LAKE MISSION VIEJO ASSOCIATION

Audited Financial Statements

For The Year Ended December 31, 2025

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lake Mission Viejo Association

Opinion

We have audited the accompanying financial statements of Lake Mission Viejo Association (a California corporation), which comprise the balance sheet as of December 31, 2025, and the related statements of revenue, expenses and association funds, 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 Lake Mission Viejo Association as of December 31, 2025, 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 Lake Mission Viejo 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 Lake Mission Viejo Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Future Major Repairs and Replacement

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 replacement as discussed in Note 3 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

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. Misstatements 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 Lake Mission Viejo 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 Lake Mission Viejo 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.

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements of common property 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, 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.

Owens, Moskowitz and Associates, Inc.

April 28, 2026

Owens, Moskowitz and Associates, Inc.

LAKE MISSION VIEJO ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2025

	OPERATING FUND	REPLACEMENT FUND	CAPITAL EXPANSION FUND	CONTINGENCY FUND	TOTAL
		ASSETS			
Cash	$ 1,358,804	$ 1,052,814	$ 362,261	$ 128,616	$ 2,902,495
Investments	779,000	7,300,000	3,000,000	249,000	11,328,000
Assessments receivable	311,521	-	-	-	311,521
Less: allowance for doubtful accounts	(303,308)	-	-	-	(303,308)
Interest receivable	73,433	-	-	-	73,433
Prepaid expenses	55,957	-	-	-	55,957
Prepaid insurance	306,053	-	-	-	306,053
Inventory	12,335	-	-	-	12,335
Total Assets	**$ 2,593,795**	**$ 8,352,814**	**$ 3,362,261**	**$ 377,616**	**$ 14,686,486**
		LIABILITIES AND ASSOCIATION FUNDS			
Liabilities					
Accounts payable	$ 162,877	$ -	$ -	$ -	$ 162,877
Prepaid assessments	2,165,894	-	-	-	2,165,894
Clubhouse deposits	15,912	-	-	-	15,912
Deferred assessments (Assessments received in advance - replacement fund)	-	8,352,814	-	-	8,352,814
Accrued payroll/vacation	238,127	-	-	-	238,127
Total Liabilities	**2,582,810**	**8,352,814**	**-**	**-**	**10,935,624**
Commitments	-	-	-		-
Association funds (deficit)	**10,985**	**-**	**3,362,261**	**377,616**	**3,750,862**
Total Liabilities & Association Funds	**$ 2,593,795**	**$ 8,352,814**	**$ 3,362,261**	**$ 377,616**	**$ 14,686,486**

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

LAKE MISSION VIEJO ASSOCIATION
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	OPERATING FUND	REPLACEMENT FUND	CAPITAL EXPANSION FUND	CONTINGENCY FUND	TOTAL
REVENUE					
Assessments	$ 7,491,971	$ 824,253	$ 100,000	$ -	$ 8,416,224
Price adjustment-credit loss recovery	(3,064)	-	-	-	(3,064)
Lake frontage fees	84,964	-	-	-	84,964
Passes/permits	161,117	-	-	-	161,117
Interest income	510,435	-	-	-	510,435
Boat rental/storage	345,983	-	-	-	345,983
Contract programs	46,040	-	-	-	46,040
Facility usage fees	174,303	-	-	-	174,303
Recreation/sales/concerts	174,554	-	-	-	174,554
Other income	702,437	-	-	-	702,437
Total Revenue	**9,688,740**	**824,253**	**100,000**	**-**	**10,612,993**
EXPENSES					
Landscape maintenance	345,272	-	-	-	345,272
Administrative	351,771	-	-	-	351,771
Legal and audit	244,131	-	-	-	244,131
Insurance	484,094	-	-	-	484,094
Concerts and special events	843,439	-	-	-	843,439
Computer expenses	111,387	-	-	-	111,387
Cost of sales	39,222	-	-	-	39,222
General maintenance	81,906	124,150	-	-	206,056
Electricity	91,553	-	-	-	91,553
Water	92,524	-	-	-	92,524
Telephone	47,365	-	-	-	47,365
Payroll and related expenses	4,752,392	-	-	-	4,752,392
Uniform/laundry	28,067	-	-	-	28,067
Guardhouse	-	58,873	-	-	58,873
Lake refill/quality management	1,040,039	-	-	-	1,040,039
Lifeguard supplies/equipment	19,350	-	-	-	19,350
Vehicle expenses	23,125	-	-	-	23,125
Power boat/rental fleet	31,884	-	-	-	31,884
Contract services	245,451	-	-	-	245,451
Water monitoring	83,856	-	-	-	83,856
Dam repair	-	6,600	-	-	6,600
Beach groomer	-	23,224	-	-	23,224
Boats/kayaks/paddles/leashes	-	92,406	-	-	92,406
Tables/benches/furniture	-	5,155	-	-	5,155
Picnic shelter	-	17,067	-	-	17,067
Electric mini trucks	-	172,730	-	-	172,730
Dock repairs	1,041	220,857	-	-	221,898
Dock house	-	36,450	-	-	36,450
Concrete	-	30,595	-	-	30,595
Camera system	-	36,146	-	-	36,146
Water improvement project	-	-	106,207	-	106,207
Total Expenses	**8,957,869**	**824,253**	**106,207**	**-**	**9,888,329**
Excess of revenue over expenses	**730,871**	**-**	**(6,207)**	**-**	**724,664**
Association funds balance (deficit) beginning of year	**(17,710)**	**-**	**2,666,292**	**377,616**	**3,026,198**
Interfund transfers	**(702,176)**	**-**	**702,176**	**-**	**-**
Association funds balance (deficit) end of year	**$ 10,985**	**$ -**	**$ 3,362,261**	**$ 377,616**	**$ 3,750,862**

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

LAKE MISSION VIEJO ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2025

	OPERATING FUND	REPLACEMENT FUND	CAPITAL EXPANSION FUND	CONTINGENCY FUND	TOTAL
Cash flows from operating activities:					
Cash received from members	$ 8,495,424	$ 1,361,251	$ 100,000	$ -	$ 9,956,675
Cash paid to suppliers of goods and services	(8,494,469)	(824,253)	(114,895)	-	(9,433,617)
Interest received	501,274	-	-	-	501,274
Income taxes paid	-	-	-	-	-
Net cash provided by (used in) operating activities	**502,229**	**536,998**	**(14,895)**		**1,024,332**
Cash flows from investing activities:					
Maturity (purchase) of investments	455,000	99,000	(544,000)	-	10,000
Net increase (decrease) in cash and cash equivalents	**255,053**	**635,998**	**143,281**	**-**	**1,024,332**
Cash and cash equivalents at beginning of year	**1,103,751**	**416,816**	**218,980**	**128,616**	**1,868,163**
Cash and cash equivalents at end of year	**$ 1,358,804**	**$ 1,052,814**	**$ 362,261**	**$ 128,616**	**$ 2,902,495**

RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	OPERATING FUND	REPLACEMENT FUND	CAPITAL EXPANSION FUND	CONTINGENCY FUND	TOTAL
Excess of revenue over expenses	**$ 730,871**	**$ -**	**$ (6,207)**	**$ -**	**$ 724,664**
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:					
Change in assessments receivable	36,506	-	-	-	36,506
Change in interest receivable	(9,161)	-	-	-	(9,161)
Change in prepaid insurance	(250,217)	-	-	-	(250,217)
Change in prepaid expenses	(16,212)	-	-	-	(16,212)
Change in inventory	521	-	-	-	521
Change in accounts payable	(142,059)	-	(8,688)	-	(150,747)
Change in deferred assessments	-	536,998	-	-	536,998
Change in accrued payroll/vacation	27,928	-	-	-	27,928
Change in prepaid assessments	125,290	-	-	-	125,290
Change in clubhouse deposits	(1,238)	-	-	-	(1,238)
Net cash provided by (used in) operating activities	**$ 502,229**	**$ 536,998**	**$ (14,895)**	**$ -**	**$ 1,024,332**

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

NOTE 1 NATURE OF ORGANIZATION

Lake Mission Viejo Association was incorporated on November 5, 1976, in the state of California. The specific and primary purposes of the Association are to own, manage, operate, maintain, protect and preserve for the use of its members real property and improvements located in the city of Mission Viejo, California consisting of Lake Mission Viejo and facilities and ancillary improvements. The development consists of 25,036 residential units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of Lake Mission Viejo Association are maintained on the modified cash basis of accounting with entries made to convert them to the accrual basis for audit and tax purposes.

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 financial resources available for the general operations of the Association.

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

Capital expansion fund - This fund is used to account for financial resources established to fund capital improvements (Note 4).

Contingency fund - This fund is used to account for financial resources established for use in case of emergency or unforeseen circumstances.

Deferred Assessments (Assessments received in advance-replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. Deferred assessments (assessments received in advance-replacement fund) are recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The activity in deferred assessments (assessments received in advance-replacement fund) during 2024 was as follows:

Deferred assessments, at January 1, 2025	$	7,815,816
Assessments Budgeted for Replacement Reserve		1,361,251
Revenue Released to Match Reserve Expenses		(824,253)
Deferred assessments, at December 31, 2025	$	8,352,814

Use of Estimates

The Association uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents and Investments

Cash equivalents consist primarily of certificates of deposit and other securities with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as investments. Cash equivalents and short-term investments are stated at cost, which approximates market value.

The Association maintains bank accounts at various financial institutions. During the course of the year, the accounts may fluctuate over the FDIC insured amount.

Property and Equipment

The developer of the Association donated the majority of the property and equipment. Valuation of these items was made as of the date of transfer to the Association. Personal property purchased by the Association and replacements and improvements to the real property are not capitalized and are expensed as incurred. The expense is charged to either the replacement or the capital expansion funds, in accordance with the guidelines within those funds.

Member Assessments

Association members are subject to bi-annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The balances of assessments receivable as of the beginning and end of the year were $359,908 and $311,521, respectively.

Credit Losses Implementation

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326).* This guidance represents a significant change in the accounting model for credit losses by requiring immediate recognition of management's estimates of "current expected credit losses". Under the prior model, losses were recognized only as they were incurred, which FASB has noted delayed recognition of expected losses that might not yet have met the threshold of being probable. The new model is applicable to all financial instruments that are not accounted for at fair value through net income, thereby bringing consistency in accounting treatment across different types of financial instruments and requiring consideration of a broader range of variables when forming loss estimates. The Association adopted this standard on January 1, 2023 by using a "Loss rate approach – Individual Evaluation". An allowance for expected credit losses is established for any account that is six months or older which has historically been reliable. The cumulative effect of adopting this new accounting policy resulted in no change to the beginning of the year allowance for expected credit losses or the operating fund balance.

Management believes that the historical loss information it has compiled is a reasonable basis on which to determine expected credit losses of assessments receivables held at December 31, 2025 because the composition of the member receivables at that date is consistent with that used in developing the historical credit-loss percentages (i.e. the similar risk characteristics of its members and its lending practices have not changed significantly over time). Accordingly, the allowance for expected credit losses at December 31, 2025 totaled $303,308.

NOTE 3 REPLACEMENT FUND

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the operating fund. Since the actual costs are dependent upon the frequency of occurrence and future costs, there is no assurance that this fund is adequate.

A study of the Association's funding program for the replacement of Association common areas, conducted as of December 31, 2025, indicates the Association's ideal cash replacement fund balance was $10,542,816 at that date. The study recommends a 2025 contribution to the replacement fund of $1,502,000 ($5 per owner per month). The 2026 budgeted contribution is $1,502,000.

The preparation of such a study involves significant estimates by the persons preparing the study, and these estimates are subject to annual revision for changing prices, circumstances and assumptions. If actual replacement costs exceed funds available, or where replacement of common areas is necessary where no fund has been previously established, the Association has the right to increase the monthly assessments, pass special assessments, or delay replacement until funds are available.

NOTE 4 CAPITAL EXPANSION FUND

Funding for the capital expansion fund is accumulated through an annual contribution in the operating budget. Additionally, at times when the Board anticipates more significant capital improvement expenses, the Board has established a policy where upon completion of accounting at year end, any excess operating income may be transferred to the capital expansion fund. During 2025, the budgeted contribution was $100,000; the Board made a resolution to transfer an additional $702,176 of operating surplus to the capital expansion fund. The budget contribution for 2026 is $200,000.

NOTE 5 INCOME TAXES

The Association has been granted exemption from Federal and California income taxes under section 501(c)(4) of the Internal Revenue Code and section 23701f of the California Revenue and Taxation Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2025, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2021.

NOTE 6 ASSESSMENTS

During 2025, assessments were billed at a rate of $ 179 per member per bi-annual period. Effective January 1, 2026, the rate increased to $ 193 per unit per bi-annual period.

Waterfront property owners are charged an additional assessment on January 1 and July 1. During 2025, the lake frontage fee was $3.58 per foot of lake front associated with their property. During 2026, the lake frontage fee will be $3.86 per foot of lake front associated with their property.

NOTE 7 LITIGATION

In November 2024, the Association was named as a defendant in a lawsuit alleging negligent property maintenance caused personal injury to the Plaintiff. The Association's insurance company has accepted the defense of this case. A mandatory management conference is scheduled for February 19, 2027. Trial is scheduled for April 19, 2027.

NOTE 8 RELATED PARTY TRANSACTIONS

During 2025, the Association used the services of a vendor owned by a member of the Board. The vendor provided fire alarm monitoring. The Association paid the vendor $ 360 during the year. The Association changed vendors as of October 2025 and the vendor owned by the Board member is no longer providing service.

NOTE 9 DAM INSPECTION

In May 2025, the Association received the results of the State of California Department of Water Resources' Division of Safety of Dams ("DSOD") inspection of the Lake Mission Viejo Dam owned by the Association. The inspection found that two outlet valves associated with the 18-inch diameter outlet pipe had become inoperable and the upstream slide gate associated with the 48-inch diameter outlet pipe had become inoperable. On October 25, 2025, the Association submit a plan and schedule to repair the controls for DSOD's review.

Subsequent to year end, the Association completed the work on the 18-inch diameter outlet pipe. The engineering design for the 48-inch diameter outlet pipe has been completed and $250,000 in construction costs has been allocated to complete the repairs in 2026. The Association has retained a construction manager to oversee these projects.

NOTE 10 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2025, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is April 28, 2026, which is the date on which the financial statements were issued.

SUPPLEMENTAL INFORMATION

LAKE MISSION VIEJO ASSOCIATION
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS
DECEMBER 31, 2025
(UNAUDITED)

The board of directors contracted an independent consultant who conducted a October 23, 2025 study, projected to December 31, 2025, to estimate the remaining useful lives and replacement costs of the components of common property. Funding requirements include an inflation factor of 3% and an interest rate of 0%.

The following table is based on the study and presents information about the components of common property.

Components	**Estimated Remaining Useful Lives**	**Estimated Current Replacement Cost**	**2026 Funding Requirement**	**Recommended Fund Balances**
Automobiles	0 to 6 years	$ 466,500	$ 36,160	$ 415,469
Carpeting/Flooring	1 to 16 years	99,779	12,274	62,154
Small Equipment	0 to 25 years	497,885	62,673	283,871
Snack Bar Equipment	1 to 18 years	174,700	11,290	97,643
Asphalt/Concrete	0 to 5 years	2,668,856	215,188	2,225,668
Boats	0 to 19 years	1,150,425	158,660	711,784
Boat Batteries/Motors	0 to 4 years	186,150	82,141	138,558
Tractors	1 to 6 years	130,500	12,833	96,155
Beach Sand	0 years	294,000	53,248	294,000
Mini Trucks/Carts	0 to 4 years	217,350	38,770	71,059
Maintenance Equipment	0 to 16 years	558,450	36,386	459,437
Fencing/Railing/Gates	0 to 26 years	1,626,017	98,068	1,013,982
Recreation Structures	0 to 18 years	3,977,880	288,215	2,470,556
Access Equipment	0 to 10 years	20,325	2,104	11,603
Irrigation	1 year	206,000	13,704	195,656
Landscape Renovation	n/a	-	-	308,036
Lighting	0 to 30 years	757,430	41,894	268,669
Lake & Related Equipment	0 to 4 years	236,500	30,075	226,067
Bulkhead/Dam Components	n/a	-	27,896	250,000
Air Conditioning Equipment	0 to 9 years	177,550	18,115	131,292
Painting	0 to 5 years	253,000	40,782	166,239
Renovations	n/a	-	150,000	142,879
Contingency	n/a	-	71,524	502,039
		$ 13,699,297	**$ 1,502,000**	**$ 10,542,816**

As shown above, the study recommends a replacement fund balance of $10,542,816 as of December 31, 2025 and contributions to reserves of $1,502,000 during 2026. The Association's replacement fund balance at December 31, 2025 was $8,352,814 or 79.23% of the recommended fund balance.