

2016 – 2017 ANNUAL REPORT

A scenic view of Canyon Lake with a large hill in the background and a town along the shore. The sky is filled with dramatic, layered clouds in shades of blue and white. The water in the foreground is calm, reflecting the sky and the buildings on the shore. The town consists of various houses and buildings, some with red roofs, nestled at the base of the hill. The overall atmosphere is peaceful and picturesque.

**CANYON LAKE PROPERTY OWNERS ASSOCIATION
MAY 1, 2016 – APRIL 30, 2017**



Property Owners Association

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2016 - 2017 BOARD OF DIRECTORS

The 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.



Bruce Yarbrough

Board President

Bruce Yarbrough joined the Board in 2013. In his term with the Association he has brought a high level of commitment and efficiency to everything that he does. Bruce has proved to be incredibly resourceful and committed to the projects he has supervised during his time serving on the Association's Board.

2016-17 Committee Board Liaison:

- Green Committee
- Tuesday Work Group



Eric Spitzer

Board Vice President

Eric Spitzer joined the Board in 2013. He is well versed in managing large budgets, staff, and contracts. His experience has been useful in various Association legal litigation issues. Eric also offers a keen member-oriented perspective that establishes a continuous environment of accountability with the Board and Association staff.

2016-17 Committee Board Liaison:

- Architectural Control Committee
- Rules & Regulations Review Committee



Dale Welty

Board Treasurer

Dale Welty joined the Board in 2016. He has been a resident of Canyon Lake since 1988 and his focus is 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 Association.

2016-17 Committee Board Liaison:

- Finance Committee
- Recreation Committee



Ted Horton

Board Secretary

Ted Horton joined the Board in 2014. Ted has over 50 years of management experience in the golf course and country club/resort industry. He has been the recipient of numerous professional awards and was recently listed in Golf Digest Magazine as one of the top 100 powerful people in golf and as one of the top four golf course superintendents.

2016-17 Committee Board Liaison:

- Fiesta Day Committee
- Estates Committee
- Facilities Review Committee
- Senior Work Group



Paul Queen

Board Director

Paul Queen joined the Board in 2016. His primary focus is being a 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.

2016-17 Committee Board Liaison:

- Appeals Committee
- Security Advisory Committee



PRESIDENT'S REPORT

I have truly enjoyed representing the community and serving on the Association's Board for the last four years.

I have served on the Association's Board for four years now. Each year there are new Board members so the dynamic is constantly changing. However, looking back I'm very proud of how we were able to build upon each year and accomplish several different things while keeping finances stable. The Board I served with this last year included Vice President Eric Spitzer, Treasurer Dale Welty, Secretary Ted Horton and Director Paul Queen. This group came together and turned out to be one of the most cohesive Boards I have served on. Below are some of the accomplishments we've made this last year.

LAKE LEASE LITIGATION AGREEMENT

After many years of negotiations, the Association and Elsinore Valley Municipal Water District (EVMWD) entered into a 5th Amendment to the Lake Lease in March. The Association and EVMWD remain committed to cooperating with each other in good faith to resolve the remaining issues. This truly is a monumental step forward. The hard work from both sides, along with the patience and participation of Association's membership has produced a durable and lasting agreement, which will preserve the special character of the Canyon Lake community for decades to come.

ASSOCIATION DEPARTMENT REORGANIZATION

This last year we had some pretty significant personnel changes. We appointed Eric Kazakoff as the General Manager and welcomed new management staff: Susan Dawood as our new Controller, Steve Schneider as the Director of Operations and Lisa Rogers as our Human Resource Manager. Additionally, we analyzed how the Association was structured and does business. We found that too many departments were reporting to one person, the General Manager. This ultimately was creating a work-flow congestion that hindered departments completing tasks. We made the decision to create an Assistant General Manager position and split the department reports amongst the two positions. The new Assistant General Manager position was offered to long-time staff member, Lynn Jensen. She began working for the Association in 2001 and throughout her years has worked in almost every department for the Association.

Another significant change in structure was the split of Member Services and Planning Compliance. Formerly, both departments were under the Member Services umbrella. However, while both departments serve the membership, they perform completely different functions. Leading the Member Services department is Cory Gorham and leading the Planning and Compliance department is Cheryl Mitchell. Both were already managing staff within their subsequent departments so this was a natural transition.

COMMUNITY PROJECTS COMPLETED

In my time serving on the Board, the primary goal has always been to enhance and improve the community. I'm proud that we have made several accomplishments towards this. This last year we completed the following projects:

- Main Gate Renovation - June 2016
- Sunset Beach Playground - September 2016
- Dog Park at East Port Park - November 2016
- Tennis Courts Rehabilitation - January 2017
- East Port Park Basketball Courts Resurfacing - January 2017

ACKNOWLEDGEMENTS

In closing, I would like to take a moment to acknowledge the entire Association's management team and staff for all their hard work. Additionally, I'd like to thank all the individuals who serve on the Association's committees and clubs. Whether hosting one of the many community events throughout the year or assisting with enhancing amenities, these individuals volunteer their time with the common goal of improving our community. I have truly enjoyed representing the community and serving on the Association's Board for the last four years.

Bruce Yarbrough
2016/17 Board President
Canyon Lake Property Owners Association

MANAGEMENT REPORT

I strongly feel that we have an obligation to the membership to maintain the community which in turn adds appeal to our community and keeps property values up.



I joined the Association this last year, first as the Director of Operations then accepting the General Manager position in March. While I am still relatively new, I have been impressed with the level of professionalism the Board and staff bring to serving the community of Canyon Lake. Together several major enhancements have been made. Below are some of the most notable projects that we worked on past year.

DOG PARK

After several years of planning, the Dog Park finally became a reality at East Port Park. The Dog Park had an official grand opening at the end of October. It features two separate fenced in grass areas – one for larger dogs and another for smaller dogs. Over the next few months, we added additional seating, fountains, decomposed granite (DG) and most recently shade structures that shield dog owners from the sun while their dogs play. Following the opening of the park, the K9 Club quickly formed and garnered more than 100 members (and their dogs) who meet daily at this dog park.

PICKLEBALL COURTS

Work began in April on the new Pickleball Courts located on the lower level of the East Port parking lot. The project completion in August introduced four new permanent pickleball courts available for the membership to enjoy at their leisure. In the near future, we will be repaving and striping the parking lot at East Port. Once complete, this will add approximately 15 passenger car spaces and 15 boat/trailer spaces. Currently, there are temporary spots marked in the unpaved area to the left of the parking lot (adjacent to Goetz Road).

This was another long and highly anticipated amenity that we were happy to add to the community. Pickleball is a racquet sport that combines many elements of tennis, badminton and table tennis. There is currently an estimate of more than two million pickleball players in the United States. Before starting this project, we tested the popularity of this sport in Canyon Lake by converting one of the tennis courts into two pickleball courts. The community was incredibly receptive to the sport and created a club that now has more than 100 members.

WHAT'S COMING UP

I strongly feel that we (the Association) have an obligation to the membership to maintain the community which in turn adds appeal to our community and keeps property values up. For this reason, we are focusing our efforts on repairing and enhancing amenities. Below are some of the projects we will be working on this coming year.

Golf Course Bunker Refurbishment

We are in the process of refurbishing the 43 bunkers at the Canyon Lake Golf Course. Traditionally, bunkers are reshaped and re-sanded every five to seven years. However, the last time the Canyon Lake Golf Course had this done was in 2009. Years of edging expand or shrink the bunkers causing them to lose their shape. There were also drainage issues with the bunkers. The repairs will improve the playability of the course, which in turn attracts new players.

Main Gate Entry

While the Main Gate renovation took place last year, that project predominantly focused on the functionality of the entrance by adding more lanes and new RFID technology. Currently, we are working on installing new entry signage with water features that will flank each side of the entrance. This high profile project will significantly enhance our main entrance. The new signage is expected to be complete before the new year.

Happy Camp Renovation

We expect to start the renovation at our campground this fall. The project includes upgrading the electricity and plumbing, and pavement, as well as a minor redesign of the campground's layout to accommodate RVs with slideouts.

Eric Kazakoff
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, 2017, 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, 2017, 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.

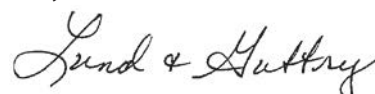
REPORT ON SUPPLEMENTARY INFORMATION

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 1, 2017

BALANCE SHEET

For Year Ended April 30, 2017

ASSETS

	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	Total Funds
Cash and cash equivalents	\$ 3,994,061	\$ 1,126,853	\$ 758,252	\$ 135,264	\$ 711,565	\$ 6,725,995
Investments, net of unrealized gain	-	8,289,494	1,702,870	274,757	574,603	10,841,724
Assessments and fines receivable, net of allowance	31,250	-	-	-	-	31,250
Interest receivable	-	34,879	8,310	1,352	3,832	48,373
Inventory	48,510	-	-	-	-	48,510
Prepaid expenses	329,754	-	-	-	-	329,754
Other assets	174,785	-	-	-	-	174,785
Due to/ from other funds	432,332	(705,443)	599,997	(18,616)	(308,270)	-
Capital assets, net of accumulated depreciation	<u>4,529,185</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,529,185</u>
Total assets	<u>\$ 9,539,877</u>	<u>\$ 8,745,783</u>	<u>\$ 3,069,429</u>	<u>\$ 392,757</u>	<u>\$ 981,730</u>	<u>\$ 22,729,576</u>

LIABILITIES AND FUND BALANCES

Accounts payable	\$ 622,555	\$ -	\$ -	\$ -	\$ -	\$ 622,555
Accrued payroll and related items	333,596	-	-	-	-	333,596
Prepaid assessments / deferred revenue	968,358	-	-	-	-	968,358
Other accrued liabilities	166,501	-	-	-	-	166,501
Refundable member deposits	296,088	-	-	-	-	296,088
Income tax payable	19,647	-	-	-	-	19,647
Sales tax payable	<u>13,767</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,767</u>
Total liabilities	<u>2,420,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,420,512</u>
Total fund balances	<u>7,119,365</u>	<u>8,745,783</u>	<u>3,069,429</u>	<u>392,757</u>	<u>981,730</u>	<u>20,309,064</u>
Total liabilities and members' equity	<u>\$ 9,539,877</u>	<u>\$ 8,745,783</u>	<u>\$ 3,069,429</u>	<u>\$ 392,757</u>	<u>\$ 981,730</u>	<u>\$ 22,729,576</u>

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

STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME

For Year Ended April 30, 2017

	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	Total Funds
REVENUES						
Assessments	\$ 11,451,200	\$ 1,300,000	\$ 900,000	\$ -	\$ -	\$ 13,651,200
Interest income	8,404	227,080	32,804	3,489	22,085	293,862
Administrative fees	907,278	-	-	-	-	907,278
Architectural and building fees	72,490	-	-	-	-	72,490
Sales and user fees	3,750,930	-	-	-	-	3,750,930
Other income	657,298	-	-	-	-	657,298
Total revenues	<u>16,847,600</u>	<u>1,527,080</u>	<u>932,804</u>	<u>3,489</u>	<u>22,085</u>	<u>19,333,058</u>
EXPENSES						
Salaries and related expenses	5,316,324	-	-	-	-	5,316,324
Outside services	3,171,289	-	-	-	-	3,171,289
Lake lease	1,538,340	-	-	-	-	1,538,340
Utilities	1,116,172	-	-	-	-	1,116,172
Repairs and maintenance	1,390,909	-	-	-	-	1,390,909
Supplies	547,107	-	-	-	-	547,107
Rental equipment	18,320	-	-	-	-	18,320
Property taxes	20,620	-	-	-	-	20,620
Income taxes	29,077	-	-	-	-	29,077
Cost of goods sold	738,680	-	-	-	-	738,680
General and administrative	313,501	11,179	2,861	491	1,550	329,582
Insurance	474,607	-	-	-	-	474,607
Legal fees	1,037,526	-	-	-	-	1,037,526
Uncollectible assessments	352,138	-	-	-	-	352,138
Events	161,265	-	-	-	-	161,265
Contingency	45,076	-	-	-	-	45,076
Major repairs and replacements	-	1,015,718	-	-	125,275	1,140,993
Total expenses	<u>16,270,951</u>	<u>1,026,897</u>	<u>2,861</u>	<u>491</u>	<u>126,825</u>	<u>17,428,025</u>
Excess (deficit) over (under) expenses before depreciation and interfund transfers	<u>576,649</u>	<u>500,183</u>	<u>929,943</u>	<u>2,998</u>	<u>(104,740)</u>	<u>1,905,033</u>
Depreciation	(226,213)	-	-	-	-	(226,213)
Realized loss on sale of investments	-	(93,205)	(10,047)	(1,298)	(12,061)	(116,611)
Net excess (deficit) or revenues over (under) expenses	<u>350,436</u>	<u>406,978</u>	<u>919,896</u>	<u>1,700</u>	<u>(116,801)</u>	<u>1,562,209</u>
Other comprehensive income						
Net unrealized gains on investments, before tax	-	(28,225)	(13,470)	(4)	(3,283)	(44,982)
Total comprehensive income	<u>\$ 350,436</u>	<u>\$ 378,753</u>	<u>\$ 906,426</u>	<u>\$ 1,696</u>	<u>\$ (120,084)</u>	<u>\$ 1,517,227</u>

STATEMENT OF CHANGES IN FUND BALANCES

For Year Ended April 30, 2017

	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	Total Funds
Fund balances, beginning of year	\$ 6,768,929	\$ 8,417,320	\$ 2,164,014	\$ 390,972	\$ 1,102,528	\$ 18,843,763
Comprehensive income						
Net excess (deficit) or revenues over (under) expenses	350,436	406,978	919,896	1,700	(116,801)	1,562,209
Net unrealized gains on investments	-	(28,225)	(13,470)	(4)	(3,283)	(44,982)
Total comprehensive income	350,436	378,753	906,426	1,696	(120,084)	1,517,227
Accumulated other comprehensive income	-	(50,290)	(1,011)	89	(714)	(51,926)
Fund balances, ending of year	<u>\$ 7,119,365</u>	<u>\$ 8,745,783</u>	<u>\$ 3,069,429</u>	<u>\$ 392,757</u>	<u>\$ 981,730</u>	<u>\$ 20,309,064</u>

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

STATEMENT OF CASH FLOWS

For Year Ended April 30, 2017

	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Excess (deficit) of revenues over (under) expenses	\$ 350,436	\$ 406,978	\$ 919,896	\$ 1,700	\$ (116,801)	\$ 1,562,209
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:						
Depreciation	226,213	-	-	-	-	226,213
Changes in operating assets and liabilities						
Assessments and fines receivable	121,738	-	-	-	-	121,738
Interest receivable	-	(10,995)	(2,265)	4,687	657	(7,916)
Inventory	47	-	-	-	-	47
Prepaid expenses	123,060	-	-	-	-	123,060
Other assets	(16,901)	-	-	-	-	(16,901)
Accounts payable	(599,438)	-	-	-	-	(599,438)
Accrued payroll and related items	11,608	-	-	-	-	11,608
Prepaid assessments/ deferred revenue	(939,839)	-	-	-	-	(939,839)
Refundable member deposits	57,154	-	-	-	-	57,154
Income tax payable	15,176	-	-	-	-	15,176
Sales tax payable	(2,305)	-	-	-	-	(2,305)
Other accrued liabilities	1,540	-	-	-	-	1,540
Net cash provided (used) for operating activities	<u>(651,511)</u>	<u>395,983</u>	<u>917,631</u>	<u>6,387</u>	<u>(116,144)</u>	<u>552,346</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of available-for-sale debt securities, net	-	(1,719,298)	(835,188)	100,750	303,638	(2,150,098)
Purchase of property and equipment	<u>(34,476)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,476)</u>
Net cash provided (used) by investing activities	<u>(34,476)</u>	<u>(1,719,298)</u>	<u>(835,188)</u>	<u>100,750</u>	<u>303,638</u>	<u>(2,184,574)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Inter-fund receivable (payable)	<u>576,542</u>	<u>(2,977)</u>	<u>(605,754)</u>	<u>-</u>	<u>32,189</u>	<u>-</u>
Net cash provided for (used by) financing activities	<u>576,542</u>	<u>(2,977)</u>	<u>(605,754)</u>	<u>-</u>	<u>32,189</u>	<u>-</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(109,445)	(1,326,292)	(523,311)	107,137	219,683	(1,632,228)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,103,506</u>	<u>2,453,145</u>	<u>1,281,563</u>	<u>28,127</u>	<u>491,882</u>	<u>8,358,223</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<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>

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, 2017, the Association had delinquent receivables of \$2,161,234. Management states that these receivables are likely to be uncollectible and therefore, an allowance for uncollectible accounts has been made in the amount of \$2,129,984.

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, 2017:

<u>Description</u>	<u>Amount</u>
Land and Improvements	\$5,676,017
Buildings	\$3,720,132
Machinery and Equipment	\$1,115,048
Pool	\$394,913

Furniture and Fixtures	\$507,822
Vehicles	\$442,766
Total Cost of Property and Equipment	\$11,886,698
Less Accumulated Depreciation	(\$7,327,513)
Net Property and Equipment	\$4,529,185

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

For the year ended April 30, 2017, the Association's provision (benefit) from income taxes amounted to \$7,119 for federal and \$21,958 in state income taxes. The income tax benefit is the result of the refundable fuel tax credit for federal income tax purposes.

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 Gains
Corporate Bonds	\$7,196,253	\$7,168,844	(\$27,409)
Municipal Bonds	\$3,220,453	\$3,202,845	(\$17,608)
Certificates of Deposit	\$470,000	\$470,035	\$35
	\$10,886,706	\$10,841,724	(\$44,982)

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, 2017, 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, 2017 were as follows:

Operating Fund due from Other Funds	\$432,332
Repair Replacement Reserve Fund due to Operating Fund	(\$705,443)
Road Reserve Fund due from Operating Fund	\$599,997
Community Facilities Fund due to Operating Fund	(\$18,616)
Capital Improvement Fund due to Operating Fund	(\$308,270)
Total due to/from Other Funds	<u>-</u>

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 \$68,357 during the year ended April 30, 2017.

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. Prior to March 9, 2017, the annual rent consisted of a base rate of \$65,800 plus a "cost increase sum". The "cost increase sum" portion of the lake lease was determined each year by using the following formula $[(\text{Tier 1 rate for full service untreated water}/22) * 52,000] - 52,000$. In the new agreement dated March 9, 2017, the previous Base Rent Rate and the subsequent cost increase calculations were eliminated. Effective September 1, 2016, an annual base amount of \$1,399,651 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 \$68,582,899. The Association has accrued a prepaid expense for one month of the lease covering May 1, 2017 through May 31, 2017.

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.

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 1, 2017, when the financial statements were authorized and available to be issued. No subsequent events or transactions, were identified after April 30, 2017 or as of August 1, 2017 that require disclosure to the financial statements.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Board of Directors authorized a study by an independent reserve study consultant, Association Reserves, Inc. as of August 2014. The study was intended to estimate the future replacement costs, useful lives of the components of the Association's common property and the recommended funding requirements. Replacement costs were based on the estimated costs to repair or replace the common property components at the end of their useful lives assuming an annual inflation rate of 3%.

A separate study was conducted by Webb and Associates, 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 replacement costs were estimated from published guidelines.

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 following table is based on that reserve study and presents significant information about the components of the common property and funding requirements.

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
Totals		\$66,764,700
Designated Repairs and Replacements at April 30, 2017		\$11,815,212

SUPPLEMENTARY INFORMATION ON

	Corporate	Operations	Lakes	Member Services	Planning & Compliance	Community Patrol
REVENUES						
Interest income	\$ 8,404	\$ -	\$ -	\$ -	\$ -	\$ -
Administrative fees	816,600	-	-	90,678	-	-
Architectural and building fees	-	-	-	-	72,490	-
Sales and user fees	-	13,292	575,826	279,228	-	-
Other income	155,973	39,066	15,825	4,153	200,127	131,016
Total revenue	980,977	52,358	591,651	374,059	272,617	131,016
EXPENSES						
Salaries and related expenses	1,272,320	1,472,008	-	360,103	312,302	47,932
Outside services	393,459	175,826	240,667	23,429	539	1,917,981
Lake lease	-	-	1,538,340	-	-	-
Utilities	91,514	238,248	-	840	1,512	16,345
Repairs and maintenance	21,248	373,977	21,966	-	401	23,587
Supplies	29,670	104,052	11,749	141,462	9,703	6,719
Rental equipment	406	658	3,815	-	-	7,815
Property taxes	20,620	-	-	-	-	-
Income taxes	29,077	-	-	-	-	-
Cost of goods sold	-	-	-	-	-	-
General and administrative	168,094	14,124	8	1,415	2,641	4,200
Insurance	474,607	-	-	-	-	-
Legal fees	986,263	-	-	-	51,263	-
Uncollectible assessments	352,138	-	-	-	-	-
Events	-	-	-	1,184	-	-
Contingency	45,076	-	-	-	-	-
Depreciation	226,213	-	-	-	-	-
Total expenses	4,110,705	2,378,893	1,816,545	528,433	378,361	2,024,579
TOTAL DEPARTMENT INCOME (LOSS)	\$ (3,129,728)	\$ (2,326,535)	\$ (1,224,894)	\$ (154,374)	\$ (105,744)	\$ (1,893,563)

OPERATING FUND FUNCTIONAL EXPENSES

Activities	Equestrian Center	Campground	Golf Course	Lighthouse	Meeting Rooms - Lodge	Country Club	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,404
-	-	-	-	-	-	-	907,278
-	-	-	-	-	-	-	72,490
54,733	156,035	226,610	897,888	851,397	14,200	681,721	3,750,930
25,268	3,101	388	4,937	76,876	-	568	657,298
<u>80,001</u>	<u>159,136</u>	<u>226,998</u>	<u>902,825</u>	<u>928,273</u>	<u>14,200</u>	<u>682,289</u>	<u>5,396,400</u>
262,623	115,506	89,638	66,468	770,455	-	546,969	5,316,324
19,322	21,157	16,095	233,449	51,187	25,991	52,187	3,171,289
-	-	-	-	-	-	-	1,538,340
44,786	27,505	39,450	511,463	57,897	53,025	33,587	1,116,172
8,040	16,672	8,029	866,284	12,658	25,136	12,911	1,390,909
39,381	5,792	4,461	63,022	64,766	22,124	44,206	547,107
-	669	389	618	1,655	2,295	-	18,320
-	-	-	-	-	-	-	20,620
-	-	-	-	-	-	-	29,077
-	43,181	63,801	-	385,293	-	246,405	738,680
5,009	132	8,050	32,719	46,260	153	30,696	313,501
-	-	-	-	-	-	-	474,607
-	-	-	-	-	-	-	1,037,526
-	-	-	-	-	-	-	352,138
67,873	-	-	-	76,213	-	15,995	161,265
-	-	-	-	-	-	-	45,076
-	-	-	-	-	-	-	226,213
<u>447,034</u>	<u>230,614</u>	<u>229,913</u>	<u>1,774,023</u>	<u>1,466,384</u>	<u>128,724</u>	<u>982,956</u>	<u>16,497,164</u>
<u>\$ (367,033)</u>	<u>\$ (71,478)</u>	<u>\$ (2,915)</u>	<u>\$ (871,198)</u>	<u>\$ (538,111)</u>	<u>\$ (114,524)</u>	<u>\$ (300,667)</u>	<u>\$ (11,100,764)</u>

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