

CANYON LAKE

PROPERTY OWNERS ASSOCIATION

2023 – 2024 ANNUAL REPORT

May 1, 2023 – April 30, 2024



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BILL VAN VLEET
2023 - 2024
Board President

"On the security front, my role as the liaison to the Security Advisory Committee allowed me to observe and contribute to our enhanced safety measures. We championed efforts to hire a dedicated manager providing oversight of all community and marine patrol operations."

PRESIDENT'S REPORT

Reflecting on the 2023 - 2024 term, I am proud to be part of a Board that demonstrates a commitment to strong governance, rigorous financial management, and deepening community engagement. During the Board's orientation at the beginning of the term, we developed specific goals to guide our efforts. These goals included enhancing financial transparency, improving community infrastructure, increasing safety measures, and strengthening relations with local government and other community organizations. This strategic framework set a clear direction for our activities throughout the year.

During this fiscal year, we made significant strides in ensuring financial discipline, highlighted by a highly successful audit with no changes recommended by the auditors for the first time. This is an affirmation of our excellent staff and financial stewardship.

Completing major projects further advanced the association's long-term vision for community development. The Lodge project, aimed at enhancing our community's central social hub, and the Year 2 Road Pavement Project, critical for improving our infrastructure, were successfully completed within budget. These projects improve our members' daily lives and significantly enhance the community's aesthetic and functional capabilities, making Canyon Lake a more attractive and enjoyable place to live. Fostering strong relationships with local government and community organizations has been another key focus as we serve the same community and strive towards aligned goals. Our active participation in city round tables, council meetings, and workshops has deepened our collaborative efforts.

On the security front, my role as the liaison to the Security Advisory Committee allowed me to observe and contribute to our enhanced safety measures. We championed efforts to hire a dedicated manager to provide oversight of all community and marine patrol operations. The contract for our community patrol services was recompeted among twelve qualified companies and awarded, placing a greater emphasis on enforcing community safety and security. We also addressed the rising popularity of electric bicycles and the associated safety concerns with stricter enforcement policies and educational programs. Our new reward program for young e-bike riders promoting safety and community responsibility has been particularly successful, embodying our commitment to fostering a safe and responsible community.

Innovations in communications have also marked achievements in this term. We introduced video recaps of Board Meetings, an initiative that has improved transparency and ensured our community members are well-informed about board activities and decisions. This approach keeps our community members engaged and reinforces our commitment to open and accessible governance.

As we look forward to the next term, the Board remains committed to continuing these efforts, maintaining our 'little bit of paradise', and exploring new ways to enhance the livability and sustainability of our community.

Bill Van Vleet
2023 - 2024 Board President
Canyon Lake Property Owners Association

2023 – 2024 BOARD OF DIRECTORS

The Canyon Lake Property Owners 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.



BILL VAN VLEET

Board President

Bill has been a Canyon Lake property owner for more than a decade. He brings a wealth of experience and knowledge to the Canyon Lake POA with more than 40 years of experience building and leading businesses. His distinguished career includes being a CEO for three successive technology companies and providing executive mentoring to several corporations in both the public and private sectors. Bill has also served on the Canyon Lake POA's Facilities Planning Committee, FPC/Finance Sub-Committee, and Security Committee.

2023 – 2024 Committee Board Liaison:

- Security Advisory Committee



GREG DOHERTY

Board Vice President

Greg, a Canyon Lake resident since 2015, recently retired from a successful 50-year career in commercial insurance. Throughout his career, he demonstrated exceptional skills in managing and mitigating financial risk for clients. With a strong customer-service focus, Greg brings a fresh perspective to the Canyon Lake POA Board and actively contributes to the community through his involvement with the Finance, Recreation, and Rules committees. Greg also participates in several clubs, including Pickleball Club, Yacht Club, and Car Club.

2023 – 2024 Committee Board Liaison:

- Recreation Committee



JOE KAMASHIAN

Board Secretary

Joe has been a Canyon Lake property owner since 1989. He is a dedicated community member and a strong advocate for maintaining and improving the amenities and infrastructure of the community. Joe aims to ensure the effectiveness of community patrol, protect property values through the management of repair and replacement reserves, and maximize the benefits of assessments. He is actively involved in many committees and clubs. With a background in owning an electrical contracting company for 25 years, Joe brings valuable experience to the Board.

2023 – 2024 Committee Board Liaison:

- Appeals Committee

- Green Committee

- Senior Work Group

- Tuesday Work Group



ALEX COOK

Board Treasurer

Alex has been a Canyon Lake property owner for over 20 years and has been actively involved in the community for nearly as long as he has been a resident. He has served on the Canyon Lake POA's Recreation Committee for the past eight years and has been chairperson of that committee for the past six years. He has also served on the Facilities Planning Committee and former Campground Committee, and he has been involved in several community clubs throughout the years.

2023 – 2024 Committee Board Liaison:

- Finance Committee

- Rules & Regulations Review Committee



JEFF BILL

Board Director Member

Jeff Bill is an experienced professional dedicated to improving the quality of life in Canyon Lake. With over 30 years of experience in the environmental field, he has tackled water pollution in both public and private sectors. As a VP/GM, he led successful turnaround initiatives to restore failing companies to profitability. Jeff's law enforcement background provides unique insights into community security. Actively involved in various community activities, he serves on committees and clubs, fostering a vibrant community. Jeff aims to represent all members and bring unity and positive progress to Canyon Lake.

2023 – 2024 Committee Board Liaison:

- Estates Committee

- Facilities Planning Committee

General Manager's Report

As we reflect on the past fiscal year, I am proud of the progress we've made in enhancing the quality of life and overall experience for our members. As always, our team has been dedicated to maintaining and modernizing our 50+ year old community, ensuring that Canyon Lake remains a desirable place to live and thrive.

One of our standout achievements this year has been the completion of the Lodge renovation. The Lodge is our community's popular venue for dining, community events, and private functions. The addition of a new terrace dining and event area has elevated our event-hosting capabilities, offering our members an even more stunning venue with breathtaking lake views. The Board's approval of the new fee structure for this space solidifies its status as a premier venue within our community.

We also made significant progress in expanding our recreational facilities. The new pickleball courts at Eastport Park directly respond to the growing popularity of this sport among our members, and the resurfacing of the existing courts ensures they remain in top condition for years to come. Your Board also approved enhancing the tennis area with new shade pavilions. One pavilion features a built-in barbecue and six new picnic tables to boost social gatherings, while the other replaces the old structure, providing extended coverage and additional seating for spectators. A new ADA ramp ensures accessibility for all community members.

During this fiscal year, we also added solar carport structures at busy locations like the Lodge, Equestrian Center, and Golf Course. These structures came with no upfront costs and are expected to generate significant savings over the next 25 years by providing clean, renewable energy at a much lower cost than traditional sources.

While projects keep us extremely busy, it's not the only area we focus on. We were also very busy with a full schedule of events. Highlights included the popular Fiesta Hopper, the 17th Annual Canyon Lake Car Show, and a variety of seasonal celebrations that brought our members together. Additionally, we've been dedicated to refining our processes to better serve our members, such as focusing on improving guest management to ensure a smoother and more enjoyable experience for all parties.

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



ERIC KAZAKOFF
General Manager

*"One of our
standout
achievements this
year has been
the completion
of the renovation
of the Lodge.
The Lodge is our
community's
popular venue
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A handwritten signature in black ink that reads "Eric Kazakoff". The signature is stylized and includes a long horizontal line extending to the right.

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

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the Association financial statements of Canyon Lake Property Owners Association, which comprise the balance sheet as of April 30, 2024, 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.

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, 2024, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Canyon Lake Property Owners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Canyon Lake Property Owners Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(Continued)

Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Canyon Lake Property Owners Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Canyon Lake Property Owners Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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.



July 25, 2024

Palm Springs, California

CANYON LAKE PROPERTY OWNERS ASSOCIATION

BALANCE SHEET

APRIL 30, 2024

ASSETS

	Operating Fund	Capital Improvement Fund	Repair Replacement Fund	Road Reserve Fund	Total
Cash	\$ 5,138,928	\$ 6,443	\$ 14,120	\$ 11,540	\$ 5,171,031
Certificates of deposit	-	64,926	254,029	60,967	379,922
Investments	449,605	885,420	6,978,259	5,575,755	13,889,039
Assessments and fines receivable, net of allowance for doubtful accounts of \$922,608	1,271,964	-	-	-	1,271,964
Interest receivable	-	3,888	36,139	15,704	55,731
Inventory	93,353	-	-	-	93,353
Prepaid expenses	458,903	-	-	-	458,903
Other assets	229,686	-	-	-	229,686
Note receivable - City of Canyon Lake	-	-	-	468,561	468,561
Inter-fund receivable/(payable)	3,179	(523,433)	(211,973)	732,227	-
Property and equipment, net of accumulated depreciation of \$10,433,993	14,531,580	-	-	-	14,531,580
Right-of-use - Operating lease asset	34,060,519	-	-	-	34,060,519
	<u>\$ 56,237,717</u>	<u>\$ 437,244</u>	<u>\$ 7,070,574</u>	<u>\$ 6,864,754</u>	<u>\$ 70,610,289</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	\$ 1,070,021	\$ -	\$ -	\$ -	\$ 1,070,021
Accrued payroll	513,748	-	-	-	513,748
Income taxes payable	244,890	-	-	-	244,890
Prepaid assessments	1,880,982	-	-	-	1,880,982
Other accrued liabilities	74,650	-	-	-	74,650
Refundable member deposits	542,257	-	-	-	542,257
Operating lease liability	34,060,519	-	-	-	34,060,519
	<u>38,387,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,387,067</u>

FUND BALANCES

Fund balance	19,315,314	496,730	7,360,468	7,038,325	34,210,837
Accumulated other comprehensive income (loss)	1,056	(59,486)	(289,894)	(173,571)	(521,895)
	<u>19,316,370</u>	<u>437,244</u>	<u>7,070,574</u>	<u>6,864,754</u>	<u>33,688,942</u>
	<u>\$ 57,703,437</u>	<u>\$ 437,244</u>	<u>\$ 7,070,574</u>	<u>\$ 6,864,754</u>	<u>\$ 72,076,009</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, 2024

	Operating Fund	Capital Improvement Fund	Repair Replacement Fund	Road Reserve Fund	Total
REVENUES					
Member assessments	\$ 13,022,123	\$ 500,000	\$ 2,775,000	\$ 2,019,008	\$ 18,316,131
Investment income	114,518	17,570	168,813	120,947	421,848
Administrative fees	1,126,512	-	-	-	1,126,512
Architectural and building fees	118,000	-	-	-	118,000
Sales and user fees	7,143,600	-	-	-	7,143,600
Citations, violations and other income	935,563	-	-	-	935,563
Sale of fire station	-	-	-	1,390,000	1,390,000
	<u>22,460,315</u>	<u>517,570</u>	<u>2,943,813</u>	<u>3,529,955</u>	<u>29,451,653</u>
EXPENSES					
Salaries and related expenses	8,390,310	-	-	-	8,390,310
Outside services	4,047,570	-	-	-	4,047,570
Lake lease	1,732,133	-	-	-	1,732,133
Utilities	1,557,649	-	-	-	1,557,649
Repairs and maintenance	2,013,179	-	-	-	2,013,179
Supplies	885,650	-	-	-	885,650
Rental equipment	24,509	-	-	-	24,509
Property taxes	42,065	-	-	-	42,065
Income taxes	283,106	-	-	-	283,106
Cost of goods sold	1,465,720	-	-	-	1,465,720
General and administrative	852,367	1,680	14,625	9,994	878,666
Insurance	824,073	-	-	-	824,073
Legal fees	616,809	-	-	-	616,809
Bad debt expense	325,009	-	-	-	325,009
Events	316,299	-	-	-	316,299
Major repairs and replacements	-	57,431	-	3,854,849	3,912,280
	<u>23,376,448</u>	<u>59,111</u>	<u>14,625</u>	<u>3,864,843</u>	<u>27,315,027</u>
Excess (Deficiency) of revenues over expenses before depreciation	<u>(916,133)</u>	<u>458,459</u>	<u>2,929,188</u>	<u>(334,888)</u>	<u>2,136,626</u>
Depreciation	1,144,821	-	-	-	1,144,821
Excess (Deficiency) of revenues over expenses	<u>(2,060,954)</u>	<u>458,459</u>	<u>2,929,188</u>	<u>(334,888)</u>	<u>991,805</u>
OTHER COMPREHENSIVE INCOME					
Unrealized gains on invstmnts	1,056	15,829	177,304	123,109	317,298
TOTAL COMPREHENSIVE INCOME	<u>\$ (2,059,898)</u>	<u>\$ 474,288</u>	<u>\$ 3,106,492</u>	<u>\$ (211,779)</u>	<u>\$ 1,309,103</u>
FUND BALANCES, beginning of the year	\$ 16,121,948	\$ 995,508	\$ 6,720,130	\$ 7,076,533	\$ 30,914,119
COMPREHENSIVE INCOME					
Excess (Deficiency) of revenues over expenses	(2,060,954)	458,459	2,929,188	(334,888)	991,805
Unrealized gains on investments	1,056	15,829	177,304	123,109	317,298
TOTAL COMPREHENSIVE INCOME	<u>(2,059,898)</u>	<u>474,288</u>	<u>3,106,492</u>	<u>(211,779)</u>	<u>1,309,103</u>
Inter-fund transfers	3,788,600	(1,032,552)	(2,756,048)	-	-
FUND BALANCES, end of the year	<u>\$ 17,850,650</u>	<u>\$ 437,244</u>	<u>\$ 7,070,574</u>	<u>\$ 6,864,754</u>	<u>\$ 32,223,222</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, 2024

	Fund Balances, Beginning of the Year		Year Ended April 30, 2024			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/(Loss)	Total Funds
Operating Fund	\$ 16,121,948	\$ -	\$ 16,121,948	\$ (2,060,954)	\$ 1,056	\$ 3,788,600	\$ 17,849,594	\$ 1,056	\$ 17,850,650
Capital Improvement Fund	1,070,823	(75,315)	995,508	458,459	15,829	(1,032,552)	496,730	(59,486)	437,244
Repair Replacement Fund	7,187,328	(467,198)	6,720,130	2,929,188	177,304	(2,756,048)	7,360,468	(289,894)	7,070,574
Road Reserve Fund	7,373,213	(296,680)	7,076,533	(334,888)	123,109	-	7,038,325	(173,571)	6,864,754
	<u>\$ 31,753,312</u>	<u>\$ (839,193)</u>	<u>\$ 30,914,119</u>	<u>\$ 991,805</u>	<u>\$ 317,298</u>	<u>\$ -</u>	<u>\$ 32,745,117</u>	<u>\$ (521,895)</u>	<u>\$ 32,223,222</u>

CANYON LAKE PROPERTY OWNERS ASSOCIATION

STATEMENT OF CASH FLOWS

YEAR ENDED APRIL 30, 2024

	Operating Fund	Capital Improvement Fund	Repair Replacement Fund	Road Reserve Fund	Total
NET CASH FLOW FROM OPERATING ACTIVITIES					
Excess (Deficiency) of revenues over expenses	\$ (2,059,898)	\$ 474,288	\$ 3,106,492	\$ (211,779)	\$ 1,309,103
Adjustments to reconcile net revenues over expenses to net cash flow from operating activities:					
Depreciation	1,144,821	-	-	-	1,144,821
Gain on sale of assets	-	-	-	(1,390,000)	(1,390,000)
Unrealized (gain)/loss on investments	(1,056)	(15,829)	(177,304)	(123,109)	(317,298)
(Increase) Decrease in:					
Assessments and fines receivable	(130,545)	-	-	-	(130,545)
Interest receivable	-	(229)	2,827	813	3,411
Inventory	(17,560)	-	-	-	(17,560)
Prepaid expenses	(29,415)	-	-	-	(29,415)
Other assets	(6,948)	-	-	(468,561)	(475,509)
Inter-fund receivable/payable	94,401	589,981	(1,108,950)	424,568	-
Increase (Decrease) in:					
Accounts payable	139,262	-	-	-	139,262
Accrued payroll	87,401	-	-	-	87,401
Income taxes payable	244,890	-	-	-	244,890
Prepaid assessments	(217,266)	-	-	-	(217,266)
Other accrued liabilities	5,349	-	-	-	5,349
Refundable member deposits	(71,993)	-	-	-	(71,993)
Construction defect liability	-	-	-	(1,868,708)	(1,868,708)
Net cash provided (used) by operating activities	<u>(818,557)</u>	<u>1,048,211</u>	<u>1,823,065</u>	<u>(3,636,776)</u>	<u>(1,584,057)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of certificates of deposit	-	(64,926)	(4,029)	(967)	(69,922)
Sale (purchase) of investments	(448,549)	38,957	818,263	(95,819)	312,852
Proceeds from sale of assets	-	-	-	1,390,000	1,390,000
Purchase of property and equipment	<u>(3,788,600)</u>	-	-	-	<u>(3,788,600)</u>
Net cash provided (used) by investing activities	<u>(4,237,149)</u>	<u>(25,969)</u>	<u>814,234</u>	<u>1,293,214</u>	<u>(2,155,670)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Inter-fund transfers	<u>3,788,600</u>	<u>(1,032,552)</u>	<u>(2,756,048)</u>	-	-
Net cash provided (used) by financing activities	<u>3,788,600</u>	<u>(1,032,552)</u>	<u>(2,756,048)</u>	-	-
Net decrease in cash	(1,267,106)	(10,310)	(118,749)	(2,343,562)	(3,739,727)
CASH, beginning of the year	<u>6,406,034</u>	<u>16,753</u>	<u>132,869</u>	<u>2,355,102</u>	<u>8,910,758</u>
CASH, end of the year	<u>\$ 5,138,928</u>	<u>\$ 6,443</u>	<u>\$ 14,120</u>	<u>\$ 11,540</u>	<u>\$ 5,171,031</u>

**CANYON LAKE
PROPERTY OWNERS ASSOCIATION**

FINANCIAL STATEMENTS

APRIL 30, 2024

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.

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, 2024. 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 2024 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, 2024, there were no interest or penalties expense recorded and no accrued interest or penalties.

Date of Management's Review

Subsequent events have been evaluated through July 25, 2024, which is the date the financial statements were available to be issued.

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.

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. Association management has considered the Financial Accounting Standards Board (FASB) guidance on Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC) and has concluded that association members do not qualify as customers according to the definition provided in the ASC. Assessment's receivable at April 30, 2024 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 \$318 in 2024. Of that amount, \$48 was designated to the replacement fund, \$35 to the road reserve fund and \$9 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, 2024 are as follows:

Food and beverage	\$ 86,638
Gasoline - campground	<u>6,715</u>
	<u>\$ 93,353</u>

NOTE 3: CERTIFICATES OF DEPOSIT AND INVESTMENTS

Certificates of deposit and 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, corporate bonds and government securities.

The Association's certificates of deposit and investments consisted of the following at April 30, 2024:

	<u>Market Value</u>	<u>Amortized Cost Basis</u>	<u>Unrealized Gain(Loss)</u>
Certificates of deposit	<u>\$ 379,922</u>	<u>\$ 374,757</u>	<u>\$ 5,165</u>
Municipal bonds	\$ 1,407,088	\$ 1,436,514	\$ (29,426)
Corporate bonds	10,200,920	10,710,759	(509,839)
Gov't Securities	<u>2,281,031</u>	<u>2,268,925</u>	<u>12,106</u>
Total investments	<u>\$13,889,039</u>	<u>\$14,416,198</u>	<u>\$(527,060)</u>

Included in other comprehensive income are unrealized gains of \$317,298 for the year ended April 30, 2024. Included in accumulated other comprehensive income are unrealized losses of \$521,895 as of April 30, 2024.

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at April 30, 2024:

Land and improvements	\$ 13,511,436
Building	7,202,079
Machinery and equipment	2,366,368
Pools	642,130
Furniture and fixtures	748,782
Vehicles	494,778
Less: Accumulated depreciation	<u>(10,433,993)</u>
Net property and equipment	<u>\$ 14,531,580</u>

NOTE 5: RIGHT-OF-USE - 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). For the year ended April 30, 2024 the lake lease expense was \$1,732,133. Since the variable amount of the future rent payments is not determinable, the variable amounts will not be included in the measurement of the lease asset and liability. A 4% present value discount rate was used to calculate the measurement of the lease asset and liability.

The operating lease balances as of April 30, 2024, were as follows:

Operating lease – right-of-use asset	<u>\$ 34,060,519</u>
Operating lease liability	<u>\$ 34,060,519</u>

The maturities of operating lease liabilities as of June 30, 2024, are as follows:

<u>Years Ending June 30:</u>	
2025	\$ 309,606
2026	321,991
2027	334,870
2028	348,265
Thereafter	<u>\$ 32,745,787</u>
	<u>\$ 34,060,519</u>

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 completed in March 2024 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 3.5%, interest of 5.0%, and a tax rate of 30%, on amounts funded for future major repairs and replacements.

A separate study was conducted in 2022 and updated in February 2024, by pavement engineers 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 for the next ten years.

The table included on page 13 in the unaudited supplementary information on future major repairs and replacements is based on the repair and replacement study other than the roads.

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, \$2,770,000 has been included in the 2024/2025 budget for major repairs and replacements and \$1,700,000 has been included in the 2024/2025 budget for roads. 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 \$121,617 during the year ended April 30, 2024.

NOTE 8: INTER-FUND TRANSFERS

During the year ended April 30, 2024, interfund transfers consisted of \$3,788,600 of personal property and equipment purchased by the replacement fund and capital improvement 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.

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

APRIL 30, 2023

(UNAUDITED)

The Board of Directors engaged an outside consultant to conduct a study completed in June 2021, 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 3.0%, interest of 0.5%, and a tax rate of 30%, on amounts funded for future major repairs and replacements.

A separate study was conducted by pavement engineers to estimate the timing and cost of future repairs and replacements for 36 miles of 2-way common streets within the Association. It is estimated that the estimated replacement cost from 2022 – 2030 is \$25,400,000.

The following table is based on the repair replacement study and presents significant information about the components of common property other than the roads.

Components	Estimated Remaining Useful Lives (In Years)	Estimated Current Replacement Costs
Administration Building	0 – 23	\$ 1,479,695
Bluebird Hall	0 – 11	146,240
Campground	0 – 46	1,167,683
Country Club	0 – 20	912,180
Diamond Point	0 – 10	14,450
Docks	0 – 19	1,252,505
East Port	0 – 37	723,644
Entry Gates	0 – 25	1,425,282
Equestrian Center	0 – 23	830,966
Fairway Estates	0 – 28	128,750
Gault Field	0 – 23	555,590
Golf Course	0 – 27	6,925,536
Grounds	0 – 49	1,730,300
Holiday Harbor	0 – 22	510,800
Indian Beach	0 – 20	239,770
Lake	0 – 14	3,983,350
Lodge	0 – 24	2,130,723
Operations	0 – 26	221,568
Park Areas	0 – 29	783,239
Pool Area	0 – 34	726,254
Senior Center	0 – 21	268,401
Ski Slalom	0 – 22	51,409
Tennis Center	1 - 29	260,758
Vehicles	0 - 13	1,628,000
		<u>\$ 28,097,093</u>



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