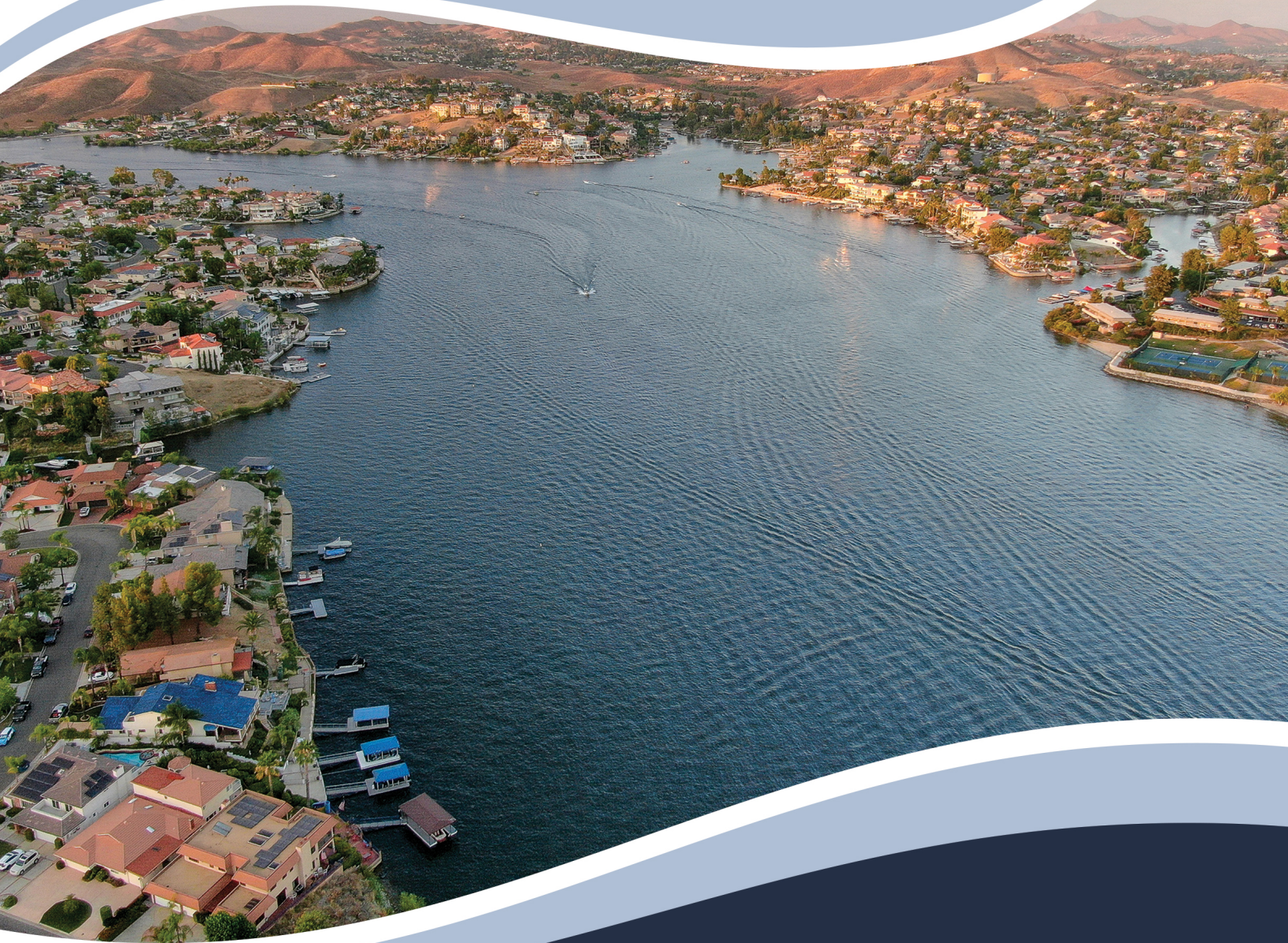


CANYON LAKE

PROPERTY OWNERS ASSOCIATION



2019-20 ANNUAL REPORT

May 1, 2019 - April 30, 2020

CANYON LAKE

PROPERTY OWNERS ASSOCIATION

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DALE WELTY
Board President

I served on the Board from 2016 to 2020. Each year, the Board continued to improve and become more collaborative and community driven.

PRESIDENT'S REPORT

I served on the Board from 2016 to 2020. Each year, the Board continued to improve and become more collaborative and community driven. In my final year on the Board, Chris Poland, Jeanne O'Dell, Tom Nathan, and Jim Barringham have all been amazing Board members. Each of them offers a unique skill set that enhances the Board dynamic and productivity.

This past year, we focused on pursuing projects that would improve our community. Some of these projects were designed not only to improve the community, but also provide a return on investment to our community. Namely, the new rental docks, a major renovation at Happy Camp that improved the infrastructure so that it now allows additional larger recreational vehicles to use the facility, and the golf course lake redesign. In the future, I hope to see the upgrade to the golf irrigation system, indoor motorcycle facility, additional rental docks, solar panels installed, and enlarging the patio at the Canyon Lake Lodge. After the initial outlay of funds, these projects will provide years of income or savings to our community.

As we embarked on 2020, ready for a new year and new goals, we were all quickly grounded as we faced COVID-19, a global pandemic that we have not experienced before. While many businesses in the area were either forced to close or provide limited services, our offices were able to provide some continuity by remaining open, albeit virtually for almost two months. This allowed us to continue our regular operations of providing much needed member services and support, progressing on community projects, and navigating our way through the array of amenities and events that were being affected by COVID-19.

The Canyon Lake POA Board and staff have worked incredibly hard to mitigate the effect of this crisis. In the office lobby glass barriers were installed to separate staff from customers, hand sanitation stations were added, and new state guidelines such as social distancing and face coverings became a requirement. Additionally, an entirely new virtual environment was created so members can access services via the website, email, and phone. Board Meetings also made a virtual transition, which actually significantly improved the attendance.

The amenities and events have probably been the most impacted areas of our business. Both restaurants were closed for upwards of two months and upon reopening they offered a take out menu and have now progressed to outdoor dining only. That being said, both restaurants have seen an increase in customers both dining and take out.

One of the things I think most of us have realized during this pandemic is that we are very fortunate to have many recreational options here in Canyon Lake that are safe and within COVID-19 guidelines. At this time pretty much all of the Canyon Lake POA's amenities are open with the exception of the Senior Center. The lake has always provided great active recreational opportunities for those who enjoy water skiing and wakeboarding, as well as more relaxing activities such as fishing, floating, and swimming. While the Canyon Lake POA is still able to keep many of our amenities open, I encourage everyone to use the facilities in a COVID safe way.

As this was my final year on the Board, I want to thank my fellow Board members, committees, and the Canyon Lake POA staff for working tirelessly to accomplish our common goals. I also want to thank all of you who have supported me and become my friends in the last four years.

Dale Welty

Dale Welty

2019/20 Board President

Canyon Lake Property Owners Association

2019 - 2020 BOARD OF DIRECTORS

The Canyon Lake Property Owners is governed by a five-member Board of Directors who are elected by the membership for two-year staggered terms at the Annual Members' Meeting in May.



DALE WELTY

Board President

Dale joined the Board in 2016. He has been a resident of Canyon Lake since 1988 and his focus has been contributing to the betterment of the community. Dale has advocated for more family oriented recreation in Canyon Lake and has also helped to improve communication amongst the members and Canyon Lake POA.

2019-20 Committee Board Liaison:

- Estates Committee
- Facilities Review Committee



CHRIS POLAND

Board Vice President

Chris joined the Board in 2019. Chris has a background in consulting engineering, executive level management, and public policy advocacy at the federal, state, and local levels. He has been a strong advocate for reinvigorating communication with the members and creating a renewed sense of community.

2019-20 Committee Board Liaison:

- Green Committee
- Dredge Committee



JEANNE O'DELL

Board Treasurer

Jeanne joined the Board in 2019. Jeanne brings a wide range of skills to the Board with more than 30 years of experience in facilities planning, space utilization, construction, and maintenance and operations from working in administrative roles at multiple major universities. She has been an advocate for enhancing the communities amenities, long term planning, and expanding Canyon Lake POA's services.

2019-20 Committee Board Liaison

- Appeals Committee
- Finance Committee



JIM BARRINGHAM

Board Secretary

Jim joined the Board in 2018. He had 40-year career specializing in the field of Information Technology. Beyond his professional experience, Jim and his wife Gyan have been Canyon Lake homeowners since 2009. They are both active members of multiple clubs and committees.

2019-20 Committee Board Liaison

- Recreation Committee
- Senior Work Group



TOM NATHAN

Board Director

Tom joined the Board in 2017. He has a background in Business Administration, with a Masters in Financial Management. He has over 30 years of experience in healthcare, restaurant, and marine industries. Most recently he was the Controller for a global leader in direct marketing. Tom has been a Canyon Lake resident for more than 15 years. He has been a member of multiple clubs and committees.

2019-20 Committee Board Liaison

- Finance Committee
- Tuesday Work Group

General Manager's Report

This past fiscal year started out like most years, however it turned into one of the most complicated years we have probably all ever experienced, not just in Canyon Lake, but globally. COVID-19 has impacted each and every one of us. Here at the Canyon Lake POA we had to close our doors for in-person services for nearly two months, shut down several amenities, and cancel many events and activities. Throughout the COVID-19 rollercoaster and office closures, we continued to serve our members and community, virtually. While we have been able to reopen our offices and most of our amenities, business operations remain far from normal. Despite the many hurdles we faced during our last quarter, the fiscal year as a whole was a very productive year for us. From the many projects completed to improving processes, we made great strides towards modernizing our 52-year-old community.

One of our highest priorities is bringing our community up to modern standards of our neighboring communities. This not only keeps our property values higher, but also makes our community a more desirable place to live and enjoy. To that end, there were several large projects completed this past year. Most notably, we started our large-scale 3.5 million dollar Parking Lot Pavement Project this past September. We resurfaced 16 of our amenity parking lots and a portion of Canyon Lake Drive North. At press time, the Lodge parking lot is the final component of this project to be completed, and it is wrapping up. This parking lot in particular was completely reconfigured, and makes up almost one third of the project's budget. Additionally, we are adding a walking path around the Lodge peninsula with an ADA ramp and staircase down to the rental docks.

Another major project that we started and completed this past year was renovating our 20-year-old swimming pool. The badly failing deck and deck coating surfaces were removed and replaced with a modern colored concrete, a cantilevered pool deck, new tile and new pool plaster. Currently, the crews are wrapping up an expansion of the pool building, another much needed improvement to that area.

For the past couple of years we have also focused on updating our community signage and branding. This obviously started with the Main Gate in 2017, and this past year we added new monument entrance signs at the East Gate, and we also replaced the outdated fountain at the Country Club. Some other significant projects that we accomplished this past year included the complete renovation of the small dog park area at the Eastport Dog Park, and improving access at the North Ski Area by creating a more level pathway from the parking lot and adding a shade structure with seating. To see more about our projects, I urge you to visit our projects pages at www.clpoa.com/projects.

While projects keep us extremely busy, it's not the only area we focus on improving. Moving to 100% RFID access for residents was a major accomplishment for us this past year. Moving to all RFID access has been beneficial in many ways. Residents no longer have to come in each year for a new decal, access is faster in the automated resident-only RFID lanes, which is a huge plus especially during the holidays. RFID allows the Canyon Lake POA to have absolute control over access, which is the goal of any gated community.

Last but not least, I want to take this opportunity to thank our Board, committee members, and staff members who all come together to serve this community and make it the best that it can be.



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



ERIC KAZAKOFF
General Manager

One of our highest priorities is bringing our community up to the modern standards of our neighboring communities.

KEEPING CANYON LAKE GREAT

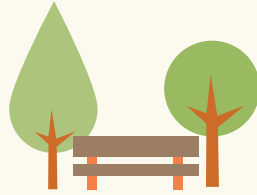
OUR PURPOSE

To promote the recreation, benefit, and enjoyment of the homeowners in Canyon Lake.

Our mission is to provide exceptional services that enhance the quality of life and sense of community, which make Canyon Lake a desirable place to live and enjoy. **This is our purpose and goal everyday when we come to work.**

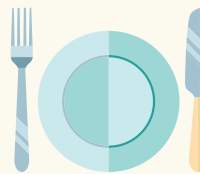
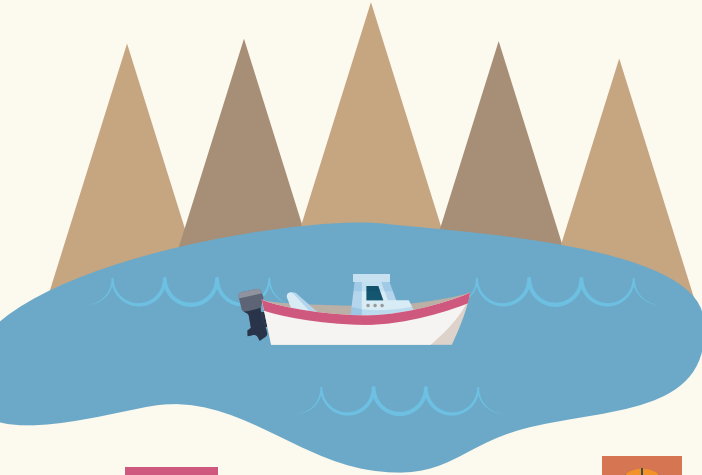


37 Miles of Roadways



16
parks & beaches

500 Acre Lake



2
full service restaurants



140
employees

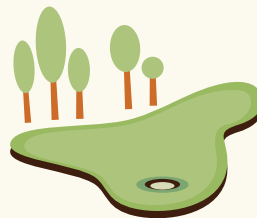
30% Operations

This department maintains the community and is an integral part in all of the community projects and events.



Services & Facilities

- Baseball Fields
- Basketball Courts
- Campground
- Community Events
- Driving Range
- Equestrian Center
- Golf Pro Shop
- Marine Gas
- Olympic Sized Pool
- Pickleball Courts
- Propane Sales
- Recreation Classes
- Senior Center
- Tennis Courts



18
hole golf course

70+ Volunteer Committee Members

50+ Vendors

Beyond our 140 employees, the Canyon Lake POA contracts vendors to assist in managing the community.

60+ Community & Marine Patrol Employees through Allied Security

COMMUNITY DEVELOPMENT

COUNTRY CLUB IMPROVEMENTS

- New monument sign with water feature installed.
- Men's Locker Room was remodeled with new counters, lockers, partitions, tile, and fixtures.
- All interior doors were replaced along with new exterior doors to the Magnolia Room.



NORTH SKI AREA ACCESS

In November 2019, the Canyon Lake POA addressed the access issues at the North Ski Area by replacing the steep and uneven paths with a new more level pathway from the parking lot. Stairs with a railing replaced the steep pathway. Also, a 30 foot ramp with railings on both sides leading to the main dock replaced the aged wooden ramp. Picnic tables and a low retaining wall under a new shade sail were also added. Lastly, in early 2020 the entire parking lot was repaved as part of the Pavement Project.



PAVEMENT PROJECT

This is a 3.5 million dollar project repaving 16 parking lots and a portion of Canyon Lake Drive North. Renovated and upgrades are being made to badly deteriorating 50 year old parking lots. New improved features include retaining walls, planters, ADA walkways, and ramps.

Parking lots renovated were: Blue Bird Hall, Canyon Lake Golf & Country Club, Canyon Lake Lodge, Diamond Point Park, Eastport Park, Equestrian Center Driveway Entrance, Gault Field, Holiday Harbor Park, Indian Beach, Moonstone Beach, North Ski East & West, Operations Yard, Senior Center, Sierra Park and Canyon Lake Drive North (from Vacation Drive to Goetz Road).



POOL

Renovating our 20-year-old swimming pool was another major project that we started and completed this past year. The badly failing deck and deck coating surfaces were removed and replaced with a modern colored concrete, a cantilevered pool deck, new tile and new pool plaster. Currently, the crews are wrapping up an expansion of the pool building, another much needed improvement to that area.



SMALL DOG PARK RENOVATION

In early 2020, the small dog park area got a complete renovation. The new area was relocated and designed with pets and pet lovers in mind. It has several elevated areas, walking paths, shade structures, and trees. Additionally, the new area has artificial turf which is more durable and improved drainage.



COMMUNITY SIGNAGE

A new monument sign was installed at the East Gate entrance. This new signage has back lit lettering that matches the recently redesigned Main Gate entrance monuments. This sign has greatly modernized our east access point that is visible to our neighboring communities. There are plans to add similar signage at other entrances.

GOLF COURSE LAKE

While the golf course lake was technically completed during our 2020/21 fiscal year, the majority of the work was completed during the early part of 2020. The newly reconfigured lake will save the Canyon Lake POA over \$80,000 a year in water expenses.





MICHAEL J. BRABO, CPA
WAYNE E. CARLSEN, CPA

*Member of the Private Companies
Practice Section of the American Institute
of Certified Public Accountants*

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.

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ph: 760-320-0848 • fax: 760-322-4626 • www.brabo-carlsen.com

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.

A handwritten signature in cursive script that reads "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	<u>(906,038)</u>	<u>41</u>	<u>575,135</u>	<u>512,070</u>	<u>(974,319)</u>	<u>(793,111)</u>
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			
	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	\$ 7,762,215	\$ -	\$ 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	(2,964,856)	(108,504)	(64,851)	578,451	6,993,878	4,434,118
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	(529,263)	-	79,457	(252,611)	(2,299,436)	(3,001,853)
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	1,699,783	(71,471)	-	(525,312)	-	1,103,000
Net increase (decrease) in cash	(1,794,336)	(179,975)	14,606	(199,472)	4,694,442	2,535,265
CASH, beginning of the year	6,310,826	179,975	12,489	283,073	817,186	7,603,549
CASH, end of the year	\$ 4,516,490	\$ -	\$ 27,095	\$ 83,601	\$ 5,511,628	\$ 10,138,814
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.

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.

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.

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 hierarchical 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>

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.

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.

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>

CANYON LAKE

PROPERTY OWNERS ASSOCIATION

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