

SPRING VALLEY LAKE ASSOCIATION
COMPARATIVE FINANCIAL STATEMENTS
OCTOBER 31, 2015 and 2014

WITH

INDEPENDENT AUDITORS' REPORT
AND SUPPLEMENTARY INFORMATION

SPRING VALLEY LAKE ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Owners
Spring Valley Lake Association

Report on the Financial Statements

We have audited the accompanying financial statements of Name, which comprise the balance sheet as of October 31, 2015, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Spring Valley Lake Association as of October 31, 2015, 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.

Report on Summarized Comparative Information

We have previously audited Spring Valley Lake Association's October 31, 2014 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated December 22, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.


SCHONWIT & ASSOCIATES

January 7, 2016

SPRING VALLEY LAKE ASSOCIATION
BALANCE SHEET
AS OF OCTOBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	2015				2014
	Operating Fund	Replacement Fund	Property Fund	Total	Total
ASSETS					
Cash and cash equivalents [Note 7]	\$ 498,749	\$ 683,010	\$ --	\$ 1,181,759	\$ 1,883,012
Member assessments receivable, less allowance for doubtful collection of \$400,000 at 10/31/15 and \$420,000 at 10/31/14 [Note 5]	123,145	--	--	123,145	247,825
Investments [Note 8]	353,000	736,740	--	1,089,740	347,371
Water rights [Note 14]	--	--	3,241,941	3,241,941	3,241,941
Facilities & equipment, less accumulated depreciation of \$259,422 at 10/31/15 and \$241,926 at 10/31/14 [Note 11]	--	--	315,166	315,166	292,129
Land held for investment [Note 15]	--	--	--	--	20,000
Inventory	4,716	--	--	4,716	6,137
Note receivable: Lot 47 sale [Note 15]	39,900	--	--	39,900	--
Accrued interest receivable	716	1,430	--	2,146	97
Deposits and prepaid expenses	58,892	--	--	58,892	41,210
Capitalized loan fees, less accumulated amortization of \$2,556 at 10/31/15 and \$1,222 at 10/31/14 [Note 14]	--	--	12,444	12,444	13,778
Prepaid taxes	2,756	--	--	2,756	2,867
Due (to)/from fund	(64,788)	64,788	--	--	--
Total Assets	<u>\$ 1,017,086</u>	<u>\$ 1,485,968</u>	<u>\$ 3,569,551</u>	<u>\$ 6,072,605</u>	<u>\$ 6,096,367</u>
LIABILITIES					
Accounts payable and accrued expenses	\$ 261,241	\$ 10,948	\$ --	\$ 272,189	\$ 248,000
Prepaid assessments	154,941	--	--	154,941	493,421
Accrued payroll	156,079	--	--	156,079	113,752
Refundable deposits and other liabilities	12,689	--	--	12,689	13,130
Accrued interest liability [Note 14]	--	--	4,444	4,444	3,904
Bank loan [Note 14]	--	--	2,908,794	2,908,794	3,000,000
Total Liabilities	584,950	10,948	2,913,238	3,509,136	3,872,207
FUND BALANCES	<u>432,136</u>	<u>1,475,020</u>	<u>656,313</u>	<u>2,563,469</u>	<u>2,224,160</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,017,086</u>	<u>\$ 1,485,968</u>	<u>\$ 3,569,551</u>	<u>\$ 6,072,605</u>	<u>\$ 6,096,367</u>

See independent auditors' report and accompanying notes to financial statements.

SPRING VALLEY LAKE ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED OCTOBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	2015			2014	
	Operating Fund	Replacement Fund	Property Fund	Total	Total
REVENUES					
Member assessments	\$ 3,893,496	\$ 385,600	\$ --	\$ 4,279,096	\$ 4,160,715
Community service fees	34,506	--	--	34,506	37,302
Community building activities	189,568	--	--	189,568	222,801
Equestrian fees	44,653	--	--	44,653	46,593
Owner fees	206,614	--	--	206,614	284,799
Interest income	2,327	2,851	--	5,178	1,755
Gain on sale of land [Note 15]	34,135	--	--	34,135	27,373
Other revenue	2,231	--	--	2,231	4,714
Total Revenues	<u>4,407,530</u>	<u>388,451</u>	<u>--</u>	<u>4,795,981</u>	<u>4,786,052</u>
EXPENSES					
Salaries and related (supplementary schedule)	2,027,562	--	--	2,027,562	1,885,717
Lake, marina and parks (supplementary schedule)	227,688	--	--	227,688	344,689
Equestrian	16,420	51,248	--	67,668	12,311
Legal, accounting, & management fees	248,266	--	--	248,266	206,848
Other professional services (supplementary schedule)	113,088	--	--	113,088	73,201
Administrative support (supplementary schedule)	189,458	5	--	189,463	164,233
Vehicles, equipment, technology (supplementary schedule)	148,666	--	--	148,666	139,769
Insurance	139,337	--	--	139,337	147,172
Utilities (supplementary schedule)	243,967	--	--	243,967	236,354
Surveillance camera project	42,695	--	--	42,695	31,653
Grounds and building (supplementary schedule)	512,118	135,233	--	647,351	462,769
Association events	82,574	--	--	82,574	71,112
Depreciation and amortization	--	--	87,633	87,633	79,853
Income taxes	3,061	--	--	3,061	3,249
Interest expense [Note 14]	--	--	148,706	148,706	83,656
Bad debt expense	38,947	--	--	38,947	61,892
Total Expenses	<u>4,033,847</u>	<u>186,486</u>	<u>236,339</u>	<u>4,456,672</u>	<u>4,004,478</u>
EXCESS OF REVENUES OVER/(UNDER) EXPENSES					
	373,683	201,965	(236,339)	339,309	781,574
Beginning Fund Balances	346,371	1,333,845	543,944	2,224,160	1,442,586
Interfund Transfers	(287,918)	(60,790)	348,708	--	--
Ending Fund Balances	<u>\$ 432,136</u>	<u>\$ 1,475,020</u>	<u>\$ 656,313</u>	<u>\$ 2,563,469</u>	<u>\$ 2,224,160</u>

See independent auditors' report and accompanying notes to financial statements.

SPRING VALLEY LAKE ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31, 2015
(WITH COMPARATIVE TOTALS FOR 2014)

	2015			2014
	Operating Fund	Replacement Fund	Property Fund	Total
Excess of revenues over/(under) expenses:	\$ 373,683	\$ 201,965	\$ (236,339)	\$ 339,309
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities:				
Depreciation and amortization	--	--	87,633	87,633
Decrease in member assessments receivable	124,680	--	--	124,680
Increase in accrued interest receivable	(716)	(1,333)	--	(2,049)
Decrease in inventory	1,421	--	--	1,421
Increase/(decrease) in prepaid expenses	(17,682)	--	--	(17,682)
Decrease in prepaid taxes	111	--	--	111
Increase in capitalized loan costs	--	--	--	--
Increase/(decrease) in accounts payable	13,241	10,948	--	24,189
Increase/(decrease) in prepaid assessments	(338,480)	--	--	(338,480)
Increase in accrued payroll	42,327	--	--	42,327
Increase/(decrease) in refundable deposits	(441)	--	--	(441)
Increase in accrued interest liability	--	--	540	540
Change in due to/(from) fund	(302,011)	302,011	--	--
Net cash provided/(used) by operating activities	(103,867)	513,591	(148,166)	261,558
Cash provided/(used) by investing activities:				
Acquisition of facilities and equipment	--	--	(109,336)	(109,336)
Acquisition of water rights [Note 14]	--	--	--	--
Sale of land [Note 15]	20,000	--	--	20,000
Acquisition of certificates of deposit	(353,000)	(736,740)	--	(1,089,740)
Maturity of certificates of deposit	--	347,371	--	347,371
Net cash flows from investing activities	(333,000)	(389,369)	(109,336)	(831,705)
Cash provided/(used) by financing activities:				
Interfund transfers	(287,918)	(60,790)	348,708	--
Acquisition of Note Receivable [Note 11]	(39,900)	--	--	(39,900)
Acquisition of bank loan	--	--	--	--
Principal payments on bank loan	--	--	(91,206)	(91,206)
Net cash flows from financing activities	(327,818)	(60,790)	257,502	(131,106)
Net increase/(decrease) in cash	(764,685)	63,432	--	(701,253)
Cash at beginning of year	1,263,434	619,578	--	1,883,012
Cash at end of year	\$ 498,749	\$ 683,010	\$ --	\$ 1,181,759
	\$ 1,181,759	\$ 1,181,759	\$ 1,181,759	\$ 1,883,012

See independent auditors' report and accompanying notes to financial statements.

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 1. ORGANIZATION

Spring Valley Lake Association [the Association] is a statutory homeowners association which was organized as a non-profit public benefit corporation in December 1969. The Association is a large scale community consisting of 4,213 lots, 1 of which is owned by the Association (see Note 15). The Association, which is located in Spring Valley Lake, California, includes a 200 surface acre fresh water lake, a community building, an equestrian area, and three separate parks. Additionally, a separate, privately operated country club and golf course run through parts of the community. The purpose of the Association is primarily to maintain, preserve and control the defined common areas of the Association.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Accounting - The books and records for the Association are maintained on the accrual basis of accounting. The tax returns are reported on the accrual basis of accounting.

(b) Capitalization Policy and Depreciation - In accordance with industry standards, the Association has not capitalized in the financial statements the common area real property acquired at its inception from the developer, as all beneficial rights of ownership belong to the unit owners and not to the Association. Replacements and improvements to the real property and common areas have been capitalized in the Association's financial statements.

Significant capital assets not directly associated with the units, referred to as personal property assets (generally, equipment and vehicles), are capitalized and depreciated over their estimated useful lives ranging from 5 to 20 years and using the straight-line method of depreciation. During the year ended October 31, 2015, the Association capitalized \$109,336 of personal property assets.

(c) Fund Accounting - The Association's accompanying financial statements have been prepared using fund accounting. Under this method of accounting, funds are separated into three categories; the operating fund, the replacement fund, and the personal property fund. Disbursements from the replacement fund generally may be made only for designated repair or replacement of major common area components. Disbursements from the operating fund are at the discretion of the Board of Directors and generally are for on-going repairs, maintenance, and administrative functions. Additionally, a third fund (personal property fund) has been established in order to separately account for personal property additions and related depreciation expense.

(d) Investment Income - The Board's policy is to allocate interest earned on replacement fund cash accounts and investments to the replacement fund.

(e) Use of 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 period. Actual results could differ from those estimates.

(f) Subsequent Events - Subsequent events have been evaluated through January 7, 2016 which is the date the financial statements were available to be issued.

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 3. COMPARATIVE FINANCIAL STATEMENTS

The financial statements include certain prior year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended October 31, 2014, from which the summarized information was derived.

NOTE 4. INCOME TAXES

The Association had been granted tax exempt status by the IRS under code section 501(c)(4) and therefore is subject to income tax only on income unrelated to its exempt purpose. For California purposes, the Association has been granted tax exempt status as a homeowners association and is subject to tax only on income unrelated to members' dues and assessments (such as interest income less related expenses) at a rate of 8.84%. For the year ended October 31, 2015, the federal and California income tax expense was \$0 and \$3,061, respectively.

The Association utilizes the liability method of accounting for income taxes. Under the liability method deferred income tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Because there is no material difference between the financial accounting and tax basis of the Association's assets and liabilities, the Association has not recorded any deferred tax assets or liabilities.

The Association has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by an association. Management believes that all of the positions taken by the Association in its federal and state income tax returns are more likely than not to be sustained upon examination. The Association's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed.

NOTE 5. ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Association members are subject to paying assessments to fund the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at October 31, 2015 represent assessments and other fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments, including filing of liens on the owner's unit, foreclosing on the unit owner, or obtaining judgment on other assets of the unit owner. At October 31, 2015, the Association has recorded an allowance for uncollectible assessments of \$400,000.

For the year ended October 31, 2015, the Association's quarterly assessment was \$254 per unit. For the 2015/2016 fiscal year, the quarterly assessment has been raised to \$264 per unit.

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 6. REPLACEMENT FUNDING PROGRAM

In accordance with the Association's governing documents, which require that funds be accumulated for future major repairs and replacements, the Association has established certain amounts as reserves for future capital expenditures. Members' assessments relating to the replacement funding program are considered capital contributions from members' dues and as such are restricted in usage. Disbursements are to be made only if specifically approved by the Board of Directors.

A study of Spring Valley Lake Association's replacement funding program was conducted in September 2015. Accordingly, the study recommends a funding contribution for the 2015/2016 fiscal year of \$366,600. The table included in the unaudited supplementary information on future major repairs and replacements is based on these studies.

Replacement funds are being accumulated based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement funds may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to the Association's governing documents, to pass special assessments, increase monthly assessments, or delay replacement until funds are available.

NOTE 7. SCHEDULE OF CASH BALANCES

Generally, certificates of deposit and other debt securities with original maturities less than 90 days are considered cash equivalents, while certificates of deposits and debt securities with maturities over 90 days are considered "investments."

At October 31, 2015 and 2014, the Association maintained cash balances at the following institutions:

<u>Operating Fund:</u>	<u>2015</u>	<u>2014</u>
Morgan Stanley - money fund	\$ 117,010	\$ --
Pacific Western Bank - checking	105,166	942,528
Desert Community Bank - checking	74,747	--
Pacific Western Bank - checking	72,412	--
Desert Community Bank - checking	71,726	--
Desert Community Bank - checking	47,550	41,054
Desert Community Bank - manager checking	8,138	--
Petty cash	2,000	2,000
Citizens Business Bank - credit card checking	--	224,894
Citizens Business Bank - checking	--	45,557
Citizens Business Bank - manager checking	--	7,401
	<hr/>	<hr/>
Total Cash - Operating Fund	<u>\$ 498,749</u>	<u>\$ 1,263,434</u>

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 7. SCHEDULE OF CASH BALANCES - (CONTINUED)

<u>Replacement Fund:</u>	<u>2015</u>	<u>2014</u>
Morgan Stanley - money fund	\$ 350,470	\$ --
Pacific Western Bank - money market	332,540	150,172
Bank of China - New York	--	245,031
US Bank National Association	--	193,641
Citizens Bank Business Bank - checking	--	30,734
	<hr/>	<hr/>
Total Cash - Replacement Fund	<u>\$ 683,010</u>	<u>\$ 619,578</u>

NOTE 8. INVESTMENTS

The Association's investments consist of certificates of deposit with original maturities over 90 days. Investment income from these investments is recorded when earned or accrued. The investments are considered to be held to maturity and are carried at cost, which approximates the fair value.

At October 31, 2015 and 2014, the Association's investments are as follows:

<u>Operating Fund:</u>	<u>2015</u>	<u>2014</u>
Bank Hapoalim - 0.30%, 11/30/15	\$ 248,000	\$ --
TowneBank - 0.45%, 6/27/16	105,000	--
	<hr/>	<hr/>
Total Investments - Operating Fund	<u>\$ 353,000</u>	<u>\$ --</u>
<u>Replacement Fund:</u>		
Everbank - 0.30%. 11/25/15	\$ 248,000	\$ --
Goldman Sachs Bank - 0.45%, 5/27/16	125,000	--
Ally Bank - 0.65%, 11/28/16	125,000	--
Mutual of Omaha Bank - 0.35%, 2/2/16	123,740	123,308
American Express Centurion Bank - 1.05%, 5/30/17	115,000	--
Mutual of Omaha Bank - 0.20%, 5/2/15	--	122,120
Mutual of Omaha Bank	--	101,943
	<hr/>	<hr/>
Total Investments - Replacement Fund	<u>\$ 736,740</u>	<u>\$ 347,371</u>

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 9. CONCENTRATION OF RISK

The Association maintains operating accounts at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000; however due to the Association's operating requirements, the account balances periodically may exceed the FDIC limit. Depending upon the timing of cash flows, this condition is often temporary but necessary to meet routine operating requirements. The Board of Directors reviews the financial statements monthly and takes steps to correct this condition whenever it occurs. At October 31, 2015, \$260,118 was exposed to this risk at one financial institution.

NOTE 10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for income taxes totaled \$2,940 for the year ended October 31, 2015. Cash paid for interest on the bank loan (Note 14) totaled \$148,166 during the year.

NOTE 11. FACILITIES AND EQUIPMENT

Facilities and equipment (net of fully depreciated assets) consist of the following as of October 31, 2015:

Facilities & Equipment:

Boats	\$	93,951
Furniture		24,696
Recreation		15,000
Technology		46,307
Vehicles		307,422
Equipment		<u>87,212</u>
Total		<u>574,588</u>
Less: accumulated depreciation		<u>(259,422)</u>
Net facilities and equipment	\$	<u><u>315,166</u></u>

NOTE 12. REFUNDABLE DEPOSITS

The Association collects deposits from homeowners for architectural review requirements. These deposits are refundable upon compliance with Association architectural guidelines.

NOTE 13. LEGAL CONTINGENCIES

The Association is occasionally involved in litigation arising out of the normal course of business for which the Association consults with outside counsel, as well as tender matters to the Association's insurance carriers for applicable defense. The extent of any future liability is currently unknown. Accordingly, the accompanying financial statements do not include a provision for any such liability.

The Association previously filed a legal action against the Tamarisk Market Place Project, which is a proposed development on land adjacent to the Association. The Association is seeking restraint of the development regarding various issues. As this matter is pending, the outcome cannot be determined at this time. However, it is possible that the Association may continue to incur legal costs for which it will also seek recovery.

SPRING VALLEY LAKE ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 OCTOBER 31, 2015

NOTE 14. WATER PURCHASE CONTINGENCIES

Over the past few years, the Board worked diligently on developing a plan to permanently purchase its supply of water. The purpose of this was to provide a vehicle to ultimately reduce the Association's overall annual cost of water, as well as to mitigate the difficult task of adequately budgeting for the acquisition cost of water due to unknown factors relating to usage, weather, and supply prices. Accordingly, the Association received appropriate approval from the ownership and purchased 640 acres of water rights (at a price of \$5,000 per acre-foot) from Aqua Capital Management, LP in March 2014. The total price, plus related closing costs, of \$3,241,941 has been capitalized in these financial statements. The permanent acquisition of water will not completely eliminate the possibility that in certain years the Association may still be obligated to pay for water (based upon certain restrictions pertaining to usage); however it is anticipated that the cost of such possible occurrences will be relatively small compared to the prior purchasing situation.

Pacific Western Bank provided a loan for \$3 million to fund the water purchase rights. The bank loan was initially an interest only loan (at 4.75%), which then converted to a full principal and interest loan payable over 119 months at 5%, with monthly payments of \$23,835.55 and a balloon payment of \$1,284,654 due February 21, 2025. The Association plans to pay for the bank loan from its normal operating budget in lieu of paying for the annual acquisition cost of water.

Future required minimum principal payments on the loan are as follows:

Fiscal year ending October 31, 2016:	\$ 143,837
Fiscal year ending October 31, 2017:	151,196
Fiscal year ending October 31, 2018:	158,931
Fiscal year ending October 31, 2019:	167,063
Fiscal year ending October 31, 2020:	175,610
Thereafter:	<u>2,112,157</u>
Total principal payments:	<u>\$ 2,908,794</u>

NOTE 15. LAND HELD FOR INVESTMENT AND SALE

In August 2014 the Association sold one of the lots owned by the Association for a gross sales price of \$52,500, resulting in a net profit of \$27,373 (after deducting for the original land cost and related closing fees). In January 2015 the Association sold the second of its recorded lots, lot 47, for \$59,900, resulting in a net profit of \$34,135 (after deducting for the original land cost and related closing fees). The Association received a cash down payment of \$20,000 and is carrying a note receivable for the balance of \$39,900. The original terms of this note were interest only payments at 6% per month (\$199.50) commencing February 2015 and continuing thereafter until July 2015, whereby the entire principal balance was due and payable. The Board of Directors allowed for a modification to extend the interest only payments through October 2015 with the full principal balance due November 2015. As of the date of this report, payments have not been received since September 2015 and the Association is considering all legal options to pursue collection on this note.

The Association discovered it owns a third lot and recently placed this lot on the market for sale.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Our report on our audit of the basic financial statements of Spring Valley Lake Association for the year ended October 31, 2015 appears on pages 3 and 4. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information of operating fund expenses on pages 15-16 is not a required part of the basic financial statements and has been presented for the purpose of additional analysis. We are not aware of any material modifications that should be made to the accompanying supplementary information in order for them to be in conformity with accounting principles generally accepted in the United States.

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements on pages 17-19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting and 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 principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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.


SCHONWIT & ASSOCIATES

January 7, 2016

SPRING VALLEY LAKE ASSOCIATION
 SUPPLEMENTARY INFORMATION - OPERATING FUND EXPENSES
 OCTOBER 31, 2015

SALARIES & RELATED

Gross salaries	\$ 1,600,383
Payroll taxes	150,787
Group health insurance	116,894
Workers compensation	112,864
HR services	21,452
Staff-leasing: parkway renovation project	18,459
Employer retirement contributions	6,723
	<hr/>
Total Salaries and Related	<u>\$ 2,027,562</u>

LAKE, MARINA & PARKS

Water assessments	\$ 169,654
Lake stock/fishery	25,176
Pumping watermaster	11,002
Lake maintenance/supplies	9,572
Fishing maintenance/supplies	9,129
Water monitoring	3,106
Parks	49
	<hr/>
Total Lake, Marina, and Parks	<u>\$ 227,688</u>

OTHER PROFESSIONAL SERVICES

Service contracts	\$ 66,407
Consulting	27,239
Technology	9,741
Website maintenance	4,276
HR related	4,025
Reserve study	1,400
	<hr/>
Total Other Professional Services	<u>\$ 113,088</u>

ADMINISTRATIVE SUPPORT:

Postage & printing	\$ 52,293
Collection costs	38,010
Office supplies	27,805
Uniforms	19,250
Other administrative	12,813
Licenses/permits	10,624
Training	6,275
Board meetings	5,745
Travel	5,027
Safety equipment & supplies	4,220
Professional certification	3,260
Bank and credit card fees	2,523
Advertising	1,613
	<hr/>
Total Administrative Support	<u>\$ 189,458</u>

SPRING VALLEY LAKE ASSOCIATION
 SUPPLEMENTARY INFORMATION - OPERATING FUND EXPENSES – (CONTINUED)
 OCTOBER 31, 2015

VEHICLES, EQUIPMENT & TECHNOLOGY

Vehicle fuel/oil	\$ 62,382
Marina fuel/oil	28,884
Vehicle repairs	26,302
Small tools	11,832
Computer equipment/maintenance	9,399
Software licenses	9,361
Other expenses	270
Property taxes	236
	<hr/>
Total Vehicles, Equipment & Technology	<u>\$ 148,666</u>

UTILITIES

Lake electricity	\$ 70,684
Water/sewer	70,452
Telephone	41,350
Electricity	37,088
Trash collection	18,071
Natural gas	5,154
Internet service	1,168
	<hr/>
Total Utilities	<u>\$ 243,967</u>

GROUNDS AND BUILDING

Capital improvements	\$ 312,324
Grounds maintenance	87,118
Building maintenance	48,631
Weed/lot maintenance	38,807
Equipment rental	15,478
Janitorial supplies	9,760
	<hr/>
Total Grounds and Building	<u>\$ 512,118</u>

SPRING VALLEY LAKE ASSOCIATION
SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS & REPLACEMENTS
AS OF OCTOBER 31, 2015
(UNAUDITED)

A study was conducted in September 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The studies were based upon representations by the Board of Directors and the experience and knowledge of the independent reserve analyst. The estimates were based on current replacement costs. These estimates are used as a foundation in arriving at recommended funding requirements, based upon cash and investments which have been allocated for future repairs and replacements. The following table is based on the studies and presents significant information about the components of common property.

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs
Administration & Maintenance Building:		
HVAC system replacement	3-9 years	\$ 10,300
Lighting	13 years	5,900
Telephone system	0 years	11,050
Handheld radios	0 years	9,300
Carpet & furniture	0-2 years	14,150
Overhead doors	14 years	18,200
Restroom renovation	0-20 years	27,600
Tile roof replacement	19 years	36,750
Computers/printers	0 years	12,750
Flag pole	7 years	6,250
Signs	11 years	18,000
Security system	6 years	6,000
Building repairs	4 years	25,000
Community Building:		
HVAC replacement	0 years	34,500
Defibrulators	3 years	2,700
Lighting	4-5 years	27,600
Handheld radios	0 years	22,050
Security system	5 years	6,000
Flag pole	7 years	4,500
Patio	9 years	9,250
Floor replacement	14 years	39,000
Tile replacement	11 years	23,800
Doors	27 years	45,000
Kitchen appliances	5-19 years	9,250
Kitchen renovation	15 years	17,500
Furniture & window coverings	0-3 years	29,900
Restroom renovation	13 years	37,500
Security office renovation	13 years	12,150
Roof replacement	5-11 years	77,650
Stage	1 year	9,200
Antenna tower replacement	12 years	22,500
Fire system replacement	3-11 years	23,750
Sound system	5 years	7,600

SPRING VALLEY LAKE ASSOCIATION
 SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF OCTOBER 31, 2015
 (UNAUDITED)
 (CONTINUED)

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs
Equestrian Center:		
HVAC replacement	4 years	15,000
Gazebo replacement	0 years	5,750
Bridge replacement	2 years	46,200
Sand	2 years	9,200
Metal hay barns	27 years	11,000
Flag poles	7 years	4,400
Pipe rail replacement	8-24 years	104,900
Fence replacement	0-21 years	81,000
Door repairs	9 years	23,700
Tile roof replacement	20 years	67,400
Walkway poles	9 years	11,000
Propane tank	5 years	5,000
Asphalt repairs	4-39 years	934,950
Lake and Marina:		
Boat ramp	11 years	8,750
Gangways replacement	8 years	17,000
Fuel tank, dispenser, & storage	7 years	76,700
Fence/sea wall repairs	0-3 years	19,800
Shade structure	3-18 years	11,100
Dock replacement	0-14 years	490,150
Lake coving repair	0 years	50,000
Fish clean structure	13 years	5,300
Dam	13 years	52,600
Aerators	10 years	25,500
Water meter devices	0-9 years	35,050
Well/pump replacement	4-23 years	1,223,500
Beach Parks:		
Wrought iron replacement	11 years	79,500
Restroom renovation	22 years	22,000
Metal roof replacement	28 years	13,200
Lifeguard towers	9 years	18,000
Play equipment	12 years	32,500
Basketball courts	2-8 years	24,000
Meadow Lark Park:		
Restroom renovation	0 years	17,000
Tile roof replacement	0 years	5,450
Play equipment	0-5 years	57,000
Basketball court	8 years	12,000
Bocce ball courts	2 years	30,000

SPRING VALLEY LAKE ASSOCIATION
 SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF OCTOBER 31, 2015
 (UNAUDITED)
 (CONTINUED)

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs
General Common Area:		
Light replacement	0 years	3,500
Play equipment (playfair)	2 years	46,000
Irrigation system	0 years	20,000
Splash equipment	8 years	12,000
Bleachers	10 years	12,500
Softball/baseball fields	4-8 years	51,600
Shade structures	3-18 years	11,100
Picnic tables	0 years	7,650
Vehicles:		
Security cars/trucks	1 year	130,000
Community vehicles	7 years	52,000
Security golf carts	7 years	7,600
Maintenance & security trailers	6-19 years	43,800
Maintenance trucks	1-19 years	382,000
Boats:		
Maintenance vessels	4-19 years	74,000
Security vessels	1-4 years	86,000
Outboard motor replacement	4 years	46,250
Maintenance Equipment:		
Tractor replacement	2-28 years	111,000
Mowers	0-13 years	27,000
Chipper replacement	5 years	6,100
	Total	<u>\$ 5,438,350</u>
	Study's recommended fund balance at 10/31/15:	<u>\$ 2,642,557</u>
	Actual Replacement Fund balance at 10/31/15:	<u>\$ 1,475,020</u>

Accordingly, the study recommends a contribution to the replacement fund of approximately \$366,600 for the 2015/2016 fiscal year. For the year ended October 31, 2015, the Association provided a contribution (from assessments) to the replacement fund of \$385,600.