



Canyon Lake Property Owners Association Annual Report

**Audit Report, Financial Statements and
Supplementary Information
For The Year Ended April 30, 2011**

PRESIDENT'S REPORT

A Year of Change

The following is a message from President Chuck Newsom:

I was elected to the Board of Directors in May of 2010. I was elected President of the Board in June of 2010. I served the past year with Vice President- Dave Johnston, Treasurer- Michelle Gordon, Secretary- Paul Chenette, and Director Steve Salazar. It was my privilege to serve with these individuals and their dedication and thoughtfulness was and is appreciated.

Canyon Lake was in a period of transition when I was elected President. The prior Board had just accepted the resignation of General Manager Clint Warrell. The prior Board hired Management Partners (March 2010) to help stabilize the situation in Canyon Lake. Management Partners brought in Dave Rudat and Jovan Grogan to begin the process of reorganization. Mr. Rudat a former City Manager, has a BS degree in Accounting and a Masters Degree in Public Administration from USC, along with 38 years of experience in Municipal and County government, of which 13 were as a City Manager. Mr. Grogan, a Cornell graduate, with a BA in Urban Studies and a Masters in Regional Planning. Mr. Grogan also severed as a local government consultant for four years and has prior experience as a special assistant to the Tompkins County Administrator in upstate New York. Mr. Rudat was named General Manager and Mr. Grogan as Assistant General Manager. I commend the prior Board of Directors for their selection of these gentlemen to help Canyon Lake to begin a total reorganization. When I was elected this process was underway and I considered it my responsibility to provide the stability to allow this reorganization to continue.

This concept of stability was not easy at times. I have listed below the accomplishments of the POA Board and Dave and Jovan by quarter to give you an idea of the complexity of the situation and the fine performance of the Board of Directors and the POA Management.

1st Fiscal Quarter: May thru July 2010

1. Competitive Bid and Contract award for a new Auditor: An RFP was released, interviews were conducted, and a new auditor was hired.
2. Competitive bid and contract award for a new Inspector of Election: The prior Inspector of Election was the Auditor. The Board felt that these functions should be separate, especially after a contested election. A RFP was written, interviews held and a new Inspector of Election was hired.
3. Installation of additional security cameras at the Country Club.
4. New internal controls, spending authority, and check signing practices: Part of the reorganization was to get some type of spending protocol for POA Management. Clear spending authority was established and signing authority was relegated to the Board, with every check requiring the signature of at least one member of the Board.
5. Ongoing evaluation and meetings on a new management system that was needed. Canyon Lake current technology is outdated and very costly to maintain and use. The process of replacing this was actually started with the prior Board and continued into the 1st quarter. Actual vetting of the VMS system began in the 1st quarter.
6. Competitive bidding process for Golf Professional: This process was begun in the 1st qtr. Bids were received and reviewed during the 1st quarter. The Golf Pro RFP committee was busy with reviewing the bids and narrowing down the candidates to present to the Board.

This took place amidst the contentious behavior of some in the Golf Community that did not want to replace the current Professional.

2nd Fiscal Quarter: August thru October 2010 :

1. Contract awarded to a new Golf Professional: The 2nd quarter was one of turmoil surrounding the process of hiring a Golf Professional. The process was moving forward and a decision was made in September 2010 to replace the current Professional with a new one.
2. Began interior updates at the Lodge that included TV's, bar and patio furniture: This was in preparation of the reopening of the Lodge Bar and Restaurant.
3. Actual reopening of Lighthouse Bar and Grill: This was accomplished for the start of the NFL season in September of 2010. The opening was a rousing success and the new era of the Lodge Restaurant had begun.
4. The initial planning and implementation stages of road construction from the Main Gate to the North Gate.
5. The sale of surplus equipment and vehicles.
6. The installation of a new Point of Sale system throughout the community. This was a much needed improvement and required many hours of research to determine which system was the best for our needs and would be compatible with our new management and accounting system.

3rd Fiscal Quarter: November 2010 thru January 2011:

1. Competitive bid, contract award and completion of a three year Pavement Management Program. This is a very important process in the on going maintenance of our roads.
2. Completion of the new road from the Main Gate to the North Gate. The construction went smoothly with minimal disruption to Canyon Lake residents.
3. Beginning the process of coordination and training of Committee Chairpersons.
4. Re-opening of the Lodge Catering operation: One of the Board objectives was to start again the catering services for club and outside functions. This was accomplished in the 3rd quarter.
5. The review of the Reserve Fund disbursements for the last two fiscal years. The new Auditors, Nigro&Nigro, at the direction of the General Managers to audit past reserve fund disbursements, because of the request of some community members. As a note, while minor record keeping issues were discovered, the report reveals no inappropriate transactions.
6. Starting of the Classification and Compensation Study for senior managers.
7. Hired a software specialist that was familiar with our management operating system. This individual will be responsible for the data sample and transfer to VMS. This is necessary to begin testing of VMS.
8. New budget process conceptualized and implemented by Dave Rudat and Jovan Grogan. This process consisted of four budget workshops open to the community. These workshops were completed before the end of the year.

4th Fiscal Quarter: February thru April 2011

1. Completion of the Classification and Compensation Study for senior managers. This study was old and needed to be updated to insure the POA Management was being paid at competitive rates with the market. This was completed in March of 2011.
2. Competitive bid and contract award for Legal Counsel. The contract of our current legal counsel had expired before the end of the quarter. The RFP was written, sent out, and evaluated. Interviews were held and the Board decided to hire a new attorney.
3. Development of the 2011/2012 Operating and Capital Improvement Project Budgets.
4. Recruitment and hiring of a new Director of Finance. With the budget process now completed the process for the hiring of a new Director of Finance started. The recruitment letter was sent out, resumes were received and candidates were interviewed. A new Director of Finance was hired in May of 2011.
5. Recruitment and hiring of a manager for the Lodge and Country Club food operations.
6. Ongoing data transfer of Canyon Lake data to VMS is completed and now ready for testing after approval by the new board.

As you can see, the past year was a very busy and successful one. The reorganization was in full swing and many well thought out changes were made and implemented. The Board wanted to ensure that this process continued, so they asked Dave and Jovan to develop a scope of work, and objective plan, for the next six months. Many of these objectives were in the initial phases before the new Board was seated in June of 2011. This is not an all-inclusive list and most certainly will be changed and modified. But it is a guideline to kick off the new 2011-2012 Board calendar.

List of objectives to ensure the reorganization process into the new Board year:

- Administer a comprehensive review of the CLPOA Rules and Regulations.
- Direct technology improvements (i.e. replacement of accounting system and server upgrades).
- Implement a strategic planning process for existing and new capital projects.
- Improve customer service with regard to patrol citations and rule violations.
- Manage competitive bid process for expiring contracts and maintenance projects. (i.e. community patrol contract, road engineering services, and new gate cameras)
- Oversee capital improvement projects included in the 2011/2012 budget.
- Oversee the completion of the Classification and Compensation study for all positions.
- Review proposals and oversee the development of an updated Reserve Study.
- Transition corporate, HR and collection legal services to the new legal counsel.

What is added and taken away from the above list is yet to be seen. But I look forward to serving my term on the Board as a Director. I thank all those in Canyon Lake for the support, and urge that everyone become involved in the governance process of your Community.

*Chuck Newsom
POA President 2010-2011*

NOTICE ON PRINTING OF THE ANNUAL COMMITTEE REPORTS

The Annual Committee Reports are no longer going to be published and printed as part of the Canyon Lake Property Owners Association Audit Report, Financial Statement and Supplementary Information Report.

As of this year, the Canyon Lake Property Owners Association will be printing the Annual Committee Reports in the POA Section of the Friday Flyer. They will be printed in a designated 'Committee Reports' section

of the Friday Flyer each week, throughout the month of September, to highlight all of the accomplishments and efforts the committees have completed throughout the past fiscal year.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

We have audited the accompanying balance sheet of Canyon Lake Property Owners Association, for the fiscal year ended April 30, 2011 and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 financial statements are free of material misstatement. An audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our

audit provides a reasonable basis for our 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 for the fiscal year ended April 30, 2011, 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. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit. The Supplemental Information on Replacement Fund Balances included in the accompanying schedule is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The Supplemental Information on Operating Fund Functional Expenses is presented for purposes of additional analysis and is not required as part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nigro & Nigro, PC
A Professional Accountancy Corporation
August 19, 2011

CANYON LAKE PROPERTY OWNERS ASSOCIATION BALANCE SHEET

| | Operating Fund | Repair Replacement Reserve | Road Reserve | Community Facilities Fund | Total Funds |
|--|---------------------|----------------------------------|---------------------|---------------------------------|----------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash | \$ 5,750 | \$ - | \$ - | \$ - | \$ 5,750 |
| Investments | - | 6,766,892 | 4,306,557 | 978,896 | 12,052,345 |
| Assessments and Fines Receivable, Net of Allowance | 1,357,195 | - | - | 566,837 | 1,924,032 |
| Interest Receivable | - | - | - | 146,936 | 146,936 |
| Other Receivables | 618 | - | - | - | 618 |
| Inventory | 52,970 | - | - | - | 52,970 |
| Prepaid Expenses | 515,950 | - | - | - | 515,950 |
| Other Assets | 193,615 | - | - | - | 193,615 |
| Due To / From Other Funds | (122,719) | 181,915 | 53,069 | (112,265) | - |
| Noncurrent Assets | | | | | |
| Capital Assets, Net of Depreciation | 6,755,752 | - | - | - | 6,755,752 |
| Total Assets | \$ 8,759,131 | \$ 6,948,807 | \$ 4,359,626 | \$ 1,580,404 | \$ 21,647,968 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Current Liabilities | | | | | |
| Accounts Payable | \$ 539,810 | \$ - | \$ - | \$ - | \$ 539,810 |
| Notes Payable Due Within One Year | 58,067 | - | - | - | 58,067 |
| Accrued Payroll and Related Items | 228,962 | - | - | - | 228,962 |
| Other Accrued Liabilities | 160,000 | - | - | - | 160,000 |
| Prepaid Assessments / Deferred Revenue | 1,668,220 | - | - | - | 1,668,220 |
| Refundable Member Deposits | 203,400 | - | - | - | 203,400 |
| Sales Tax Payable | 3,862 | - | - | - | 3,862 |
| Other Deferred Revenue | 160,513 | - | - | - | 160,513 |
| Noncurrent Liabilities | | | | | |
| Notes Payable Due After One Year | 602,478 | - | - | - | 602,478 |
| Total Liabilities | 3,625,312 | - | - | - | 3,625,312 |
| Fund Balances | 5,133,819 | 6,948,807 | 4,359,626 | 1,580,404 | 18,022,656 |
| Total Liabilities and Fund Balances | \$ 8,759,131 | \$ 6,948,807 | \$ 4,359,626 | \$ 1,580,404 | \$ 21,647,968 |

See Auditor's Report
The Notes to Financial Statements Are An Integral Part of This Statement

CANYON LAKE PROPERTY OWNERS ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

| | Operating Fund | Repair Replacement Reserve | Road Reserve | Community Facilities Fund | Total Funds |
|--|---------------------|----------------------------------|---------------------|---------------------------------|----------------------|
| REVENUES | | | | | |
| Assessments | \$ 7,858,000 | \$ 1,400,000 | \$ 1,700,000 | \$ 850,000 | \$ 11,808,000 |
| Interest Income | 25,036 | - | - | 228,127 | 253,163 |
| Administrative Fees | 1,154,209 | - | - | - | 1,154,209 |
| Architectural and Building Fees | 118,393 | - | - | - | 118,393 |
| Sales and User Fees | 2,646,771 | - | - | - | 2,646,771 |
| Lake Lease Income | 377,139 | - | - | - | 377,139 |
| Other Income | - | - | - | 438,710 | 438,710 |
| Total Revenues | <u>12,179,548</u> | <u>1,400,000</u> | <u>1,700,000</u> | <u>1,516,837</u> | <u>16,796,385</u> |
| EXPENSES | | | | | |
| Salaries and Related Expenses | 3,694,672 | - | - | - | 3,694,672 |
| Outside Services | 4,037,368 | - | - | - | 4,037,368 |
| Lake Lease | 1,227,475 | - | - | - | 1,227,475 |
| Utilities | 810,281 | - | - | - | 810,281 |
| Repairs and Maintenance | 353,880 | - | - | - | 353,880 |
| Supplies | 419,642 | - | - | - | 419,642 |
| Rental Equipment | 39,384 | - | - | - | 39,384 |
| Property Taxes | 14,841 | - | - | - | 14,841 |
| Cost of Goods Sold | 514,465 | - | - | - | 514,465 |
| General and Administrative | 481,387 | - | - | - | 481,387 |
| Insurance | 163,652 | - | - | - | 163,652 |
| Legal Fees | 231,242 | - | - | 340,421 | 571,663 |
| Bad Debt | - | - | - | 632,121 | 632,121 |
| Events | 143,371 | - | - | - | 143,371 |
| Income Taxes | 3,159 | - | - | - | 3,159 |
| Building Note | 46,592 | - | - | - | 46,592 |
| Contingency | 5,335 | - | - | - | 5,335 |
| Major Repairs and Replacements | - | 233,297 | 2,846,726 | 387,586 | 3,467,609 |
| Total Expenses | <u>12,186,746</u> | <u>233,297</u> | <u>2,846,726</u> | <u>1,360,128</u> | <u>16,626,897</u> |
| Excess (Deficit) of Revenues | | | | | |
| Over (Under) Expenses Before Depreciation and Interfund Transfers | (7,198) | 1,166,703 | (1,146,726) | 156,709 | 169,488 |
| Depreciation | (347,205) | - | - | - | (347,205) |
| Interfund Transfers | 976,047 | - | - | (976,047) | - |
| Net Change in Fund Balances | 621,644 | 1,166,703 | (1,146,726) | (819,338) | (177,717) |
| Fund Balances, Beginning of Year | <u>4,512,175</u> | <u>5,782,104</u> | <u>5,506,352</u> | <u>2,399,742</u> | <u>18,200,373</u> |
| Fund Balances, End of Year | <u>\$ 5,133,819</u> | <u>\$ 6,948,807</u> | <u>\$ 4,359,626</u> | <u>\$ 1,580,404</u> | <u>\$ 18,022,656</u> |

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CANYON LAKE PROPERTY OWNERS ASSOCIATION

STATEMENT OF CASH FLOWS

| | Operating Fund | Repair Replacement Reserve | Road Reserve | Community Facilities Fund | Total Funds |
|---|-------------------|----------------------------------|--------------------|---------------------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Excess (Deficiency) of Revenues Over Expenses | \$ (354,403) | \$ 1,166,703 | \$ (1,146,726) | \$ 156,709 | \$ (177,717) |
| Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities | | | | | |
| Depreciation Expense | 347,205 | - | - | - | 347,205 |
| Change in Assets and Liabilities | | | | | |
| Change in Assessments Receivable | (308,353) | - | - | 34,782 | (273,571) |
| Change in Interest Receivable | - | - | - | (8,663) | (8,663) |
| Change in Other Receivables | 29,972 | - | - | - | 29,972 |
| Change in Inventory | (24,803) | - | - | - | (24,803) |
| Change in Prepaid Expenses | 69,139 | - | - | - | 69,139 |
| Change in Other Assets | 9,765 | - | - | - | 9,765 |
| Change in Accounts Payable | 211,141 | - | - | - | 211,141 |
| Change in Note Payable | (54,288) | - | - | - | (54,288) |
| Change in Accrued Payroll and Related Items | 31,025 | - | - | - | 31,025 |
| Change in Other Accrued Liabilities | 160,000 | - | - | - | 160,000 |
| Change in Refundable Member Deposits | (3,139) | - | - | - | (3,139) |
| Change in Prepaid Assessments / Deferred Revenue | 13,891 | - | - | - | 13,891 |
| Change in Sales Taxes Payable | (1,969) | - | - | - | (1,969) |
| Change in Other Deferred Revenue | (239,872) | - | - | - | (239,872) |
| Total Adjustments | 239,714 | - | - | 26,119 | 265,833 |
| Net Cash Provided (Used) By Operating Activities | (114,689) | 1,166,703 | (1,146,726) | 182,828 | 88,116 |
| CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES | | | | | |
| Net Change in Investments | - | (1,963,150) | 1,009,023 | (978,896) | (1,933,023) |
| Net Change in Fixed Assets | (122,719) | - | - | - | (122,719) |
| Net Cash Provided (Used) By Investing Activities | (122,719) | (1,963,150) | 1,009,023 | (978,896) | (2,055,742) |
| CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES | | | | | |
| Due Between Funds | (738,639) | (181,915) | (53,069) | 973,623 | - |
| Transfers Between Funds | 976,047 | - | - | (976,047) | - |
| Net Cash Provided (Used) By Financing Activities | 237,408 | (181,915) | (53,069) | (2,424) | - |
| Net Increase (Decrease) in Cash | - | (978,362) | (190,772) | (798,492) | (1,967,626) |
| CASH AT BEGINNING OF YEAR | 5,750 | 978,362 | 190,772 | 798,492 | 1,973,376 |
| CASH AT END OF YEAR | \$ 5,750 | \$ - | \$ - | \$ - | \$ 5,750 |
| SUPPLEMENTAL DISCLOSURE | | | | | |
| Interest Paid | \$ 46,592 | \$ - | \$ - | \$ - | \$ - |

*See Auditor's Report
The Notes to Financial Statements Are An Integral Part of This Statement*

CANYON LAKE PROPERTY OWNERS ASSOCIATION

SUPPLEMENTAL INFORMATION ON OPERATING FUND FUNCTIONAL EXPENCES

| | Corporate | Lake Operations | Member Operations | Member Services | Planning & Compliance | Community Patrol | Activities | Equestrian Center | Campground | Golf Course | Lighthouse | Country Club | Total |
|---|---------------------|--------------------|----------------------|--------------------|--------------------------|---------------------|------------------|----------------------|------------------|-------------------|--------------------|---------------------|---------------------|
| REVENUES | | | | | | | | | | | | | |
| Assessments | \$ 1,233,374 | \$ 1,060,544 | \$ 2,705,410 | \$ (58,380) | \$ 101,675 | \$ 1,216,500 | \$ 360,455 | \$ 113,062 | \$ 44,340 | \$ 858,650 | \$ 11,086 | \$ 211,284 | \$ 7,858,000 |
| Interest Income | 25,036 | . | . | . | . | . | . | . | . | . | . | . | 25,036 |
| Administrative Fees | 751,594 | . | . | 342,245 | 60,370 | . | . | . | . | . | . | . | 1,154,209 |
| Architectural and Building Fees | . | . | . | . | 118,393 | . | . | . | . | . | . | . | 118,393 |
| Sales and User Fees | . | 462,077 | 22,370 | 160,862 | . | . | 42,157 | 151,962 | 220,349 | 706,174 | 254,963 | 625,857 | 2,646,771 |
| Other Income | 16,321 | . | 16,854 | 1,979 | 158,000 | 156,000 | 23,426 | 4,050 | . | . | . | 509 | 377,139 |
| Total Revenues | 2,026,325 | 1,522,621 | 2,744,634 | 446,706 | 438,438 | 1,372,500 | 426,038 | 269,074 | 264,689 | 1,564,824 | 266,049 | 837,650 | 12,179,548 |
| EXPENSES | | | | | | | | | | | | | |
| Salaries and Related Expenses | 543,133 | 148,732 | 1,429,281 | 272,955 | 335,694 | . | 148,812 | 122,934 | 68,875 | . | 148,284 | 475,970 | 3,694,672 |
| Outside Services | 792,880 | 130,743 | 538,762 | 3,414 | 24,323 | 1,248,319 | 43,787 | 50,057 | 12,708 | 1,119,840 | 16,647 | 55,888 | 4,037,368 |
| Lake Lease | . | 1,227,475 | . | . | . | . | . | . | . | . | . | . | 1,227,475 |
| Utilities | 89,664 | . | 357,682 | 390 | 2,438 | 14,619 | 62,078 | 22,501 | 34,306 | 190,691 | 1,462 | 34,450 | 810,281 |
| Repairs and Maintenance | 6,465 | 49,987 | 175,853 | . | 1,461 | 6,049 | 13,632 | 12,630 | 8,847 | 50,602 | 6,771 | 21,583 | 353,880 |
| Supplies | 54,770 | 27,487 | 98,002 | 31,718 | 11,568 | 40,328 | 35,389 | 9,132 | 7,440 | 21,655 | 20,970 | 61,185 | 419,642 |
| Rental Equipment | 19,765 | 394 | 13,727 | . | . | . | . | 1,625 | 2,080 | 542 | (1,500) | 2,751 | 39,384 |
| Property Taxes | 14,841 | . | . | . | . | . | . | . | . | . | . | . | 14,841 |
| Cost of Goods Sold | . | . | . | . | . | . | . | 58,175 | 91,637 | . | 82,167 | 282,486 | 514,465 |
| General and Administrative | 250,205 | 727 | 25,313 | 1,900 | 51,594 | . | 2,540 | . | 6,811 | 36,819 | 26,514 | 78,964 | 481,387 |
| Insurance | 163,652 | . | . | . | . | . | . | . | . | . | . | . | 163,652 |
| Legal Fees | 217,460 | . | . | . | 13,783 | . | . | . | . | . | . | . | 231,242 |
| Events | 49,789 | 18,419 | 1,224 | 162 | . | . | 31,630 | . | . | . | 22,125 | 20,022 | 143,371 |
| Income Taxes | 3,159 | . | . | . | . | . | . | . | . | . | . | . | 3,159 |
| Building Note | 46,592 | . | . | . | . | . | . | . | . | . | . | . | 46,592 |
| Contingency | 5,335 | . | . | . | . | . | . | . | . | . | . | . | 5,335 |
| Total Expenses | 2,257,710 | 1,603,964 | 2,639,844 | 310,539 | 440,861 | 1,309,315 | 337,868 | 277,054 | 232,704 | 1,420,149 | 323,440 | 1,033,299 | 12,186,746 |
| Excess (Deficit) of Revenues Over Expenses Before Depreciation | (231,385) | (81,343) | 104,790 | 136,167 | (2,423) | 63,185 | 88,170 | (7,980) | 31,985 | 144,675 | (57,391) | (195,650) | (7,198) |
| Depreciation | (347,205) | . | . | . | . | . | . | . | . | . | . | . | (347,205) |
| Excess (Deficit) of Revenues Over Expenses | \$ (578,590) | \$ (81,343) | \$ 104,790 | \$ 136,167 | \$ (2,423) | \$ 63,185 | \$ 88,170 | \$ (7,980) | \$ 31,985 | \$ 144,675 | \$ (57,391) | \$ (195,650) | \$ (354,403) |

*See Auditor's Report
The Notes to Financial Statements Are An Integral Part of This Statement*

CANYON LAKE PROPERTY OWNERS ASSOCIATION

SUPPLEMENTAL INFORMATION ON

FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association conducted a reserve study dated September 2008 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were estimated from published manuals such as construction estimators, appraisal handbooks, and valuation guides.

A separate study was conducted by a licensed engineer to estimate the timing and cost of future repairs and replacements for 36 miles of 2-way common streets within the Association to estimate the remaining useful lives of the common streets. The replacement costs were estimated from published guidelines. As a note, the Association has entered into a contract and is currently conducting a new study as of the date of this report.

Funding has been provided using a cash flow methodology with provisions for interest earnings, and no provisions for inflation or taxes, and the funding is updated annually by management.

Significant information about the components of common property derived from the reserve study is as follows:

| Components | Estimated Remaining Useful Life (Years) | Estimated Future Replacement Costs |
|--|---|---------------------------------------|
| Docks/Ramps/Lake | 2-20 | \$ 2,493,998 |
| Equipment- Food & Beverage | 4-24 | 142,050 |
| Equipment- Mechanical | 1-38 | 693,950 |
| Equipment-Office/ Computers | 0-13 | 590,000 |
| Equipment-Playground | 3-12 | 188,850 |
| Exterior-Buildings | 1-30 | 547,740 |
| Facilities | 2-30 | 1,828,451 |
| Fences/Signs | 0-30 | 1,199,700 |
| Flooring | 1-26 | 443,864 |
| Furnishings | 0-20 | 530,719 |
| Grounds | 0-26 | 1,945,745 |
| Interior-Building | 2-24 | 860,880 |
| Paths/Walkways/Parking Lots | 0-24 | 1,989,198 |
| Vehicles/Boats | 0-18 | 1,245,000 |
| Total | | 14,700,145 |
| Roads | 0-40 | 16,700,000 |
| Total | | \$ 31,400,145 |
| Designated for Repairs and Replacements at April 30, 2011 | | \$ 11,308,433 |

CANYON LAKE PROPERTY OWNERS ASSOCIATION

NOTES ON FINANCIAL STATEMENT

NOTE 1 - ORGANIZATION

Canyon Lake Property Owners Association (the Association) was incorporated May 3, 1968 as a California nonprofit corporation. The Association is responsible for the operation and maintenance of the common areas of a 4,800 lot planned development in Canyon Lake, California. Association activities are governed by the Association's governing documents. The Association is controlled by a member-elected Board of Directors, all of whom serve on a voluntary basis. The Association is managed by a general manager and supporting staff.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

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

Operating Fund: This fund is used to account for all current operating transactions of the Association.

Repair & Replacement Fund: This fund is used to account for member capital contributions and Association disbursements necessary to provide for the future repair, replacement and improvement of Association property, facilities and common areas.

Road Reserve: This fund is used to account for disbursements necessary to provide for the future repairs and replacement for common streets within the Association.

Community Facilities Fund: This fund is used to account for the accumulation and expenditure of funds for projects designated by the Board of Directors, consisting primarily of parks and recreation facilities.

Member Assessments

Each property owner is subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments are determined annually during the budget process based on the Association's fiscal year.

Assessments Receivable

Assessments receivable as reflected in the financial statements are from members whose units are located within the City of Canyon Lake. A provision has been made for bad debts, using the allowance method. The Association has the right to levy liens on a member's property to insure payment of amounts due the Association. At April 30, 2011, the Association had delinquent assessments of \$1,682,994 and delinquent fines of \$1,133,673. Management states that the past history indicates that the Association will ultimately prevail against eighty percent of the members with delinquent assessments and fifty percent of members with delinquent fines. Accordingly, a twenty percent and fifty percent allowance for uncollectible accounts is deemed necessary.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash includes cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less. The Association maintains bank accounts at financial institutions within the counties of Riverside and Los Angeles.

Investments

Investments consist of Certificates of Deposit and Municipal Bonds recorded at amortized cost. Based on the past investing history and the current intentions of Management these securities are classified as "Held to Maturity" for purposes of Statement of Financial Accounting Standards No. 115. These investments mature at dates ranging from June 2010 to June 2040 with interest rates ranging from 3.0% to 6.75%. The amortized cost of these investments held at April 30, 2011, was \$12,052,345. Investments are classified as designated funds. The unrealized gain at April 30, 2011 was \$148,520.

Inventories

Inventories consist primarily of food and beverage at the restaurants, gasoline at the campground and horse feed at the equestrian center. Inventory is stated at the lower of first-in, first-out cost or market, using a standard cost method.

Property and Equipment

Common areas are restricted to use by Association members, their tenants, and guests. The Association is responsible for the preservation and maintenance of the common areas. Personal property acquired by the Association is capitalized at cost and depreciated over the estimated useful life of the item purchased, ranging from three to forty years, using the straight-line method of depreciation.

Real property capitalized on the balance sheet of the Association includes the golf course and related improvements, buildings, the equestrian center, campground improvements, and the marina and related improvements. These assets are related either to the production of income to the Association or are severable and saleable at the Board of Directors' discretion. Real property not capitalized on the balance sheet of the Association includes the roads, administrative and maintenance buildings, parks, and greenbelts. Replacements and improvements to this property and common areas are not capitalized, as they are either not directly related to the production of income to the Association, or are not severable and saleable at the Board of Directors' discretion.

The following summarizes capital assets recorded as of April 30, 2011:

| Description | Amount |
|--|--------------|
| Land and Improvements | \$ 6,705,585 |
| Buildings | 3,807,077 |
| Machinery and Equipment | 1,729,802 |
| Pool | 394,913 |
| Furniture and Fixtures | 643,449 |
| Vehicles | 568,597 |
| Total Cost of Property and Equipment | 13,849,423 |
| Less Accumulated Depreciation | (7,093,671) |
| Net Property and Equipment at April 30, 2011 | \$ 6,755,752 |

Construction Deposits

The Association collects deposits from property owners of contractors (builders) when builders apply for a building permit. The purpose of the deposit is to ensure compliance with Association rules and regulations. The deposit is refunded when the builders apply for the refund and the Association verifies compliance. This is the required method of accounting for the Association for financial reporting purposes.

Income Taxes

The Association is classified as a non-exempt membership organization for both federal and state income tax purposes. Under this method of taxation, the Association is required to classify its taxable income and deductions between member activities, non-member activities, and capital transactions (for capital replacement fund components). The Association is subject to specific rulings and regulations applicable to non-exempt membership organizations.

For federal tax purposes, the Association is taxed on all net income from non-member activities reduced only by losses from non-member activities for which a profit motive exists. Non-member income may not be offset by member losses, and any net member losses may only be carried forward to offset member income of future tax periods. Any net member income not applied to the subsequent tax year is subject to taxation. The Association files Form 1120, with tax rates applicable to Association net taxable income based on a graduated rate table of 15% to 39%.

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

For the fiscal year ended April 30, 2011, the Association incurred no Federal taxes and State taxes of \$3,159.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The Association's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when received, and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed. This is the required method of accounting for the Association for financial reporting purposes.

Lines of Business

The Association conducts only one line of business, which is providing management and recreation services to its members. This consists primarily of maintenance of the common areas and related administrative functions.

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for the replacement and improvements of its common areas and for general operations. Such funds are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such items are needed.

It is the Association's policy to fund its reserves on a monthly basis. The Association annually reviews its reserve funding program. The last review was performed as part of the budget process for the current year. California Civil Code Section 1365 et seq. mandates certain requirements for disclosure of the reserve funding program by the Association to its members. The Association believes that it has complied in all material respects with these requirements.

Actual expenditures may vary from estimated amounts and variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. The Association updates cost data annually.

Cash balances in amounts equal to the designated capital reserves represent cash designated for this purpose only.

NOTE 4 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The Association maintains bank accounts at various financial institutions. Some accounts are not federally insured or have balances which exceed the federally insured amount of \$250,000. This is considered necessary due to the high volume of operating transactions.

The majority of the Association's investments are in long term local government bonds of governmental entities within the state of California. The brokerage account is insured by the Securities Investors Protection Corporation (SIPC).

NOTE 5 - EMPLOYEE BENEFIT PLAN

The Association has a 401(k) defined contribution plan (the "Plan") which covers all employees who have completed at least 1,000 hours of service within a 12 consecutive month period. Employees qualify for benefits upon reaching the age of 65. For the employer portion, employees become 25% vested after two years of service, 75% vested after three years, and 100% after four years. The Association may make a discretionary matching contribution not to exceed 4% of an employee's gross pay per pay period. The Association made matching contributions of \$61,915 during the year ended April 30, 2011. The Association may also make a discretionary contribution based on the amount of excess assessments and other revenues over expenses for each plan year which, when combined with the matching contribution, may not exceed 15% of an employee's annual compensation. The Association made no such contribution to the Plan for the year ended April 30, 2011.

NOTE 6 - OPERATING LEASE

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

Future minimum lease expenses for the operating lease, if options are exercised (assuming the option through December 21, 2066 is exercised at the base rate of \$65,800 and excluding the "cost increase sum", which is not determinable for future years at this time), are \$3,619,000.

The "cost increase sum" amount is anticipated to continue in future years, and the amount paid in August 2010 was \$1,118,830. This payment covers the period from September 1, 2010 through August 31, 2011. The Association has accrued a prepaid expense for the four month portion of the lease covering May 1, 2010 through August 31, 2011.

NOTE 7 - NOTE PAYABLE

The Association purchased the building which houses the Association's accounting and administrative offices in 2004 for \$1,310,332, subject to a \$950,000 note payable, with interest at a rate of 6.75% per annum. The terms of the note call for monthly payments of \$8,407 for 8 years, beginning January 2005, and ending December 28, 2012, at which time the entire unpaid principal balance, together with interest due thereon, shall become due and payable. The outstanding balance as of April 30, 2011 is \$660,545. Future payments are as follows:

| Year Ending April 30, | Principal | Interest | Total |
|--------------------------|------------|-----------|------------|
| 2012 | \$ 58,067 | \$ 42,812 | \$ 100,879 |
| 2013 | 602,478 | 26,312 | 628,790 |
| Total | \$ 660,545 | \$ 69,124 | \$ 729,669 |

NOTE 8 - CONTINGENCIES

A. Litigation

The Association is involved in various legal matters. In the opinion of legal counsel, the Association does not anticipate that the outcome of any litigation will have a material impact on the financial statements.

B. Sales Tax Audit

The State Board of Equalization has performed an audit of the association's sales tax returns and has preliminarily determined the association owes \$29,310. Although the association plans to appeal the Board's decision, at the time of closing the books, an accrual of \$60,000 was established to account for the possible contingency.