

Financial Statements

CANYON LAKE
PROPERTY OWNERS'
ASSOCIATION

APRIL 30, 2019

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

(Continued)

Opinion

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

Disclaimer of Opinion on Required Supplementary Information

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

Brabo & Carlson, LLP

July 30, 2019

Palm Springs, California

CANYON LAKE PROPERTY OWNERS' ASSOCIATION

BALANCE SHEET

APRIL 30, 2019

ASSETS

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

LIABILITIES AND FUND BALANCES

LIABILITIES						
Accounts payable	\$ 557,105	\$ -	\$ -	\$ -	\$ -	\$ 557,105
Accrued payroll	439,861	-	-	-	-	439,861
Prepaid assessments	1,716,816	-	-	-	-	1,716,816
Other accrued liabilities	157,542	-	-	-	-	157,542
Refundable member deposits	334,495	-	-	-	-	334,495
Sales tax payable	18,073	-	-	-	-	18,073
	<u>3,223,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,223,892</u>
FUND BALANCES						
Fund balance	7,762,215	71,430	877,190	7,982,521	5,454,096	22,147,452
Accumulated other comprehensive income	-	-	(703)	(41,728)	(13,096)	(55,527)
	<u>7,762,215</u>	<u>71,430</u>	<u>876,487</u>	<u>7,940,793</u>	<u>5,441,000</u>	<u>22,091,925</u>
	<u>\$ 10,986,107</u>	<u>\$ 71,430</u>	<u>\$ 876,487</u>	<u>\$ 7,940,793</u>	<u>\$ 5,441,000</u>	<u>\$ 25,315,817</u>

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

CANYON LAKE PROPERTY OWNERS' ASSOCIATION

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

YEAR ENDED APRIL 30, 2019

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

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

CANYON LAKE PROPERTY OWNERS' ASSOCIATION

STATEMENT OF CHANGES IN FUND BALANCE

YEAR ENDED APRIL 30, 2019

	Fund Balances, Beginning of the Year			Year Ended April 30, 2019			Fund Balances, End of the Year		
	Fund Balances	Accumulated Other Comprehensive Income	Total Funds	Excess (Deficiency) of Revenues Over expenses	Unrealized Gains	Inter-fund Transfers	Fund Balances	Accumulated Other Comprehensive Income	Total Funds
Operating Fund	\$ 7,745,640	\$ -	\$ 7,745,640	\$ (258,434)	\$ -	\$ 275,009	\$ 7,762,215	\$ -	\$ 7,762,215
Community Facilities Fund	67,833	(3,637)	64,196	3,597	3,637	-	71,430	-	71,430
Capital Improvement Fund	1,015,382	(17,320)	998,062	(138,192)	16,617	-	877,190	(703)	876,487
Repair Replacement Fund	8,037,234	(186,332)	7,850,902	220,296	144,604	(275,009)	7,982,521	(41,728)	7,940,793
Road Reserve Fund	3,997,914	(54,509)	3,943,405	1,456,182	41,413	-	5,454,096	(13,096)	5,441,000
	<u>\$ 20,864,003</u>	<u>\$ (261,798)</u>	<u>\$ 20,602,205</u>	<u>\$ 1,283,449</u>	<u>\$ 206,271</u>	<u>\$ -</u>	<u>\$ 22,147,452</u>	<u>\$ (55,527)</u>	<u>\$ 22,091,925</u>

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

CANYON LAKE PROPERTY OWNERS' ASSOCIATION

STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30, 2019

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:
Income taxes

\$ 67,253

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

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Accounting Method

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

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

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

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

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

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

Investments

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

Inventory

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

Assessments Received in Advance

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

Common Area Property

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

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

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

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

Cash Equivalents

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

Income Taxes

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

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

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

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

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

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The Association's investments are measured using fair value measurements, which, among other things, establish a 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 July 30, 2019, which is the date the financial statements were available to be issued.

NOTE 1: OWNERS' ASSESSMENTS AND ASSESSMENTS RECEIVABLE

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

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

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

NOTE 2: INVENTORY

Inventory at April 30, 2019 are as follows:

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

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2019

NOTE 3: INVESTMENTS

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

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

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

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

NOTE 4: PROPERTY AND EQUIPMENT

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

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

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS

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

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

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

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

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2019

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

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

NOTE 6: RETIREMENT PLAN

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

NOTE 7: OPERATING LEASE

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

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

NOTE 8: INTER-FUND TRANSFER

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

NOTE 9: CONTINGENCIES

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

NOTE 10: CONCENTRATION OF CREDIT RISK

The Association maintains accounts with banks and brokerage firms. Interest bearing accounts at banks are insured by the Federal Deposit Insurance Corporation for up to \$250,000 at each institution and accounts at brokerage firms are insured up to \$500,000 (with a limit of \$250,000 for interest bearing cash accounts) by the Securities Investor Protection Corporation. Given the existing size of operations it is not unusual for this limit to be exceeded on a periodic basis. The Association is aware of this matter and evaluates alternatives for safeguarding cash while at the same time maximizing operational performance.

**CANYON LAKE
PROPERTY OWNERS' ASSOCIATION**

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

APRIL 30, 2019

(UNAUDITED)

The Board of Directors engaged an outside consultant to conduct a study in August 2018, to estimate 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 - 27	\$ 1,553,299
Bluebird Hall	0 - 15	91,956
Country Club	0 - 24	948,823
Lodge	0 - 33	2,339,484
Docks	0 - 22	1,255,310
Operations	0 - 28	236,289
Senior Center	0 - 18	290,581
Vehicles	0 - 16	1,304,974
Gates	0 - 29	995,630
Lakes	0 - 30	4,507,315
Gault Field	0 - 27	556,721
Campground	0 - 35	811,090
Equestrian Center	0 - 27	741,091
Golf Course	0 - 30	6,688,069
Pools and Spas	0 - 25	701,749
Fairway Estates	0 - 8	106,677
Grounds	0 - 32	4,642,286
General Common Area	0 - 34	1,955,187
Roads	0 - 26	36,921,659
		<u>\$ 66,648,190</u>
Replacement Fund Balance - April 30, 2019		<u>\$ 13,381,793</u>