

SPRING VALLEY LAKE ASSOCIATION
COMPARATIVE FINANCIAL STATEMENTS
OCTOBER 31, 2014 and 2013

WITH

INDEPENDENT AUDITORS' REPORT
AND SUPPLEMENTARY INFORMATION

SPRING VALLEY LAKE ASSOCIATION

Table of Contents

Independent Auditors' Report	Pages 3-4
Balance Sheet with Comparative Totals	Page 5
Statement of Revenues, Expenses and Changes in Fund Balances with Comparative Totals	Page 6
Statement of Cash Flows with Comparative Totals	Page 7
Notes to Financial Statements	Pages 8-13
Independent Auditor's Report on Supplementary Information	Page 14
Supplementary Information: Schedule of Expenses	Pages 15-16
Supplementary Information: Future Major Repairs and Replacements	Pages 17-19

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, 2014, 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, 2014, 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, 2013 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated January 10, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.


SCHONWIT & ASSOCIATES

December 22, 2014

SPRING VALLEY LAKE ASSOCIATION
BALANCE SHEET
AS OF OCTOBER 31, 2014
(with comparative totals for 2013)

	<u>2014</u>				<u>2013</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Property Fund</u>	<u>Total</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents [Note 7]	\$ 1,263,434	\$ 619,578	\$ --	\$ 1,883,012	\$ 1,174,868
Member assessments receivable, less allowance for doubtful collection of \$420,000 at 10/31/14 and \$500,000 at 10/31/13 [Note 5]	247,825	--	--	247,825	250,279
Investments [Note 8]	--	347,371	--	347,371	346,500
Water rights [Note 14]	--	--	3,241,941	3,241,941	--
Facilities & equipment, less accumulated depreciation of \$241,926 at 10/31/14 and \$163,295 at 10/31/13 [Note 11]	--	--	292,129	292,129	300,130
Land held for investment [Note 15]	20,000	--	--	20,000	40,000
Inventory	6,137	--	--	6,137	8,296
Accrued interest receivable	--	97	--	97	39
Deposits and prepaid expenses	41,210	--	--	41,210	61,657
Capitalized loan fees, less accumulated amortization of \$1,222 at 10/31/14 [Note 14]	--	--	13,778	13,778	--
Prepaid taxes	2,867	--	--	2,867	6,014
Due (to)/from fund	(366,799)	366,799	--	--	--
Total Assets	<u>\$ 1,214,674</u>	<u>\$ 1,333,845</u>	<u>\$ 3,547,848</u>	<u>\$ 6,096,367</u>	<u>\$ 2,187,783</u>
LIABILITIES					
Accounts payable and accrued expenses	\$ 248,000	\$ --	\$ --	\$ 248,000	\$ 336,451
Prepaid assessments	493,421	--	--	493,421	294,635
Accrued payroll	113,752	--	--	113,752	105,059
Refundable deposits and other liabilities	13,130	--	--	13,130	9,052
Accrued interest liability [Note 14]	--	--	3,904	3,904	--
Bank loan [Note 14]	--	--	3,000,000	3,000,000	--
Total Liabilities	868,303	--	3,003,904	3,872,207	745,197
FUND BALANCES	<u>346,371</u>	<u>1,333,845</u>	<u>543,944</u>	<u>2,224,160</u>	<u>1,442,586</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,214,674</u>	<u>\$ 1,333,845</u>	<u>\$ 3,547,848</u>	<u>\$ 6,096,367</u>	<u>\$ 2,187,783</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, 2014
(with comparative totals for 2013)

	2014			2013	
	Operating Fund	Replacement Fund	Property Fund	Total	Total
REVENUES					
Member assessments	\$ 3,520,715	\$ 640,000	\$ --	\$ 4,160,715	\$ 3,791,428
Community service fees	37,302	--	--	37,302	23,785
Community building activities	222,801	--	--	222,801	181,935
Equestrian fees	46,593	--	--	46,593	51,208
Owner fees	284,799	--	--	284,799	300,766
Interest income	--	1,755	--	1,755	2,727
Gain on sale of land [Note 15]	27,373	--	--	27,373	--
Other revenue	4,714	--	--	4,714	8,962
Total Revenues	<u>4,144,297</u>	<u>641,755</u>	<u>--</u>	<u>4,786,052</u>	<u>4,360,811</u>
EXPENSES					
Salaries and related (supplementary schedule)	1,885,717	--	--	1,885,717	1,956,808
Lake, marina and parks (supplementary schedule)	340,860	3,829	--	344,689	385,130
Well drilling & related	--	--	--	--	216,329
Equestrian	12,311	--	--	12,311	28,080
Legal and accounting	206,848	--	--	206,848	145,606
Other professional services (supplementary schedule)	73,201	--	--	73,201	126,050
Administrative support (supplementary schedule)	164,222	11	--	164,233	175,338
Vehicles, equipment, technology (supplementary schedule)	137,747	2,022	--	139,769	172,810
Insurance	147,172	--	--	147,172	151,136
Utilities (supplementary schedule)	236,354	--	--	236,354	234,049
Surveillance camera project	31,653	--	--	31,653	36,805
Grounds and building (supplementary schedule)	230,519	232,250	--	462,769	343,596
Association events	71,112	--	--	71,112	51,753
Depreciation and amortization	--	--	79,853	79,853	88,969
Income taxes	3,249	--	--	3,249	1,167
Loss on disposition of assets	--	--	--	--	3,099
Interest expense [Note 14]	--	--	83,656	83,656	--
Bad debt expense	61,892	--	--	61,892	294,971
Total Expenses	<u>3,602,857</u>	<u>238,112</u>	<u>163,509</u>	<u>4,004,478</u>	<u>4,411,696</u>
EXCESS OF REVENUES OVER/(UNDER) EXPENSES					
	541,440	403,643	(163,509)	781,574	(50,885)
Beginning Fund Balances	154,089	988,367	300,130	1,442,586	1,493,471
Interfund Transfers	<u>(349,158)</u>	<u>(58,165)</u>	<u>407,323</u>	<u>--</u>	<u>--</u>
Ending Fund Balances	<u>\$ 346,371</u>	<u>\$ 1,333,845</u>	<u>\$ 543,944</u>	<u>\$ 2,224,160</u>	<u>\$ 1,442,586</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, 2014
(with comparative totals for 2013)

	<u>2014</u>				<u>2013</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Property Fund</u>	<u>Total</u>	<u>Total</u>
Excess of revenues over/(under) expenses:	\$ 541,440	\$ 403,643	\$ (163,509)	\$ 781,574	\$ (50,885)
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities:					
Depreciation and amortization	--	--	79,853	79,853	88,969
Decrease in member assessments receivable	2,454	--	--	2,454	33,028
Decrease in accrued interest receivable	--	(58)	--	(58)	--
Decrease in inventory	2,159	--	--	2,159	1,164
Increase/(decrease) in prepaid expenses	20,447	--	--	20,447	(17,570)
Decrease in prepaid taxes	3,147	--	--	3,147	222
Increase in capitalized loan costs	--	--	(15,000)	(15,000)	--
Increase/(decrease) in accounts payable	(55,251)	(33,200)	--	(88,451)	80,724
Increase in prepaid assessments	198,786	--	--	198,786	17,580
Increase in accrued payroll	8,693	--	--	8,693	2,803
Increase in refundable deposits	4,078	--	--	4,078	6,389
Increase in accrued interest liability	--	--	3,904	3,904	--
Change in due to/(from) fund	326,236	(326,236)	--	--	--
Net cash provided/(used) by operating activities	1,052,189	44,149	(94,752)	1,001,586	162,424
Cash provided/(used) by investing activities:					
Acquisition of facilities and equipment	--	--	(70,630)	(70,630)	(259,841)
Acquisition of water rights [Note 14]	--	--	(3,241,941)	(3,241,941)	--
Disposition of facilities and equipment	--	--	--	--	31,104
Sale of land [Note 15]	20,000	--	--	20,000	--
Acquisition of certificates of deposit	--	(347,371)	--	(347,371)	(346,500)
Maturity of certificates of deposit	--	346,500	--	346,500	345,419
Net cash flows from investing activities	20,000	(871)	(3,312,571)	(3,293,442)	(229,818)
Cash provided/(used) by financing activities:					
Interfund transfers	(349,158)	(58,165)	407,323	--	--
Acquisition of bank loan	--	--	3,000,000	3,000,000	--
Net cash flows from financing activities	(349,158)	(58,165)	3,407,323	3,000,000	--
Net increase/(decrease) in cash	723,031	(14,887)	--	708,144	(67,394)
Cash at beginning of year	540,403	634,465	--	1,174,868	1,242,262
Cash at end of year	\$ 1,263,434	\$ 619,578	\$ --	\$ 1,883,012	\$ 1,174,868

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

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

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 a modified 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, 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, 2014, the Association capitalized \$70,630 of personal property assets. Additionally, the purchase of certain water rights during the year [Note 14] totaling \$3,241,941 have also been capitalized in these financial statements.

(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.

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

(f) Subsequent Events – Subsequent events have been evaluated through December 22, 2014, which is the date the financial statements were available to be issued.

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, 2013, 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, 2014, the federal and California income tax expense was \$561 and \$2,688, 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, 2014 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, 2014, the Association has recorded an allowance for uncollectible assessments of \$420,000.

For the year ended October 31, 2014, the Association's quarterly assessment was \$247 per unit. For the 2014/2015 fiscal year, the quarterly assessment has been raised to \$254 per unit.

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

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 March 2014. Accordingly, the study recommends a funding contribution for the 2014/2015 fiscal year of \$286,800. 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, 2014 and 2013, the Association maintained cash balances at the following institutions:

<u>Operating Funds:</u>	<u>2014</u>	<u>2013</u>
Pacific Western Bank-checking	\$ 942,528	\$ 330,228
American Security Bank-credit card checking	--	161,233
Citizens Business Bank-credit card checking	224,894	--
American Security Bank-checking	--	9,058
Desert Community Bank-checking	41,054	32,043
Citizens Business Bank-checking	45,557	--
American Security Bank-manager checking	--	6,341
Petty cash fund	2,000	1,500
Citizens Business Bank-manager checking	7,401	--
Total Cash - Operating Fund	<u>\$ 1,263,434</u>	<u>\$ 540,403</u>

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE 7. SCHEDULE OF CASH BALANCES (continued)

	2014	2013
<u>Replacement Funds:</u>		
The Washington Trust Co-savings	\$ --	\$ 245,029
Bank of China-New York	245,031	--
Hudson Valley Bank-savings	--	192,985
US Bank National Association	193,641	
Pacific Western Bank-money market	150,172	105,503
American Security Bank-savings	--	90,948
Citizens Bank Business Bank-checking	30,734	--
Total Cash - Replacement Fund	\$ 619,578	\$ 634,465

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, 2014 and 2013, the Association's investments are as follows:

	2014	2013
<u>Replacement Funds:</u>		
Mutual of Omaha Bank-5/2/15, .2%	\$ 122,120	\$ 121,897
Mutual of Omaha Bank-1/2/15 .35%	123,308	122,914
Mutual of Omaha-various CD's	101,943	101,689
Total Cash - Replacement Fund	\$ 347,371	\$ 346,500

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, 2014, \$842,700 and \$58,586, was exposed to this risk at two separate financial institutions.

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE 10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

There were no cash payments for income taxes for the year ended October 31, 2014. Cash paid for interest expense on the bank loan (Note 14) totaled \$79,752 during the year.

NOTE 11. FACILITIES AND EQUIPMENT

Facilities and equipment (net of fully depreciated assets) consist of the following as of October 31, 2014:

Facilities & Equipment:	
Boats	\$ 93,951
Furniture	54,035
Recreation	15,000
Technology	43,073
Vehicles	299,478
Equipment	<u>28,518</u>
Total	534,055
Less: accumulated depreciation	<u>(241,926)</u>
Net facilities and equipment	<u>\$ 292,129</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.

Additionally, the Association has 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 during the year for which it will also seek recovery.

SPRING VALLEY LAKE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE 14. WATER PURCHASE CONTINGENCIES

Over the past two years, the Board has worked diligently on developing a plan to permanently purchase its supply of water. The purpose of this is 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 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 has provided a loan for \$3 million for this purpose. The bank loan will be an interest only loan (at 4.75%) for a 15-month period, and then will convert to a full principal and interest loan payable over 119 months at 5%, with monthly payments of \$23,835.55 commencing March 21, 2015, 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, 2015	\$ 92,015
Fiscal year ending October 31, 2016	\$ 143,890
Fiscal year ending October 31, 2017	\$ 151,252
Fiscal year ending October 31, 2018	\$ 158,991
Fiscal year ending October 31, 2019	\$ 167,125
Thereafter:	<u>\$2,286,727</u>
Total:	<u>\$3,000,000</u>

NOTE 15. LAND HELD FOR INVESTMENT

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). Subsequent to the date of this report, the Association has entered into escrow for the sale of the second Association owned lot for a gross sales price of \$55,000.

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, 2014 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

December 22, 2014

SPRING VALLEY LAKE ASSOCIATION
 SUPPLEMENTARY INFORMATION-OPERATING FUND EXPENSES
 OCTOBER 31, 2014

SALARIES & RELATED

Gross salaries	\$ 1,420,424
Payroll taxes	121,278
Group health insurance	122,834
Workers compensation	179,444
Employer retirement contributions	6,978
HR services	34,073
Other payroll related	686
	<hr/>
Total Salaries and Related	<u>\$ 1,885,717</u>

LAKE, MARINA & PARKS

Water assessments	\$ 285,230
Lake stock/fishery	24,635
Pumping watermaster	12,166
Fishing maintenance/supplies	7,621
Lake maintenance/supplies	5,637
Water monitoring	5,571
	<hr/>
Total Lake, Marina, and Parks	<u>\$ 340,860</u>

OTHER PROFESSIONAL SERVICES

Consulting	\$ 4,870
Technology	5,762
Website maintenance	1,683
Service contracts	53,609
HR related	3,077
Reserve study	4,200
	<hr/>
Total Other Professional Services	<u>\$ 73,201</u>

ADMINISTRATIVE SUPPORT:

Professional certification	\$ 2,285
Licenses/permits	12,737
Uniforms	15,502
Safety equipment & supplies	5,821
Training	6,121
Travel	4,431
Office supplies	24,892
Postage & printing	46,569
Board meetings	5,029
Bank and credit card fees	3,206
Advertising	1,965
Collection costs	26,080
Other administrative	9,584
	<hr/>
Total Administrative Support	<u>\$ 164,222</u>

SPRING VALLEY LAKE ASSOCIATION
SUPPLEMENTARY INFORMATION-OPERATING FUND EXPENSES-CONTINUED
OCTOBER 31, 2014

VEHICLES, EQUIPMENT, & TECHNOLOGY

Vehicle fuel/oil	\$ 48,921
Marina fuel/oil	34,573
Vehicle repairs	29,287
Software licenses	9,298
Computer equipment/maintenance	8,124
Property taxes	541
Small tools	6,643
Other expenses	<u>360</u>
Total Vehicle, Equipment, & Technology	<u>\$ 137,747</u>

UTILITIES

Electricity	\$ 31,769
Lake electricity	88,551
Natural gas	4,096
Water/sewer	52,388
Trash collection	23,231
Telephone	29,873
Internet service	<u>6,446</u>
Total Utilities	<u>\$ 236,354</u>

GROUNDS AND BUILDING

Weed/lot maintenance	\$ 42,073
Building maintenance	39,590
Grounds maintenance	94,192
Equipment rental	7,671
Janitorial supplies	8,434
Capital improvements	<u>38,559</u>
Total Grounds and Building	<u>\$ 230,519</u>

SPRING VALLEY LAKE ASSOCIATION
 SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF OCTOBER 31, 2014
 (UNAUDITED)

A study was conducted in March 2014 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	10 years	\$ 14,825
Lighting	14 years	5,900
Telephone system	1 years	11,025
Carpet	3 years	7,750
Overhead doors	15 years	5,600
Restroom renovation	0-20 years	19,750
Tile roof replacement	20-22 years	54,200
Flag pole	8 years	5,950
Signs	12 years	18,000
Security cameras	6 years	6,000
Building repairs	5 years	25,000
Community Building:		
HVAC replacement	1 years	31,800
Interior lighting	5 years	15,000
Security cameras	6 years	8,000
Flag pole	8 years	5,950
Patio cover replacement	19 years	15,250
Floor replacement	3 years	39,900
Tile replacement	12 years	15,000
Door repairs	12 years	19,800
Kitchen renovation	6-16 years	37,000
Restroom renovation	14 years	27,500
Security office renovation	14 years	12,150
Roof replacement	6 years	42,225
Antenna tower replacement	13 years	22,500
Fire system replacement	4-12 years	22,500
Sound system	6 years	7,400
Equestrian Center:		
HVAC replacement	5 years	15,000
Gazebo replacement	1 year	5,000
Bridge replacement	3 years	46,200
Sand	3 years	9,200
Metal hay barn	28 years	11,000
Flag poles	8 years	11,900
Pipe rail replacement	3-9 years	91,300
Fence replacement	0-22 years	75,825
Door repairs	10 years	22,525
Tile roof replacement	21 years	99,550
Walkway poles	10 years	11,000
Propane tank	6 years	5,000
Asphalt repairs	0-1 years	314,350

SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS & REPLACEMENTS
AS OF OCTOBER 31, 2014
(UNAUDITED)

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs
Lake and Marina:		
Boat ramp	11 years	8,725
Gangways replacement	9 years	16,975
Fuel tank & dispenser	8 years	75,575
Fence/wall repairs	4-5 years	18,850
Shade structure	4-19 years	11,100
Dock replacement	0-15 years	489,925
Lake edging repair	1 year	50,000
Fish clean structure	14 years	5,275
Dam	14 years	52,525
Aerators	11 years	25,500
Water meter devices	1-10 years	35,100
Well/pump replacement	5-23 years	1,229,500
Beach Parks:		
Wrought iron replacement	12 years	78,875
Restroom renovation	23 years	11,100
Metal roof replacement	29 years	9,900
Lifeguard towers	9 years	8,000
Basketball court	9 years	15,850
Meadow Lark Park:		
Fence replacement	9 years	22,800
Restroom renovation	1 year	11,000
Tile roof replacement	1 year	2,700
Irrigation system	0 years	20,000
Basketball court	5 years	28,800
Baseball dugouts	9 years	15,850
Bocce ball courts	3 years	30,000
General Common Area:		
Light replacement	10 years	18,525
Flag pole	8 years	5,950
Security system	2-3 years	63,000
Vehicles:		
Patrol cars	4-5 years	123,075
Community vehicles	11 years	40,000
Maintenance trucks	1-19 years	348,675
Boats:		
Maintenance vessels	1-5 years	72,000
Security vessels	3-5 years	60,000
Outboard motor replacement	0-5 years	45,550
Furniture:		
Furniture replacement	0-4 years	25,950
Window coverings	3 years	9,900
Stage	2 years	9,200

SPRING VALLEY LAKE ASSOCIATION
 SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF OCTOBER 31, 2014
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<u>Common Area Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>
Office Equipment		
Defibulators	4 years	5,000
Mobile radios	1 year	2,000
Security system	4-8 years	63,500
Computer/printers	1 year	12,300
Maintenance Equipment:		
Tractor replacement	3-29 years	111,000
Mowers	1-24 years	47,000
Chipper replacement	6 years	6,125
Recreation Equipment:		
Picnic tables	0 years	6,000
Play equipment	1-4 years	146,050
Shade structure	11-19 years	11,100
Bleachers	11 years	13,000
Total		<u>\$ 4,732,650</u>
Study's recommended replacement fund balance at 10/31/14:		<u>\$2,339,114</u>
Actual replacement fund balance at 10/31/14:		<u>\$1,333,845</u>

Accordingly, the study recommended a contribution to the replacement fund of approximately \$286,800 for the 2014/2015 fiscal year. For the year ended October 31, 2014, the Association provided a contribution (from assessments) to the replacement fund of \$640,000.