

Financial Statements

CANYON LAKE
PROPERTY OWNERS'
ASSOCIATION

APRIL 30, 2020

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, 2020, 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.

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, 2020, 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 13 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

August 3, 2020

Palm Springs, California

CANYON LAKE PROPERTY OWNERS' ASSOCIATION

BALANCE SHEET

APRIL 30, 2020

ASSETS

	Operating Fund	Community Facilities Fund	Capital Improvement Fund	Repair Replacement Fund	Road Reserve Fund	Total
ASSETS						
Cash	\$ 4,516,490	\$ -	\$ 27,095	\$ 83,601	\$ 5,511,628	\$ 10,138,814
Certificates of deposit	-	-	470,000	1,175,000	1,168,000	2,813,000
Investments, net of unrealized gain	-	-	469,158	6,904,517	4,366,386	11,740,061
Assessments and fines receivable, net of allowance for doubtful accounts of \$677,400	990,813	-	-	-	-	990,813
Interest receivable	-	-	2,858	33,061	18,406	54,325
Inventory	49,575	-	-	-	-	49,575
Prepaid expenses	271,816	-	-	-	-	271,816
Other assets	157,014	-	-	-	-	157,014
Inter-fund receivable/(payable)	703,132	-	493,784	(143,700)	(1,053,216)	-
Property and equipment, net of accumulated depreciation of \$7,754,186	4,633,284	-	-	-	-	4,633,284
	<u>\$ 11,322,124</u>	<u>\$ -</u>	<u>\$ 1,462,895</u>	<u>\$ 8,052,479</u>	<u>\$ 10,011,204</u>	<u>\$ 30,848,702</u>

LIABILITIES AND FUND BALANCES

LIABILITIES						
Accounts payable	\$ 870,501	\$ -	\$ -	\$ -	\$ -	\$ 870,501
Accrued payroll	240,982	-	-	-	-	240,982
Prepaid assessments	1,473,602	-	-	-	-	1,473,602
Other accrued liabilities	158,024	-	-	-	-	158,024
Refundable member deposits	343,146	-	-	-	-	343,146
Income taxes payable	3,015	-	-	-	-	3,015
Construction defect liability	-	-	-	-	5,516,232	5,516,232
Note payable - SBA	1,103,000	-	-	-	-	1,103,000
	<u>4,192,270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,516,232</u>	<u>9,708,502</u>
FUND BALANCES						
Fund balance	7,129,854	-	1,452,325	7,969,279	4,479,777	21,031,235
Accumulated other comprehensive income	-	-	10,570	83,200	15,195	108,965
	<u>7,129,854</u>	<u>-</u>	<u>1,462,895</u>	<u>8,052,479</u>	<u>4,494,972</u>	<u>21,140,200</u>
	<u>\$ 11,322,124</u>	<u>\$ -</u>	<u>\$ 1,462,895</u>	<u>\$ 8,052,479</u>	<u>\$ 10,011,204</u>	<u>\$ 30,848,702</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, 2020

	Operating Fund	Community Facilities Fund	Capital Improvement Fund	Repair Replacement Fund	Road Reserve Fund	Total
REVENUES						
Member assessments	\$ 10,492,600	\$ -	\$ 1,200,000	\$ 1,365,000	\$ 1,400,000	\$ 14,457,600
Interest income	16,200	59	24,752	140,223	96,927	278,161
Administrative fees	868,138	-	-	-	-	868,138
Architectural and building fees	101,475	-	-	-	-	101,475
Sales and user fees	4,081,351	-	-	-	-	4,081,351
Construction defect settlement	-	-	-	-	5,550,000	5,550,000
Other income	784,234	-	-	-	-	784,234
	<u>16,343,999</u>	<u>59</u>	<u>1,224,752</u>	<u>1,505,223</u>	<u>7,046,927</u>	<u>26,120,960</u>
EXPENSES						
Salaries and related expenses	5,991,067	-	-	-	-	5,991,067
Outside services	3,373,171	-	-	-	-	3,373,171
Lake lease	1,523,386	-	-	-	-	1,523,386
Utilities	1,299,193	-	-	-	-	1,299,193
Repairs and maintenance	1,586,955	-	-	-	-	1,586,955
Supplies	573,568	-	-	-	-	573,568
Rental equipment	18,185	-	-	-	-	18,185
Property taxes	36,034	-	-	-	-	36,034
Income taxes	17,595	-	-	-	-	17,595
Cost of goods sold	768,635	-	-	-	-	768,635
General and administrative	458,422	18	1,221	9,766	5,490	474,917
Insurance	485,513	-	-	-	-	485,513
Legal fees	802,858	-	-	-	-	802,858
Bad debt expense	123,733	-	-	-	-	123,733
Events	172,692	-	-	-	-	172,692
Contingency	19,030	-	-	-	-	19,030
Capital improvement expenses	-	-	648,396	-	-	648,396
Construction defect expenses	-	-	-	-	5,550,000	5,550,000
Major repairs and replacements	-	-	-	983,387	2,465,756	3,449,143
	<u>17,250,037</u>	<u>18</u>	<u>649,617</u>	<u>993,153</u>	<u>8,021,246</u>	<u>26,914,071</u>
Excess (deficiency) of revenues over expenses before depreciation	(906,038)	41	575,135	512,070	(974,319)	(793,111)
Depreciation	323,106	-	-	-	-	323,106
Excess (deficiency) of revenues over expenses	<u>(1,229,144)</u>	<u>41</u>	<u>575,135</u>	<u>512,070</u>	<u>(974,319)</u>	<u>(1,116,217)</u>
OTHER COMPREHENSIVE INCOME						
Unrealized gain on investments	-	-	11,273	124,928	28,291	164,492
TOTAL COMPREHENSIVE INCOME	<u>\$ (1,229,144)</u>	<u>\$ 41</u>	<u>\$ 586,408</u>	<u>\$ 636,998</u>	<u>\$ (946,028)</u>	<u>\$ (951,725)</u>
FUND BALANCES, beginning of the year	\$ 7,762,215	\$ 71,430	\$ 876,487	\$ 7,940,793	\$ 5,441,000	\$ 22,091,925
COMPREHENSIVE INCOME						
Excess (deficiency) of revenues over expenses	(1,229,144)	41	575,135	512,070	(974,319)	(1,116,217)
Unrealized gain on investments	-	-	11,273	124,928	28,291	164,492
TOTAL COMPREHENSIVE INCOME	<u>(1,229,144)</u>	<u>41</u>	<u>586,408</u>	<u>636,998</u>	<u>(946,028)</u>	<u>(951,725)</u>
Inter-fund transfers	596,783	(71,471)	-	(525,312)	-	-
FUND BALANCES, end of the year	<u>\$ 7,129,854</u>	<u>\$ -</u>	<u>\$ 1,462,895</u>	<u>\$ 8,052,479</u>	<u>\$ 4,494,972</u>	<u>\$ 21,140,200</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, 2020

	Fund Balances, Beginning of the Year			Year Ended April 30, 2020			Fund Balances, End of the Year		
	<u>Fund Balances</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Funds</u>	<u>Excess (Deficiency) of Revenues Over Expenses</u>	<u>Unrealized Gains</u>	<u>Inter-fund Transfers</u>	<u>Fund Balances</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Funds</u>
Operating Fund	\$ 7,762,215	\$ -	\$ 7,762,215	\$ (1,229,144)	\$ -	\$ 596,783	\$ 7,129,854	\$ -	\$ 7,129,854
Community Facilities Fund	71,430	-	71,430	41	-	(71,471)	-	-	-
Capital Improvement Fund	877,190	(703)	876,487	575,135	11,273	-	1,452,325	10,570	1,462,895
Repair Replacement Fund	7,982,521	(41,728)	7,940,793	512,070	124,928	(525,312)	7,969,279	83,200	8,052,479
Road Reserve Fund	5,454,096	(13,096)	5,441,000	(974,319)	28,291	-	4,479,777	15,195	4,494,972
	<u>\$ 22,147,452</u>	<u>\$ (55,527)</u>	<u>\$ 22,091,925</u>	<u>\$ (1,116,217)</u>	<u>\$ 164,492</u>	<u>\$ -</u>	<u>\$ 21,031,235</u>	<u>\$ 108,965</u>	<u>\$ 21,140,200</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, 2020

	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	\$ (1,229,144)	\$ 41	\$ 586,408	\$ 636,998	\$ (946,028)	\$ (951,725)
Adjustments to reconcile net revenues over expenses to net cash flow from operating activities:						
Depreciation	323,106	-	-	-	-	323,106
Unrealized (gain) on investments	-	-	(11,273)	(124,928)	(28,291)	(164,492)
(Increase) Decrease in:						
Assessments and fines receivable	(234,905)	-	-	-	-	(234,905)
Interest receivable	-	-	1,618	(1,734)	(1,890)	(2,006)
Inventory	(2,142)	-	-	-	-	(2,142)
Prepaid expenses	52,298	-	-	-	-	52,298
Other assets	32,374	-	-	-	-	32,374
Inter-fund receivable/payable	(1,771,821)	(108,545)	(641,604)	68,115	2,453,855	-
Increase (Decrease) in:						
Accounts payable	313,396	-	-	-	-	313,396
Accrued payroll	(198,879)	-	-	-	-	(198,879)
Prepaid assessments	(243,214)	-	-	-	-	(243,214)
Other accrued liabilities	(17,591)	-	-	-	-	(17,591)
Refundable member deposits	8,651	-	-	-	-	8,651
Income taxes payable	3,015	-	-	-	-	3,015
Construction defect liability	-	-	-	-	5,516,232	5,516,232
Net cash provided (used) by operating activities	<u>(2,964,856)</u>	<u>(108,504)</u>	<u>(64,851)</u>	<u>578,451</u>	<u>6,993,878</u>	<u>4,434,118</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Sale (purchase) of certificates of deposit	-	-	(470,000)	(1,175,000)	(1,168,000)	(2,813,000)
Sale (purchase) of investments	-	-	549,457	922,389	(1,131,436)	340,410
Purchase of property and equipment	(529,263)	-	-	-	-	(529,263)
Net cash provided (used) by investing activities	<u>(529,263)</u>	<u>-</u>	<u>79,457</u>	<u>(252,611)</u>	<u>(2,299,436)</u>	<u>(3,001,853)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
SBA loan proceeds	1,103,000	-	-	-	-	1,103,000
Inter-fund transfers	596,783	(71,471)	-	(525,312)	-	-
Net cash provided (used) by financing activities	<u>1,699,783</u>	<u>(71,471)</u>	<u>-</u>	<u>(525,312)</u>	<u>-</u>	<u>1,103,000</u>
Net increase (decrease) in cash	<u>(1,794,336)</u>	<u>(179,975)</u>	<u>14,606</u>	<u>(199,472)</u>	<u>4,694,442</u>	<u>2,535,265</u>
CASH, beginning of the year	6,310,826	179,975	12,489	283,073	817,186	7,603,549
CASH, end of the year	<u>\$ 4,516,490</u>	<u>\$ -</u>	<u>\$ 27,095</u>	<u>\$ 83,601</u>	<u>\$ 5,511,628</u>	<u>\$ 10,138,814</u>

**SUPPLEMENTAL DISCLOSURES OF
CASH FLOW INFORMATION**

Cash paid during the year for:
Income taxes

\$ -

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

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2020

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 was eliminated during the fiscal year ended April 30, 2020.

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 and corporate bonds 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, 2020

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, 2020. 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 2020 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, 2020, 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, 2020

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 hierarchal 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 August 3, 2020, 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, 2020 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 \$251 in 2020, Of that amount, \$24 was designated to the replacement fund, \$24 to the road reserve fund and \$21 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, 2020 are as follows:

Food and beverage	\$ 46,955
Gasoline - campground	<u>2,620</u>
	<u>\$ 49,575</u>

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2020

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 municipal bonds and corporate bonds.

The Association's investments consisted of the following at April 30, 2020:

	<u>Market Value</u>	<u>Amortized Cost Basis</u>	<u>Unrealized Gain(Loss)</u>
Municipal bonds	\$ 2,441,510	\$ 2,444,354	\$ (2,844)
Corporate bonds	<u>9,298,551</u>	<u>9,186,742</u>	<u>111,809</u>
Total investments	<u>\$11,740,061</u>	<u>\$11,631,096</u>	<u>\$108,965</u>

Included in other comprehensive income are unrealized gains of \$164,492 for the year ended April 30, 2020. Included in accumulated other comprehensive income are unrealized gains of \$108,965 as of April 30, 2020.

Maturities of the investments at April 30, 2020 are as follows:

	<u>Within Year</u>	<u>1 - 5 Years</u>	<u>Total</u>
Municipal bonds	\$ 124,249	\$2,317,261	\$ 2,441,510
Corporate bonds	<u>2,467,457</u>	<u>6,831,093</u>	<u>9,298,551</u>
	<u>\$2,591,706</u>	<u>\$9,148,354</u>	<u>\$11,740,061</u>

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at April 30, 2020:

Land and improvements	\$ 5,676,017
Building	3,743,550
Machinery and equipment	1,640,797
Pools	404,033
Furniture and fixtures	634,343
Vehicles	288,730
Less: Accumulated depreciation	<u>(7,754,186)</u>
Net property and equipment	<u>\$ 4,633,284</u>

NOTE 5: NOTE PAYABLE - SBA

In April 2020, the Association applied for and was approved a \$1,103,000 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan with a maturity of two years from the date of the loan. The Association is eligible for loan forgiveness up to 100%, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the federal government.

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2020

NOTE 6: 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 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 13 in the unaudited supplementary information on future major repairs and replacements is based on the study.

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, \$4,476,000 has been included in the 2020/2021 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 7: 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 \$92,436 during the year ended April 30, 2020.

NOTE 8: 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 46 years is \$64,577,100. For the year ended April 30, 2020 the lake lease expense was \$1,523,386.

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2020

NOTE 9: INTER-FUND TRANSFERS

During the year ended April 30, 2020, interfund transfers of \$596,783 consisted of \$525,312 of personal property and equipment purchased by the replacement fund and capitalized in the operating fund and \$71,471 transferred to the operating fund from the community facilities fund.

NOTE 10: 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 11: 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.

NOTE 12: CONSTRUCTION DEFECT LITIGATION

The Association was awarded \$5,550,000 for construction defect settlements in the fiscal year ended April 30, 2020 relating to claims by the Association against various contractors for defects in the reconstruction of the roads.

The Association and all parties to the settlements were responsible for their own attorney fees and costs associated with the settlement.

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

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

APRIL 30, 2020

(UNAUDITED)

The Board of Directors engaged an outside consultant to conduct a study in August 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 following table is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives (In Years)	Estimated Current Replacement Costs
Administration	0 - 26	\$ 1,553,299
Bluebird Hall	0 - 14	91,956
Country Club	0 - 23	948,823
Lodge	0 - 32	2,339,484
Docks	0 - 21	1,255,310
Operations	0 - 27	236,289
Senior Center	0 - 17	290,581
Vehicles	0 - 15	1,304,974
Gates	0 - 28	995,630
Lakes	0 - 29	4,507,315
Gault Field	0 - 26	556,721
Campground	0 - 34	811,090
Equestrian Center	0 - 26	741,091
Golf Course	0 - 29	6,688,069
Pools and Spas	0 - 24	701,749
Fairway Estates	0 - 7	106,677
Grounds	0 - 31	4,642,286
General Common Area	0 - 33	1,955,187
Roads	0 - 25	36,921,659
		<u>\$ 66,648,190</u>
Replacement Fund Balance - April 30, 2020		<u>\$ 12,547,451</u>