



CANYON LAKE



Property Owners Association

ANNUAL REPORT

May 1, 2015 - April 30, 2016

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2015 - 2016 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.

2015 -16 Committee Board Liaison:
– Green Committee



Douglas Gordon
Board Vice President

Douglas Gordon joined the Board in 2014. His main priority during his time on the Board was to ensure that proper attention was given to the community's amenities. Doug has a vast skill-set that made him a valuable Board Member with a unique perspective when it comes to project planning and budgeting.

2015-16 Committee Board Liaison:
– Architectural Control Committee



David Eilers
Board Treasurer

David Eilers began serving on the Board in 2012. He was part of several recently completed projects including the Lodge remodel, many repairs to parks and beaches and dock replacements.

2015-16 Committee Board Liaison:
– Estates Committee
– Facilities Review Committee
– Finance Committee



Ted Horton
Board Secretary

Edward "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.

2015-16 Committee Board Liaison:
– Activities Committee
– Recreation Committee



Eric Spitzer
Board Director

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.

2015-16 Committee Board Liaison:
– Appeals Committee

PRESIDENT'S REPORT



“There has been much for us to reflect on this past year as we accomplished several substantial projects and embarked on many new initiatives that are making the Association and community more environmentally and fiscally responsible.”

This last year I've had the privilege of serving as the Association's Board President, alongside four very dedicated members of the Board of Directors that included Vice President Douglas Gordon, Treasurer David Eilers, Secretary Ted Horton and Director Eric Spitzer.

There has been much for us to reflect on this past year as we accomplished several substantial projects and embarked on new initiatives that are making the Association and community more environmentally and fiscally responsible. Below are some of the accomplishments we've made this last year.

Golf Course Turf Reduction Project

In June 2015, the Association finished a 17.9 acre turf reduction project at the Canyon Lake Golf Course. This project was designed to significantly reduce the amount of water used at the course. While much of the course still maintains its lush greens, there are now several areas of turf on the outskirts of the course that have been replaced with mulch, hand-planted rose bushes, shrubs and trees, that when mature, will require less water than the turf that was originally in those areas. It will take two to three years before the new landscape is fully matured. This project was fully funded by the Metropolitan Water Districts SoCal WaterSmart program. Once the landscaping reaches its full maturity its expected to save 18.5 million gallons of water per year.

Water Conservation Initiative - Parks/Common Areas

Over the last year, the Association saved nearly 10 million gallons of outdoor water in response to the severe drought that took place in California. The Association took many proactive measures to address water use at its common areas and parks. These measures included reducing turf at multiple parks, along with improving and repairing sprinkler systems at its parks to help balance the water use restrictions and aesthetics of the community. By doing so, the Association avoided the significant financial penalties for over-usage. In addition, the Association received rebates for completing turf reduction initiatives at these particular locations.

Non-Resident Golf Membership Drive

In July 2015, a Board driven focus group was created to analyze the current trends at the golf course and formulate a plan to help increase activity. This group developed a strategic marketing plan that focuses on increasing annual memberships, specifically

non-resident memberships. At the core of this marketing plan is a recruiting team that has canvassed the surrounding area with promotional material to market the membership drive. The group has been targeting the neighboring communities of Menifee, Lake Elsinore, Murrieta and Temecula. Since starting the campaign, 39 new non-resident members have joined the Canyon Lake Golf Course.

Concerts at The Lodge Series

In August 2015, the Association introduced the Concerts at The Lodge series with its first act, Johnny Lee. The Concerts at the Lodge series brings quality national musicians to Canyon Lake. This past year, acts have included David Cook, Collin Raye and Hal Ketchum.

Lake Lease Contract Negotiation

Since 2013, the Association and its Board of Directors have been attempting to work out a long-term agreement with Elsinore Valley Municipal Water District (EVMWD) with the intention of creating a pricing structure that will provide a fair rate schedule to our members now and in the future. Our goal is to bring this matter to a conclusion that benefits everyone.

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. This last year, I have truly enjoyed serving as your Board President and I look forward to my continued service as we move through 2016.

Bruce Yarbrough
Canyon Lake Property Owners Association Board President

MANAGEMENT REPORT



“During this past year, the Association was able to continue investing in the community, by embarking on several new projects, and continuing initiatives that better the community.”

This year was a productive year, we continued to focus on investing in the community by embarking on several new projects and continuing initiatives to enhance the community. Below are some of the notable accomplishments this past year.

Amenity Enhancements

The Beautification Initiative was created in 2013 and aimed at enhancing and beautifying the parks and amenities in our community. Over this past year, the Association was able to complete multiple projects as part of this initiative.

Roadrunner Park Pavilion

In April 2016, the Association installed a new pavilion at Roadrunner Park. The new pavilion features a modern design along with a durable tile roof and ceiling fans. I would like to thank the Roadrunners Club for their contribution towards enhancing the pavilion.

New Playgrounds

During this past year, several community playgrounds were replaced. Parks that have new playground equipment include Sierra Park, Rob Cavaney Park, Holiday Harbor Park and Steelhead Park.

Dock Repairs & Replacements

The Association has replaced several of the older docks throughout the community. The docks replaced this last fiscal year include Moonstone, Pebble Cove, Skippers Island, and Holiday Harbor.

Project Updates

While the Association has accomplished many projects this last year, there are still several projects that are currently in the process of being completed and/or anticipated to be completed during 2016. While some of these new projects are still in the planning and approval phases, the Association is optimistic in moving forward with these projects.

Main Gate

Work at the Main Gate began during this last fiscal year. Upon its completion, the entrance will be enhanced with access controls and new technology updates.

Park Playgrounds

Installation of new playgrounds at Outrigger Park and Sunset Beach will be completed during the summer of 2016.

Happy Camp Campground

Another overdue and highly anticipated project that is hoped to be completed during 2016 is the remodel of Happy Camp Campground. The Campground has not received a remodel since the late 1960's, and is in need of becoming more accessible to current recreational vehicle use, as well as becoming a more efficient facility and common area for use within the community.

Additional projects that are anticipated to begin during 2016 include:

- Dog Park at Eastport Park
- Shade Structures at Tennis Courts
- Relocation of Pickelball Court

Surveillance Cameras

In March 2016, the Association completed phase one of surveillance camera installation. The new surveillance cameras allow the Association to more effectively monitor the amenities and common areas. During this next fiscal year, the Association will begin the process to complete phase two and three of surveillance camera installation throughout the remaining common areas.

Community Events

The many community events that take place throughout the year truly help make Canyon Lake a uniquely wonderful community. The Association is honored to host and participate in some of the community's most popular events including Fiesta Day, Taco Tuesday, the July 4th Fireworks Show, Movie Nights In The Park, Flick-n-Float Movie Nights and The Tree Lighting Ceremony, to name a few. We are also pleased to support the many events and community activities that are hosted by the Canyon Lake Community Clubs and Organizations.

Member Communications

Communication is a necessity that cannot be overlooked and as with many organizations the Association has recognized this. In 2013, the Association began expanding its communication services to the membership. Since, the Association has significantly expanded its print and electronic sources for communicating its news to the community. The membership can receive updates on a daily, weekly or monthly basis through our website, social media pages, weekly email newsletters and our monthly publication - Canyon Lake Living. Additional forms of communication that are utilized by the Association include providing updates over the City's television station and sending text alerts to quickly communicate important notices such as road or lake closures. Members that that would like to sign up for one or all of these services can visit the Association's website, www.canyonlakepoa.com to sign up.

Christopher Mitchell, CPA, CCAM
Canyon Lake Property Owners Association General Manager

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, 2016, 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, 2016, 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.

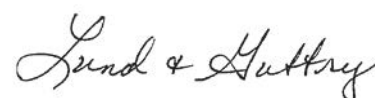
REPORT ON SUPPLEMENTARY INFORMATION

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 14 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 & Guttery LLP/Certified Public Accountants
July 15, 2016

Balance Sheet

April 30, 2016

ASSETS

	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	Total Funds
Cash and cash equivalents	\$ 4,103,506	\$ 2,453,145	\$ 1,281,563	\$ 28,127	\$ 491,882	\$ 8,358,223
Investments, net of unrealized gain	-	6,648,711	882,163	375,422	882,238	8,788,534
Assessments and fines receivable, net of allowance	152,988	-	-	-	-	152,988
Interest receivable	-	23,884	6,045	6,039	4,489	40,457
Inventory	48,557	-	-	-	-	48,557
Prepaid expenses	452,814	-	-	-	-	452,814
Other assets	157,884	-	-	-	-	157,884
Due to/ from other funds	1,008,874	(708,420)	(5,757)	(18,616)	(276,081)	-
Capital assets, net of accumulated depreciation	4,720,921	-	-	-	-	4,720,921
Total assets	\$ 10,645,544	\$ 8,417,320	\$ 2,164,014	\$ 390,972	\$ 1,102,528	\$ 22,720,378

LIABILITIES AND FUND BALANCES

Accounts payable	\$ 1,221,992	\$ -	\$ -	\$ -	\$ -	\$ 1,221,992
Accrued payroll and related items	321,988	-	-	-	-	321,988
Prepaid assessments / deferred revenue	1,908,197	-	-	-	-	1,908,197
Other accrued liabilities	164,961	-	-	-	-	164,961
Refundable member deposits	238,934	-	-	-	-	238,934
Income tax payable	4,471	-	-	-	-	4,471
Sales tax payable	16,072	-	-	-	-	16,072
Total liabilities	3,876,615	-	-	-	-	3,876,615
Total fund balances	6,768,929	8,417,320	2,164,014	390,972	1,102,528	18,843,763
Total liabilities and members' equity	\$ 10,645,544	\$ 8,417,320	\$ 2,164,014	\$ 390,972	\$ 1,102,528	\$ 22,720,378

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

Statement of Operations and Comprehensive Income

April 30, 2016

	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	Total Funds
REVENUES						
Assessments	\$ 10,873,800	\$ 1,300,000	\$ 900,000	\$ -	\$ 404,600	\$ 13,478,400
Interest income	7,232	149,407	8,950	6,852	12,475	184,916
Administrative fees	897,677	-	-	-	-	897,677
Architectural and building fees	65,098	-	-	-	-	65,098
Sales and user fees	3,491,130	-	-	-	-	3,491,130
Other income	414,172	2,564	-	-	-	416,736
Total revenues	<u>15,749,109</u>	<u>1,451,971</u>	<u>908,950</u>	<u>6,852</u>	<u>417,075</u>	<u>18,533,957</u>
EXPENSES						
Salaries and related expenses	4,939,220	-	-	-	-	4,939,220
Outside services	4,619,625	-	-	-	-	4,619,625
Lake lease	1,451,378	-	-	-	-	1,451,378
Utilities	1,206,994	-	-	-	-	1,206,994
Repairs and maintenance	209,116	-	-	-	-	209,116
Supplies	426,012	-	-	-	-	426,012
Rental equipment	6,302	-	-	-	-	6,302
Property taxes	36,114	-	-	-	-	36,114
Income taxes	11,171	-	-	-	-	11,171
Cost of goods sold	691,092	-	-	-	-	691,092
General and administrative	329,220	10,757	1,947	491	1,086	343,501
Insurance	470,052	-	-	-	-	470,052
Legal fees	1,433,350	-	-	-	-	1,433,350
Uncollectible assessments	(144,907)	-	-	-	-	(144,907)
Events	155,444	-	-	-	-	155,444
Contingency	(170,250)	-	-	-	-	(170,250)
Major repairs and replacements	-	1,233,683	5,754	21,449	274,041	1,534,927
Total expenses	<u>15,669,933</u>	<u>1,244,440</u>	<u>7,701</u>	<u>21,940</u>	<u>275,127</u>	<u>17,219,141</u>
Net excess (deficit) over (under) expenses before depreciation and interfund transfers	<u>79,176</u>	<u>207,531</u>	<u>901,249</u>	<u>(15,088)</u>	<u>141,948</u>	<u>1,314,816</u>
Depreciation	(241,977)	-	-	-	-	(241,977)
Realized loss on sale of investments	-	(76,030)	(5,166)	(5,435)	(7,637)	(94,268)
Net excess (deficit) or revenues over (under) expenses	<u>(162,801)</u>	<u>131,501</u>	<u>896,083</u>	<u>(20,523)</u>	<u>134,311</u>	<u>978,571</u>
Other comprehensive income						
Net unrealized gains on investments, before tax	-	50,290	1,011	(89)	714	51,926
Total comprehensive income	<u>\$ (162,801)</u>	<u>\$ 181,791</u>	<u>\$ 897,094</u>	<u>\$ (20,612)</u>	<u>\$ 135,025</u>	<u>\$ 1,030,497</u>

Statement of Changes in Fund Balances

April 30, 2016

	Operating Fund	Repair Replacement Reserve	Road Reserve	Community Facilities Fund	Capital Improvement Fund	Total Funds
Fund balances, beginning of year	\$ 6,931,730	\$ 8,257,870	\$ 1,266,920	\$ 411,584	\$ 967,503	\$ 17,835,607
Comprehensive income						
Net excess (deficit) or revenues over (under) expenses	(162,801)	131,501	896,083	(20,523)	134,311	978,571
Net unrealized gains on investments	-	50,290	1,011	(89)	714	51,926
Total comprehensive income	(162,801)	181,791	897,094	(20,612)	135,025	1,030,497
Accumulated other comprehensive income	-	(22,341)	-	-	-	(22,341)
Fund balances, ending of year	<u>\$ 6,768,929</u>	<u>\$ 8,417,320</u>	<u>\$ 2,164,014</u>	<u>\$ 390,972</u>	<u>\$ 1,102,528</u>	<u>\$ 18,843,763</u>

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

Statement of Cash Flows

April 30, 2016

	Operating Fund	Replacement Reserve	Road Reserve	Facilities Fund	Improvement Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES						
Excess (deficit) of revenues over (under) expenses	\$ (162,801)	\$ 131,501	\$ 896,083	\$ (20,523)	\$ 134,311	\$ 978,571
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:						
Depreciation	241,977	-	-	-	-	241,977
Changes in operating assets and liabilities						
Assessments and fines receivable	(12,859)	-	-	-	-	(12,859)
Interest receivable	-	(13,862)	(6,045)	(6,040)	(4,489)	(30,436)
Other receivables	1,547,330	-	-	-	-	1,547,330
Inventory	6,981	-	-	-	-	6,981
Prepaid expenses	(93,363)	-	-	-	-	(93,363)
Other assets	(6,779)	-	-	-	-	(6,779)
Accounts payable	175,785	-	-	-	-	175,785
Accrued payroll and related items	45,099	-	-	-	-	45,099
Prepaid assessments/ deferred revenue	577,817	-	-	-	-	577,817
Refundable member deposits	(31,081)	-	-	-	-	(31,081)
Income tax payable	4,471	-	-	-	-	4,471
Sales tax payable	646	-	-	-	-	646
Other accrued liabilities	164,961	-	-	-	-	164,961
Net cash provided for operating activities	<u>2,458,184</u>	<u>117,639</u>	<u>890,038</u>	<u>(26,563)</u>	<u>129,822</u>	<u>3,569,120</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of available-for-sale debt securities, net	-	(3,432,508)	(881,151)	(375,511)	(881,524)	(5,570,694)
Purchase of property and equipment	(74,468)	-	-	-	-	(74,468)
Net cash used by investing activities	<u>(74,468)</u>	<u>(3,432,508)</u>	<u>(881,151)</u>	<u>(375,511)</u>	<u>(881,524)</u>	<u>(5,645,162)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Inter-fund receivable (payable)	(1,466,231)	612,045	576,151	17,624	260,411	-
Net cash provided for (used by) financing activities	<u>(1,466,231)</u>	<u>612,045</u>	<u>576,151</u>	<u>17,624</u>	<u>260,411</u>	<u>-</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>917,485</u>	<u>(2,702,824)</u>	<u>585,038</u>	<u>(384,450)</u>	<u>(491,291)</u>	<u>(2,076,042)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,186,021</u>	<u>5,155,969</u>	<u>696,525</u>	<u>412,577</u>	<u>983,173</u>	<u>10,434,265</u>
CASH AND CASH EQUIVALENTS, END 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>

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, 2016, the Association had delinquent receivables of \$2,382,848. Management states that these receivables are likely to be uncollectible and therefore, an allowance for uncollectible accounts has been made.

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 straightline 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, 2016:

Description	Amount
Land and Improvements	\$ 5,676,017
Buildings	3,711,922
Machinery and Equipment	1,098,747
Pool	394,913
Furniture and Fixtures	497,859
Vehicles	<u>442,766</u>
Total Cost of Property and Equipment	11,822,224
Less Accumulated Depreciation	<u>(7,101,303)</u>
Net Property and Equipment	<u>\$ 4,720,921</u>

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, 2016, the Association's provision (benefit) from income taxes amounted to (\$2,281) for federal and \$13,452 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:

NOTE 4 – 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.

NOTE 5 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The

	Amortized Cost Basis	Aggregate Fair Value	Net Unrealized Gains
Corporate Bonds	\$ 5,203,737	\$ 5,216,942	\$ 13,205
Municipal Bonds	3,297,872	3,336,485	38,613
Certificates of Deposit	235,000	235,107	107
	<u>\$ 8,736,609</u>	<u>\$ 8,788,534</u>	<u>\$ 51,926</u>

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 6 – EMPLOYEE BENEFIT PLAN

The Association has a 401(k) defined contribution plan (the "Plan") which covers all employees who have completed at least

Individual interfund receivable and payable balances as of April 30, 2016 were as follows:

Operating Fund due from Other Funds	\$ 1,008,874
Repair Replacement Reserve Fund due to Operating Fund	(708,420)
Road Reserve Fund due to Operating Fund	(5,757)
Community Facilities Fund due to Operating Fund	(18,616)
Capital Improvement Fund due to Operating Fund	(276,081)
Total due to/from Other Funds	<u>\$ -</u>

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 \$77,535 during the year ended April 30, 2016.

NOTE 7 – OPERATING LEASE

The Association leases the Canyon Lake Reservoir (the "Reservoir") for water recreation purposes. The lease term extends through December 31, 2022, with an option to renew for an additional 44 years. The annual rent consists of a base rate of \$65,800 plus a "cost increase sum". The "cost increase sum" portion of the lake lease is determined each year by using the following formula $[(\text{Tier 1 rate for full service untreated water}/22)*52,000] - 52,000$.

Future minimum lease expenses for the operating lease, if options are exercised (assuming the option through December 21, 2066 is exercised at the base rate of \$65,800 and excluding the "cost increase sum", which is not determinable for future years at this time), are \$3,290,000.

The "cost increase sum" amount is anticipated to continue in future years, and the amount billed in 2015-2016 was \$1,390,196. This payment covers the period from September 1, 2015 through August 31, 2016. The Association has accrued a prepaid expense for one month of the lease covering May 1, 2016 through May 31, 2016.

NOTE 8 – 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 9 – 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 10 – SUBSEQUENT EVENTS

The Association evaluated all potential subsequent events as of July 15, 2016, when the financial statements were authorized and available to be issued. No subsequent events or transactions, were identified after April 30, 2016 or as of July 15, 2016 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	0-16	\$ 1,602,690
Bluebird Hall	0-30	102,971
Country Club	0-25	919,765
Fire Station	0-24	201,815
Lodge	0-19	2,654,188
Operations	0-17	242,438
Senior Center	0-22	337,301
Vehicles	0-29	1,654,166
Entries	0-21	132,023
Lakes	0-29	7,152,627
Gault Field	0-17	786,622
Campground	0-32	1,311,602
Equestrian Center	0-26	1,477,475
Golf Course	0-25	7,154,776
Parks	0-25	1,873,981
Pools and Spas	0-16	351,469
Tennis Courts	0-17	171,028
Firway Estates	0-14	193,882
General Common Area	0-21	1,522,222
Road	1-30	36,921,659
	Totals	\$ 66,764,700
	Designated for Repairs and Replacements at April 30, 2016	\$ 10,581,334

Supplementary Information on

Operat

	Corporate	Operations	Member Services	Planning & Compliance	Community Patrol
REVENUES					
Interest income	\$ 7,260	\$ -	\$ -	\$ -	\$ -
Administrative fees	806,397	-	91,080	200	-
Architectural and building fees	-	-	-	65,098	-
Sales and user fees	-	126,136	599,905	-	-
Other income	194,487	20,557	4,917	24,000	71,514
Total revenue	<u>1,008,144</u>	<u>146,693</u>	<u>695,902</u>	<u>89,298</u>	<u>71,514</u>
EXPENSES					
Salaries and related expenses	1,166,552	1,395,940	401,615	297,789	37,644
Outside services	566,397	502,496	18,564	4,751	2,102,153
Lake lease	1,451,378	-	-	-	-
Utilities	109,073	289,114	324	2,085	18,995
Repairs and maintenance	9,139	138,802	-	976	7,069
Supplies	38,924	109,673	60,385	11,905	3,082
Rental equipment	743	3,823	-	-	-
Property taxes	36,114	-	-	-	-
Income taxes	11,171	-	-	-	-
Cost of goods sold	-	-	-	-	-
General and administrative	185,850	15,745	4,203	3,887	427
Insurance	470,052	-	-	-	-
Legal fees	1,368,322	-	-	65,028	-
Uncollectible assessments	(144,907)	-	-	-	-
Events	-	-	304	-	-
Contingency	(170,250)	-	-	-	-
Depreciation	241,977	-	-	-	-
Total expenses	<u>5,340,535</u>	<u>2,455,593</u>	<u>485,395</u>	<u>386,421</u>	<u>2,169,370</u>
TOTAL DEPARTMENT INCOME (LOSS)	<u>\$ (4,332,391)</u>	<u>\$ (2,308,900)</u>	<u>\$ 210,507</u>	<u>\$ (297,123)</u>	<u>\$ (2,097,856)</u>

ing Fund Functional Expenses

Activities	Equestrian Center	Campground	Golf Course	Lighthouse	Meeting Rooms - Lodge	Country Club	Total
-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,260
-	-	-	-	-	-	-	897,677
-	-	-	-	-	-	-	65,098
19,648	184,921	207,715	809,476	896,502	18,763	628,064	3,491,130
24,599	2,189	441	-	69,548	-	1,892	414,144
<u>44,247</u>	<u>187,110</u>	<u>208,156</u>	<u>809,476</u>	<u>966,050</u>	<u>18,763</u>	<u>629,956</u>	<u>4,875,308</u>
266,685	122,072	79,824	-	702,817	-	468,282	4,939,220
17,904	28,609	19,793	1,140,840	73,706	46,370	98,042	4,619,625
-	-	-	-	-	-	-	1,451,378
51,021	32,156	35,116	522,215	54,348	56,197	36,350	1,206,994
6,987	8,923	6,216	11,214	4,617	6,476	8,697	209,116
31,337	6,555	4,541	72,001	39,200	14,008	34,401	426,012
-	1,341	287	-	23	31	54	6,302
-	-	-	-	-	-	-	36,114
-	-	-	-	-	-	-	11,171
-	63,256	69,371	-	347,331	-	211,134	691,092
8,515	81	9,218	33,516	39,235	279	28,264	329,220
-	-	-	-	-	-	-	470,052
-	-	-	-	-	-	-	1,433,350
-	-	-	-	-	-	-	(144,907)
54,133	-	-	-	86,172	-	14,835	155,444
-	-	-	-	-	-	-	(170,250)
-	-	-	-	-	-	-	241,977
<u>436,582</u>	<u>262,993</u>	<u>224,366</u>	<u>1,779,786</u>	<u>1,347,449</u>	<u>123,361</u>	<u>900,059</u>	<u>15,911,910</u>
<u>(392,335)</u>	<u>\$ (75,883)</u>	<u>\$ (16,210)</u>	<u>\$ (970,310)</u>	<u>\$ (381,399)</u>	<u>\$ (104,598)</u>	<u>\$ (270,103)</u>	<u>\$ (11,036,602)</u>



CANYON LAKE PROPERTY OWNERS ASSOCIATION

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*Photograph used on the front cover of this report was provided by Mike Clary