	-	53,322
Cost of goods sold	-	-	-	-	-	-	-	65,024	65,694	-	379,221	-	256,979	766,918
General and administrative	242,827	18,284	-	1,730	3,980	591	6,365	213	10,299	33,875	45,118	453	40,920	404,655
Insurance	455,217	-	-	-	-	-	-	-	-	-	-	-	-	455,217
Legal fees	895,788	-	-	-	22,034	-	-	-	-	-	-	-	-	917,822
Uncollectible assessments	66,093	-	-	-	-	-	-	-	-	-	-	-	-	66,093
Events	-	-	-	209	-	-	93,246	-	-	-	71,603	-	14,562	179,620
Depreciation	225,834	-	-	-	-	-	-	-	-	-	-	-	-	225,834
<b>Total expenses</b>	<b>3,698,254</b>	<b>2,673,479</b>	<b>1,605,324</b>	<b>402,417</b>	<b>414,000</b>	<b>2,075,429</b>	<b>510,577</b>	<b>279,530</b>	<b>238,175</b>	<b>1,870,862</b>	<b>1,483,654</b>	<b>152,372</b>	<b>1,130,903</b>	<b>16,534,976</b>
<b>TOTAL DEPARTMENT INCOME (LOSS)</b>	<b>\$ (2,824,434)</b>	<b>\$ (2,616,607)</b>	<b>\$ (1,106,996)</b>	<b>\$ (106,209)</b>	<b>\$ (149,058)</b>	<b>\$ (1,956,413)</b>	<b>(444,722)</b>	<b>\$ (117,237)</b>	<b>\$ (8,170)</b>	<b>\$ (933,054)</b>	<b>\$ (389,288)</b>	<b>\$ (130,056)</b>	<b>\$ (279,106)</b>	<b>\$ (11,061,350)</b>



# CANYON LAKE

PROPERTY OWNERS ASSOCIATION

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