

SPRING VALLEY LAKE ASSOCIATION  
COMPARATIVE FINANCIAL STATEMENTS  
OCTOBER 31, 2017 and 2016

WITH

INDEPENDENT AUDITORS' REPORT  
AND SUPPLEMENTARY INFORMATION

# SPRING VALLEY LAKE ASSOCIATION

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Owners  
Spring Valley Lake Association

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Spring Valley Lake Association, which comprise the balance sheet as of October 31, 2017, 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, 2017, 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, 2016 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated January 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended October 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Schonwit & Associates*  
SCHONWIT & ASSOCIATES

Costa Mesa, California  
December 19, 2017

SPRING VALLEY LAKE ASSOCIATION  
BALANCE SHEET  
AS OF OCTOBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR OCTOBER 31, 2016)

	2017				2016
	Operating Fund	Replacement Fund	Property Fund	Total	Total
<b>ASSETS</b>					
Cash and cash equivalents [Note 7]	\$ 1,129,292	\$ 212,233	\$ --	\$ 1,341,525	\$ 1,013,913
Member assessments receivable, less allowance for doubtful collection of \$290,000 at 10/31/17 and \$335,000 at 10/31/16 [Note 5]	76,681	--	--	76,681	124,199
Investments [Note 8]	650,000	1,709,000	--	2,359,000	1,666,000
Water rights [Note 14]	--	--	3,567,641	3,567,641	3,567,641
Facilities & equipment, less accumulated depreciation of \$385,585 at 10/31/17 and \$309,155 at 10/31/16 [Note 11]	--	--	259,913	259,913	297,806
Inventory	5,394	--	--	5,394	4,903
Accrued interest receivable	2,429	3,665	--	6,094	2,372
Deposits and prepaid expenses	66,389	--	--	66,389	96,546
Capitalized loan fees, less accumulated amortization of \$5,224 at 10/31/17 and \$3,890 at 10/31/16 [Note 14]	--	--	9,776	9,776	11,110
Prepaid taxes	182	--	--	182	2,271
Due (to)/from fund	33,200	(33,200)	--	--	--
Total Assets	<u>\$ 1,963,567</u>	<u>\$ 1,891,698</u>	<u>\$ 3,837,330</u>	<u>\$ 7,692,595</u>	<u>\$ 6,786,761</u>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 208,337	\$ 12,574	\$ --	\$ 220,911	\$ 208,253
Prepaid assessments	567,131	--	--	567,131	567,482
Accrued payroll	188,864	--	--	188,864	188,188
Refundable deposits and other liabilities	13,739	--	--	13,739	20,015
Accrued interest liability [Note 14]	--	--	3,586	3,586	3,791
Bank loan [Note 14]	--	--	2,618,203	2,618,203	2,767,375
Total Liabilities	978,071	12,574	2,621,789	3,612,434	3,755,104
<b>FUND BALANCES</b>	<u>985,496</u>	<u>1,879,124</u>	<u>1,215,541</u>	<u>4,080,161</u>	<u>3,031,657</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,963,567</u>	<u>\$ 1,891,698</u>	<u>\$ 3,837,330</u>	<u>\$ 7,692,595</u>	<u>\$ 6,786,761</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, 2017  
(WITH COMPARATIVE TOTALS FOR OCTOBER 31, 2016)

	2017			2016	
	Operating Fund	Replacement Fund	Property Fund	Total	Total
<b>REVENUES</b>					
Member assessments	\$ 4,142,840	\$ 324,000	\$ --	\$ 4,466,840	\$ 4,449,192
Community service fees	68,098	--	--	68,098	53,680
Community building activities	193,702	--	--	193,702	186,249
Equestrian fees	59,735	--	--	59,735	50,075
Owner fees	164,489	--	--	164,489	190,054
Interest income	4,596	18,251	--	22,847	9,916
Gain on sale of land [Note 15]	--	--	--	--	37,112
Legal fee recovery [Note 13]	105,000	--	--	105,000	--
Bad debt recovery	15,197	--	--	15,197	30,646
Other revenue	7,792	13,484	--	21,276	43,507
Total Revenues	<u>4,761,449</u>	<u>355,735</u>	<u>--</u>	<u>5,117,184</u>	<u>5,050,431</u>
<b>EXPENSES</b>					
Salaries and related (supplementary schedule)	2,275,214	--	--	2,275,214	2,255,978
Lake, marina and parks (supplementary schedule)	227,065	--	--	227,065	358,253
Recreation equipment and improvements	--	--	--	--	27,659
Equestrian	35,237	2,909	--	38,146	5,190
Legal, accounting, & management fees	198,857	--	--	198,857	215,588
Other professional services (supplementary schedule)	128,258	--	--	128,258	139,008
Administrative support (supplementary schedule)	197,396	--	--	197,396	188,535
Vehicles, equipment, technology (supplementary schedule)	139,053	--	--	139,053	139,014
Insurance	159,576	--	--	159,576	168,242
Utilities (supplementary schedule)	192,370	--	--	192,370	198,766
Surveillance camera project	2,643	--	--	2,643	16,606
Grounds and building (supplementary schedule)	208,145	--	--	208,145	555,661
Association events	76,675	--	--	76,675	74,350
Depreciation and amortization	--	--	86,801	86,801	92,331
Income taxes	1,832	--	--	1,832	3,108
Interest expense [Note 14]	--	--	136,649	136,649	143,954
Total Expenses	<u>3,842,321</u>	<u>2,909</u>	<u>223,450</u>	<u>4,068,680</u>	<u>4,582,243</u>
<b>EXCESS OF REVENUES</b>					
<b>OVER/(UNDER) EXPENSES</b>	919,128	352,826	(223,450)	1,048,504	468,188
<b>Beginning Fund Balances</b>	352,394	1,573,872	1,105,391	3,031,657	2,563,469
<b>Interfund Transfers</b>	(286,026)	(47,574)	333,600	--	--
<b>Ending Fund Balances</b>	<u>\$ 985,496</u>	<u>\$ 1,879,124</u>	<u>\$ 1,215,541</u>	<u>\$ 4,080,161</u>	<u>\$ 3,031,657</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, 2017  
(WITH COMPARATIVE TOTALS FOR OCTOBER 31, 2016)

	2017			2016	
	Operating Fund	Replacement Fund	Property Fund	Total	Total
<b>Excess of revenues over/(under) expenses:</b>	\$ 919,128	\$ 352,826	\$ (223,450)	\$ 1,048,504	\$ 468,188
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities:					
Depreciation and amortization	--	--	86,801	86,801	92,331
(Increase)/decrease in member assessments receivable	47,518	--	--	47,518	(1,054)
Increase in accrued interest receivable	(2,175)	(1,547)	--	(3,722)	(226)
Increase in inventory	(491)	--	--	(491)	(187)
(Increase)/decrease in prepaid expenses & deposits	30,157	--	--	30,157	(37,654)
Decrease in prepaid taxes	2,089	--	--	2,089	485
Increase/(decrease) in accounts payable	84	12,574	--	12,658	(63,936)
Increase/(decrease) in prepaid assessments	(351)	--	--	(351)	412,541
Increase in accrued payroll	676	--	--	676	32,109
Increase/(decrease) in refundable deposits	(6,276)	--	--	(6,276)	7,326
Decrease in accrued interest liability	--	--	(205)	(205)	(653)
Net cash provided/(used) by operating activities	990,359	363,853	(136,854)	1,217,358	909,270
Cash provided/(used) by investing activities:					
Acquisition of facilities and equipment	--	--	(47,574)	(47,574)	(73,637)
Acquisition of water rights [Note 14]	--	--	--	--	(325,700)
Acquisition of certificates of deposit	(650,000)	(910,000)	--	(1,560,000)	(1,666,000)
Maturity of certificates of deposit	327,000	540,000	--	867,000	1,089,740
Net cash flows from investing activities	(323,000)	(370,000)	(47,574)	(740,574)	(975,597)
Cash provided/(used) by financing activities:					
Interfund transfers	(286,026)	(47,574)	333,600	--	--
Maturity of Note Receivable [Note 11]	--	--	--	--	39,900
Principal payments on bank loan	--	--	(149,172)	(149,172)	(141,419)
Net cash flows from financing activities	(286,026)	(47,574)	184,428	(149,172)	(101,519)
Net increase/(decrease) in cash	381,333	(53,721)	--	327,612	(167,846)
Cash at beginning of year	747,959	265,954	--	1,013,913	1,181,759
Cash at end of year	<u>\$ 1,129,292</u>	<u>\$ 212,233</u>	<u>\$ --</u>	<u>\$ 1,341,525</u>	<u>\$ 1,013,913</u>

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

SPRING VALLEY LAKE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2017

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 4,214 lots. 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 there is a separate, privately operated country club and a golf course that runs 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, 2017, the Association capitalized \$47,574 of vehicles and related equipment.

(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 operating and replacement fund cash accounts and investments to the respective 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 December 19, 2017 which is the date the financial statements were available to be issued.



SPRING VALLEY LAKE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2017

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, 2016, 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, 2017, the federal and California income tax expense was \$0 and \$1,832, 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, 2017 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, 2017, the Association has recorded an allowance for uncollectible assessments of \$290,000.

For the year ended October 31, 2017, the Association's quarterly assessment was \$265 per unit. For the 2017/2018 fiscal year, the quarterly assessment is budgeted to remain at \$265 per unit.

SPRING VALLEY LAKE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2017

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 August 2017. Accordingly, the study recommends a funding contribution for the 2017/2018 fiscal year of \$396,000. 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, 2017 and 2016, the Association maintained cash balances at the following institutions:

<u>Operating Fund:</u>	<u>2017</u>	<u>2016</u>
Pacific Western Bank - checking	\$ 701,040	\$ 494,735
Morgan Stanley-money fund	194,457	145,352
Desert Community Bank - checking	137,622	77,465
Desert Community Bank - checking	57,345	10,286
Desert Community Bank - checking	30,243	11,472
Desert Community Bank - manager checking	7,969	7,049
Petty cash	616	1,600
	<u>616</u>	<u>1,600</u>
Total Cash - Operating Fund	<u>\$ 1,129,292</u>	<u>\$ 747,959</u>

SPRING VALLEY LAKE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2017

NOTE 7. SCHEDULE OF CASH BALANCES - (CONTINUED)

<u>Replacement Fund:</u>	<u>2017</u>	<u>2016</u>
Morgan Stanley - money fund	\$ 212,233	\$ 153,926
Pacific Western Bank - money market	--	112,028
Total Cash - Replacement Fund	<u>\$ 212,233</u>	<u>\$ 265,954</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, 2017 and 2016, the Association's investments are as follows:

<u>Operating Fund:</u>	<u>2017</u>	<u>2016</u>
Great Southern-.8%, 12/19/17	\$ 70,000	\$ 70,000
Medallion Bank-.55%, 3/14/17	--	70,000
Medallion Bank-.65%, 7/26/17	--	47,000
Beal Bank-.65%, 7/26/17	--	70,000
Everbank-.8%, 10/20/17	--	70,000
Compass Bank Birm, AI-1.1%, 12/8/17	50,000	--
Bank of India-1.0%, 2/7/18	75,000	--
Goldman Sachs, NY, 5/27/16, .45%	--	--
Compass Bank Birm, AI-1.2%, 3/8/18	50,000	--
Bank of Baroda-1.05%, 4/13/18	100,000	--
Synchrony Draper UT-1.2%, 5/25/18	130,000	--
Compass Bank-1.35%, 6/8/18	50,000	--
Capital One, Glen Allen Va-1.4%, 8/8/18	75,000	--
Goldman Sachs, NY-1.45%, 9/6/18	50,000	--
Total Investments - Operating Fund	<u>\$ 650,000</u>	<u>\$ 327,000</u>

SPRING VALLEY LAKE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2017

NOTE 8. INVESTMENTS (continued)

<u>Replacement Fund:</u>	<u>2017</u>	<u>2016</u>
Wells Fargo Bank-1.0%, 12/20/17	\$ 124,000	\$ 124,000
BMO Harris Bank-.7%, 1/12/18	150,000	150,000
Comenity Bank-1.0%, 4/19/18	100,000	100,000
Ally Bank - .65%, 11/28/16	--	125,000
Wells Fargo Bank-1.2%, 5/14/18	100,000	--
Am. Express Centurion Bank - 1.50%, 10/12/18	100,000	--
Am. Express Centurion Bank - 1.05%, 5/30/17	--	115,000
Homestreet Bank-.5%, 2/13/17	--	150,000
Wyomissing PA-.7%, 8/25/17	--	150,000
Republic Bank-.85%, 8/27/18	150,000	150,000
Old Missouri-.95%, 11/5/18	150,000	150,000
BMW Salt Lake-1.3%, 11/30/18	125,000	--
Franklin Syn-1.35%, 1/18/19	70,000	--
Capital One-Glen Allen-1.55%, 2/15/19	100,000	--
Discover Bank Greenwood-1.6%, 3/7/19	100,000	--
Capital One McLean VA-1.65%, 6/3/19	115,000	--
Investors CMTY-1.5%, 8/15/19	100,000	--
Comenity Bank-1.75%, 9/6/19	100,000	--
Ally Bank - 1.05%, 6/4/18	<u>125,000</u>	<u>125,000</u>
 Total Investments - Replacement Fund	 <u>\$ 1,709,000</u>	 <u>\$ 1,339,000</u>

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, 2017, \$451,040 was exposed to this risk at one financial institution.

NOTE 10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for income taxes totaled \$2,000 for the year ended October 31, 2017. Cash paid for interest on the bank loan (Note 14) totaled \$136,854 during the year.

SPRING VALLEY LAKE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2017

NOTE 11. FACILITIES AND EQUIPMENT

Facilities and equipment (net of fully depreciated assets) consist of the following as of October 31, 2017:

**Facilities & Equipment:**

Boats	\$	89,451
Furniture		3,794
Recreation		15,000
Technology		30,445
Vehicles		385,029
Equipment		<u>121,779</u>
Total		<u>645,498</u>
Less: accumulated depreciation		<u>(385,585)</u>
Net facilities and equipment	\$	<u><u>259,913</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 Association is currently handling a liability claim along with several personnel related matters. These cases have been tendered to the Association's insurance carrier for defense and coverage (subject to minimum deductible requirements payable by the Association), with the exception of one case that is not covered by insurance. As these matters are pending, the extent of any future liability, if any, is currently unknown. Accordingly, the accompanying financial statements do not include a provision for any such liability. However, at this time, it is not contemplated that any of these matters will have a material effect upon the Association.

Additionally, the Association previously filed a legal action against the Tamarisk Market Place Project, which was a proposed development on land adjacent to the Association. Through various legal proceedings, the Association ultimately won its appeal case in 2016 and successfully recovered \$105,000 in legal fees during this current fiscal year.

SPRING VALLEY LAKE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2017

NOTE 14. WATER RIGHTS PURCHASES AND BANK LOAN

For a number of years the Association's Board of Directors worked diligently on 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. In March 2016, the Association acquired additional water rights for \$325,700. The total purchase prices, plus related closing costs, of \$3,567,641 have 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 initial 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, 2018:	\$ 160,742
Fiscal year ending October 31, 2019:	166,948
Fiscal year ending October 31, 2020:	175,489
Fiscal year ending October 31, 2021:	184,467
Fiscal year ending October 31, 2022:	193,905
Thereafter:	<u>1,736,652</u>
 Total principal payments:	 <u><u>\$ 2,618,203</u></u>

NOTE 15. LAND HELD FOR INVESTMENT AND SALE

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 carried 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 2016, 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. During the 2016 fiscal year, the note went into default whereby the Association foreclosed upon the lot and subsequently re-sold the lot in October 2016 for \$45,278, which essentially covered the original note balance of \$39,900, unpaid interest on the note, and recovery of related foreclosure fees.

Finally, it was discovered in 2016 that the Association owned a third lot. This lot was sold in July 2016 for a net profit of \$37,112.

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, 2017 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 16-17 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 18-20 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*  
SCHONWIT & ASSOCIATES

Costa Mesa, California  
December 19, 2017

SPRING VALLEY LAKE ASSOCIATION  
 SUPPLEMENTARY INFORMATION - OPERATING FUND EXPENSES  
 OCTOBER 31, 2017

**SALARIES & RELATED**

Gross salaries	\$ 1,769,380
Group health insurance	186,052
Payroll taxes	158,119
Workers compensation	116,101
HR services	25,135
Employer retirement contributions	<u>20,427</u>
Total Salaries and Related	<u><u>\$ 2,275,214</u></u>

**LAKE, MARINA & PARKS**

Water assessments	\$ 170,685
Lake stock/fishery	27,906
Pumping watermaster	18,268
Fishing maintenance/supplies	7,304
Lake maintenance/supplies	2,046
Water monitoring	<u>856</u>
Total Lake, Marina, and Parks	<u><u>\$ 227,065</u></u>

**OTHER PROFESSIONAL SERVICES**

Service contracts	\$ 98,422
Consulting	21,505
Website maintenance	3,111
Reserve study	2,900
HR related	<u>2,320</u>
Total Other Professional Services	<u><u>\$ 128,258</u></u>

**ADMINISTRATIVE SUPPORT:**

Postage & printing	\$ 58,063
Office supplies	31,603
Collection costs	24,940
Uniforms	24,701
Other administrative	14,225
Licenses/permits	12,549
Training	10,451
Travel	6,547
Safety equipment & supplies	3,735
Board meetings	3,248
Bank and credit card fees	2,892
Professional certification	2,290
Advertising	<u>2,152</u>
Total Administrative Support	<u><u>\$ 197,396</u></u>



SPRING VALLEY LAKE ASSOCIATION  
SUPPLEMENTARY INFORMATION - OPERATING FUND EXPENSES – (CONTINUED)  
OCTOBER 31, 2017

**VEHICLES, EQUIPMENT & TECHNOLOGY**

Vehicle fuel/oil	\$ 49,068
Marina fuel/oil	27,801
Vehicle repairs	27,074
Computer equipment/maintenance	15,653
Small tools	9,710
Software licenses	7,921
Property taxes	<u>1,826</u>
 Total Vehicles, Equipment & Technology	 <u><u>\$ 139,053</u></u>

**UTILITIES**

Water/sewer	\$ 51,104
Lake electricity	47,615
Electricity	38,803
Telephone & internet	25,926
Trash collection	23,198
Natural gas	<u>5,724</u>
 Total Utilities	 <u><u>\$ 192,370</u></u>

**GROUNDS AND BUILDING**

Capital improvements	\$ 49,917
Grounds maintenance	44,131
Weed/lot maintenance	45,770
Building maintenance	43,093
Equipment rental	14,272
Janitorial supplies	<u>10,962</u>
 Total Grounds and Building	 <u><u>\$ 208,145</u></u>

**SPRING VALLEY LAKE ASSOCIATION  
SUPPLEMENTARY INFORMATION  
ON FUTURE MAJOR REPAIRS & REPLACEMENTS  
AS OF OCTOBER 31, 2017  
(UNAUDITED)**

A study was conducted in August 2017 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, using an inflation rate of 3%, and "after tax" interest earning rate of 1%. 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.

<u>Common Area Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>
<b>Administration &amp; Maintenance Building:</b>		
HVAC system replacement	0 years	\$ 14,800
Lighting	11 years	5,900
Building-interior remodel	0 years	143,000
Handheld radios	2 years	9,300
Carpet & furniture	0 years	15,150
Overhead doors	12 years	18,200
Restroom renovation	0-24 years	27,600
Tile roof replacement	0-19 years	36,750
Computers/printers	0 years	12,750
Flag pole	5 years	6,250
Signs	9 years	18,000
Security system	3 years	6,500
Building repairs	2 years	25,000
<b>Community Building:</b>		
HVAC replacement	18 years	64,000
Defibrulators	1 year	2,700
Lighting	2-3 years	27,600
Radios	2-5 years	22,050
Security system	3 years	6,500
Flag pole	5 years	4,500
Patio	7 years	9,250
Floor replacement	12 years	39,000
Tile replacement	9 years	23,800
Doors	25 years	45,000
Kitchen appliances	3-17 years	9,250
Kitchen renovation	13 years	17,500
Furniture & window coverings	0-9 years	29,900
Restroom renovation	11 years	37,500
Security office renovation	11 years	12,150
Roof replacement	3-9 years	77,650
Stage	0 years	9,200
Antenna tower replacement	10 years	22,500
Fire system replacement	1-9 years	24,000
Sound system	3 years	7,700

SPRING VALLEY LAKE ASSOCIATION  
 SUPPLEMENTARY INFORMATION  
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS  
 AS OF OCTOBER 31, 2017  
 (UNAUDITED)  
 (CONTINUED)

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs
<b>Equestrian Center:</b>		
HVAC replacement	2 years	15,000
Gazebo replacement	0 years	15,230
Bridge replacement	0 years	46,200
Sand	0 years	9,300
Metal hay barns	25 years	11,000
Flag poles	5 years	4,400
Pipe rail replacement	6-22 years	104,900
Fence replacement	0-19 years	81,000
Doors	7-23 years	29,500
Windows	23 years	2,875
Floor & carpet	3-18 years	6,950
Tile roof replacement	18 years	67,400
Walkway poles	7 years	11,000
Propane tank	3 years	5,000
<b>Asphalt repairs</b>	<b>2-37 years</b>	<b>941,150</b>
<b>Lake and Marina:</b>		
Boat ramp	9 years	8,750
Gangways replacement	6 years	17,000
Fuel tank, dispenser, & storage	5 years	76,700
Fence/sea wall repairs	0-1 year	19,800
Shade structure	1-16 years	11,100
Dock replacement	5-12 years	490,150
Lake coving repair	0 years	166,000
Fish clean structure	12 years	5,300
Dam	11 years	52,600
Aerators	8 years	25,500
Water meter devices	2-7 years	35,050
Wells/well pump replacement	2-21 years	1,223,500
<b>Beach Parks:</b>		
Metal fence/rail	9 years	79,500
Restroom renovation	20 years	22,000
Metal roof replacement	26 years	13,200
Lifeguard towers	7 years	18,000
Play equipment	10 years	33,000
Basketball courts	0-6 years	24,000
<b>Meadow Lark Park:</b>		
Restroom renovation	24 years	17,000
Metal roof replacement	30 years	5,450
Play equipment	0-14 years	57,000
Basketball court	7 years	12,000
Bocce ball courts	0 years	30,000
Bark	13 years	16,000

**SPRING VALLEY LAKE ASSOCIATION**  
**SUPPLEMENTARY INFORMATION**  
**ON FUTURE MAJOR REPAIRS & REPLACEMENTS**  
**AS OF OCTOBER 31, 2017**  
**(UNAUDITED)**  
**(CONTINUED)**

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs
<b>General Common Area:</b>		
Light replacement	0 years	3,500
Play equipment (playfair)	0 years	46,000
Irrigation system	0 years	20,000
Splash equipment	6 years	12,000
Bleachers	0 years	13,000
Softball/baseball fields	0 years	51,600
Elevated decks	0 years	18,000
Shade structures	3-18 years	62,100
Picnic tables	0 years	7,700
<b>Vehicles:</b>		
Security cars/trucks	0 years	130,000
Community vehicles	0 years	52,000
Security golf carts	0 years	7,600
Security trailer	16 years	2,100
Maintenance trailers	9-17 years	43,100
Maintenance trucks	0-18 years	382,000
<b>Boats:</b>		
Maintenance vessels	2-17 years	74,000
Security vessels	0-2 years	114,000
Outboard motor replacement	0-2 years	46,250
<b>Maintenance Equipment:</b>		
Tractor replacement	0-26 years	111,000
Mowers	0-11 years	27,000
Chipper replacement	3 years	6,100
Total		<u>\$ 5,537,300</u>
Study's recommended fund balance at 10/31/17:		<u>\$ 3,360,814</u>
Actual Replacement Fund balance at 10/31/17:		<u>\$ 1,879,124</u>

Accordingly, the study recommends a contribution to the replacement fund of approximately \$396,000 for the 2017/2018 fiscal year. For the year ended October 31, 2017, the Association provided a contribution (from assessments) to the replacement fund of \$324,000.