

BEAR VALLEY SPRINGS ASSOCIATION

**Auditors' Report
Financial Statements
and
Supplemental Information
*June 30, 2010***

SIEBERT BOTKIN HICKEY & ASSOCIATES, LLP
Certified Public Accountants



**Siebert Botkin Hickey
& Associates, LLP**

Board of Directors and Members
Bear Valley Springs Association
Tehachapi, CA

Independent Auditors' Report

We have audited the accompanying balance sheet of Bear Valley Springs Association as of June 30, 2010 and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of Bear Valley Springs Association as of June 30, 2010 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit. The Supplemental Information included in the accompanying schedules is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Siebert Botkin Hickey & Associates, LLP

Beaumont, CA
October 19, 2010

Bear Valley Springs Association

Balance Sheet

As of June 30, 2010

With Comparative Totals For June 30, 2009

	<u>Operating</u> <u>Fund</u>	<u>Property</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>2010</u> <u>Total</u> <u>Funds</u>	<u>2009</u> <u>Total</u> <u>Funds</u>
<u>ASSETS</u>					
Cash	\$ 2,845,411	\$ -	\$ 1,002,434	\$ 3,847,845	\$ 3,450,289
Investments	-	-	526,319	526,319	608,418
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$263,838 and \$163,830, Respectively	48,139	-	-	48,139	51,938
Other Receivables	36,855	-	5,549	42,404	60,616
Inventory	62,141	-	-	62,141	56,081
Prepaid Insurance	51,725	-	-	51,725	28,016
Prepaid Income Taxes	3,273	-	-	3,273	4,460
Other Prepaid Expenses	13,025	-	-	13,025	13,559
Property and Equipment, Net of Accumulated Depreciation of \$1,278,325 and \$1,079,458, Respectively	-	825,776	-	825,776	1,024,643
Due From/(To) Other Fund	(278,588)	-	278,588	-	-
Total Assets	\$ 2,781,981	\$ 825,776	\$ 1,812,890	\$ 5,420,647	\$ 5,298,020
<u>LIABILITIES and FUND BALANCES</u>					
Accounts Payable	\$ 220,764	\$ -	\$ -	\$ 220,764	\$ 190,364
Accrued Expenses	12,188	-	-	12,188	20,029
Prepaid Assessments	1,586,487	-	-	1,586,487	1,583,426
Deferred Special Assessment Revenue	121,063	-	-	121,063	-
Accrued Payroll and Related Items	127,609	-	-	127,609	104,073
Income Taxes Payable	3,047	-	-	3,047	-
Other Liabilities	128,971	-	-	128,971	120,396
Total Liabilities	2,200,129	-	-	2,200,129	2,018,288
Contributed Capital	160,616	-	-	160,616	160,616
Fund Balances	421,236	825,776	1,812,890	3,059,902	3,119,116
Total Fund Balances	581,852	825,776	1,812,890	3,220,518	3,279,732
Total Liabilities and Fund Balances	\$ 2,781,981	\$ 825,776	\$ 1,812,890	\$ 5,420,647	\$ 5,298,020

See Auditors' Report

The Notes to Financial Statements are an Integral Part of This Statement

Bear Valley Springs Association
Statement of Revenues and Expenses
For the Year Ended June 30, 2010
With Comparative Totals For June 30, 2009

	Operating	Property	Replacement	2010 Total	2009 Total
	Fund	Fund	Fund	Funds	Funds
<u>REVENUES</u>					
Assessments	\$ 3,272,810	\$ -	\$ 970,675	\$ 4,243,485	\$ 4,280,831
Special Assessments	111,702	-	-	111,702	82,340
Interest Income	4,515	-	9,808	14,323	47,923
Food and Beverage	1,379,123	-	-	1,379,123	1,482,841
Administration	185,174	-	-	185,174	122,778
Recreation	318,854	-	-	318,854	347,794
Ground Maintenance Income	18,255	-	-	18,255	21,810
Other Income	563	-	-	563	56,501
Total Revenues	5,290,996	-	980,483	6,271,479	6,442,818
<u>EXPENSES</u>					
General and Administrative Expenses					
Professional Fees	85,480	-	-	85,480	77,432
Income Taxes	1,187	-	-	1,187	4,128
Administrative Supplies	31,251	-	-	31,251	36,850
Community/Employee Relations	33,471	-	-	33,471	34,368
Uniforms and Linens	30,112	-	-	30,112	25,031
Golf Course Management Fees	490,200	-	-	490,200	486,945
Other General and Administrative	197,596	-	-	197,596	182,460
Salaries and Related Expenses					
Salaries	2,268,764	-	-	2,268,764	2,162,424
Payroll Taxes	229,416	-	-	229,416	200,807
Retirement Contribution	35,313	-	-	35,313	35,026
Employee Benefits	125,963	-	-	125,963	129,056
Training	7,439	-	-	7,439	7,805
Cost of Sales	577,850	-	-	577,850	630,942
Recreation Services	117,021	-	-	117,021	131,319
Utilities	470,340	-	-	470,340	516,940
Insurance	336,920	-	-	336,920	287,762
Outside Services	60,944	-	-	60,944	47,928
Repairs and Maintenance	189,407	-	-	189,407	179,605
Operating Supplies	35,272	-	-	35,272	37,378
Equipment Rental	26,717	-	-	26,717	23,513
Mileage and Auto Expenses	33,392	-	-	33,392	37,835
Property Taxes	26,681	-	-	26,681	38,544
Solar Panel Project - Special Assessment Expense	111,702	-	-	111,702	-
Loss on Asset Disposal	-	-	-	-	65,116
Major Repairs and Replacements	-	-	509,380	509,380	-
Total Expenses	5,522,438	-	509,380	6,031,818	5,379,214
Excess (Deficiency) of Revenues Over Expenses					
Before Depreciation and Bad Debt Expense	(231,442)	-	471,103	239,661	1,063,604
Depreciation Expense	-	198,867	-	198,867	187,505
Bad Debt Expense	100,008	-	-	100,008	100,018
Excess (Deficiency) of Revenues Over Expenses	\$ (331,450)	\$ (198,867)	\$ 471,103	\$ (59,214)	\$ 776,081

See Auditors' Report

The Notes to Financial Statements are an Integral Part of This Statement

Bear Valley Springs Association
Statement of Changes in Fund Balance
For the Year Ended June 30, 2010
With Comparative Totals For June 30, 2009

	<u>Operating Fund</u>	<u>Property Fund</u>	<u>Replacement Fund</u>	<u>2010 Total Funds</u>	<u>2009 Total Funds</u>
<u>FUND BALANCES</u>					
Fund Balances, Beginning of Year, As Restated (See Note 9 & 10)	\$ 752,686	\$ 1,024,643	\$ 1,341,787	\$ 3,119,116	\$ 2,343,035
Excess (Deficiency) of Revenues Over Expenses	<u>(331,450)</u>	<u>(198,867)</u>	<u>471,103</u>	<u>(59,214)</u>	<u>776,081</u>
Fund Balances, End of Year	<u>\$ 421,236</u>	<u>\$ 825,776</u>	<u>\$ 1,812,890</u>	<u>\$ 3,059,902</u>	<u>\$ 3,119,116</u>

Bear Valley Springs Association
Statement of Cash Flows
For the Year Ended June 30, 2010
With Comparative Totals For June 30, 2009

	Operating Fund	Property Fund	Replacement Fund	2010 Total Funds	2009 Total Funds
<u>Cash Flows From Operating Activities:</u>					
Excess (Deficiency) of Revenues Over Expenses	\$ (331,450)	\$ (198,867)	\$ 471,103	\$ (59,214)	\$ 776,081
<u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u>					
Depreciation	-	198,867	-	198,867	187,505
Bad Debt Expense	100,008	-	-	100,008	100,018
<u>Change in Assets and Liabilities:</u>					
Change in Assessments Receivable	(96,209)	-	-	(96,209)	(132,995)
Change in Other Receivables	6,539	-	11,673	18,212	241,324
Change in Inventory	(6,060)	-	-	(6,060)	13,038
Change in Prepaid Expenses	(23,709)	-	-	(23,709)	(7,105)
Change in Prepaid Income Taxes	1,187	-	-	1,187	(7)
Change in Other Prepaid Expenses	534	-	-	534	98
Change in Accounts Payable	30,400	-	-	30,400	12,214
Change in Accrued Payroll and Related Items	23,536	-	-	23,536	(47,961)
Change in Prepaid Assessments	3,061	-	-	3,061	(86,134)
Change in Deferred Special Assessments	121,063	-	-	121,063	-
Change in Accrued Expenses	(7,841)	-	-	(7,841)	1,219
Change in Income Taxes Payable	3,047	-	-	3,047	-
Change in Other Liabilities	8,575	-	-	8,575	(76,077)
Total Adjustments	164,131	198,867	11,673	374,671	205,137
Net Cash Provided (Used) By Operations	(167,319)	-	482,776	315,457	981,218
<u>Cash Flows from Non-Cash Financing Activities:</u>					
Net Borrowing Between Funds	278,588	-	(278,588)	-	-
Net Cash Provided (Used) By Financing Activities	278,588	-	(278,588)	-	-
<u>Cash Flows from Investing Activities:</u>					
Purchase of Investments	-	-	82,099	82,099	(108,418)
Net Increase in Fixed Assets	-	-	-	-	(500,645)
Net Cash Provided (Used) By Investing Activities	-	-	82,099	82,099	(609,063)
Net Increase (Decrease) in Cash	111,269	-	286,287	397,556	372,155
Cash, Beginning of Year	2,734,142	-	716,147	3,450,289	3,078,134
Cash, End of Year	\$ 2,845,411	\$ -	\$ 1,002,434	\$ 3,847,845	\$ 3,450,289
<u>Supplemental Information:</u>					
Cash Paid for Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ 4,200

Bear Valley Springs Association

Notes to Financial Statements

For the Year Ended June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

Bear Valley Springs Association is a California non-profit corporation formed August 17, 1970. The Association is responsible for recreational and community facilities in the Bear Valley Springs development for the use and enjoyment of its approximately 3,581 properties as of June 30, 2010. The Bear Valley Springs development encompasses approximately 25,000 acres and is located in the southern part of the Sierra Nevada mountain range near the City of Tehachapi, California.

Accounting Method

The Association maintains its books of account on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

Fund Accounting

The Association's governing documents require that the Association establish two funds; the operating fund and the development fund. The development fund is intended to account for the development of new recreational facilities within the Association. The development fund is not used at this time. The operating fund, as envisioned by the governing documents, is intended to provide for all association operations except for the development of new recreational facilities. Accordingly, for purposes of generally accepted accounting principles, this has been recognized in the financial statements as three separate funds; the operating fund, the property fund and the replacement fund. The operating fund accounts for all current operating transactions of the Association. The property fund accounts for all transactions regarding capitalized common area assets and personal property owned. The replacement fund accounts for member capital contributions, which are accumulated in separate bank accounts to provide for the future repair and replacement of the Association's common areas.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.

Assessments Receivable

A provision has been made for estimated bad debts. The Association has the right to levy liens on a member's property to ensure payment of an assessment due the Association. Assessments receivable as reflected in the financial statements are from members whose units are located within Kern County in an unincorporated area known as Bear Valley Springs.

Inventories

Inventories at the golf pro shop, restaurant, bar, and snack bar are valued at the lower of cost or market with cost being determined on the first-in, first-out (FIFO) basis.

Property, Equipment and Depreciation

The majority of real property common areas are owned by the Bear Valley Community Services District, but maintained and operated by the Association under a lease agreement (see Notes 5 and 7). The common areas consist of two lakes (10 and 35 acres), a nine-hole golf course, pro shop, restaurant, country club restaurant, recreation center, equestrian center, 51 miles of equestrian trails, swimming pool, four tennis courts, two campgrounds and a rifle range. Replacements and improvements to the real property common areas are not capitalized, except for those amenities that produce significant cash flow.

Personal property is capitalized at cost and depreciated over the estimated useful lives of the items purchased, using the straight line method of depreciation. Property and equipment capitalized as of June 30, 2010, and the related accumulated depreciation consisted of:

<u>Description</u>	<u>Amount</u>
Furniture, Fixtures & Equipment	\$ 1,598,430
Autos & Trucks	420,018
Golf Carts	85,653
Total Cost	\$ 2,104,101
Less: Accumulated Depreciation	(1,278,325)
Net Cost	\$ 825,776

Common areas are restricted to use by Association members, their tenants, and guests. The Association is responsible for the preservation and maintenance of the common areas.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates included in the preparation of these financial statements include estimated bad debts, and estimates of replacement fund components relating to useful life, replacement cost, inflation rates, and tax rates. Actual results could differ from those estimates.

Bear Valley Springs Association

Notes to Financial Statements

For the Year Ended June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Lines of Business

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

NOTE 2 - REPLACEMENT FUND AND RESTRICTED CASH:

While the Association's governing documents do not require funds to be accumulated for the replacement of its amenities and assets for general operations, California Civil Statutes require a study to be performed, and common industry practice is to accumulate funds for such replacements. Such funds are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such items are needed.

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

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

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

NOTE 3 - INCOME TAXES:

Bear Valley Springs Association is exempt from federal income tax under Section 501(c)(4) of the Internal Revenue Code. Unrelated business income is taxed at the regular corporate income tax rates by the Federal Government for exempt organization business income.

Non exempt income, including interest income, is taxed at 8.84% by the State of California.

NOTE 4 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The Association maintains bank accounts at various financial institutions. Balances in these accounts may occasionally exceed the

FDIC federally insured amount of \$250,000. This limit was temporarily increased from \$100,000 in October 2008. The increase is now permanent as of July 21, 2010. Funds maintained in brokerage accounts are not federally insured, but are privately insured by the SIPC (Securities Investors Protection Corporation).

NOTE 5 - RELATED PARTY TRANSACTIONS:

The Bear Valley Community Services District (CSD) owns the real property common areas that are maintained by the Association under a lease agreement. In addition, the CSD occupies approximately the same geographic area as the Association, and provides the following municipal type services for Association residents; water, sewer, roads maintenance, trash service and police service.

NOTE 6 - ECC DEPOSITS:

The Association's Environmental Control Committee (ECC), an appointed body, must inspect and approve all new construction and improvements to existing structures by property owners in Bear Valley. Varying fees and deposits are collected for each proposed project. Deposits are refunded upon completion of the project and passing of all ECC inspections. Interest is calculated using the current passbook rate of Bank of the Sierra in Tehachapi, California. The Association had \$105,575 in ECC deposits as of June 30, 2010.

NOTE 7 - COMMITMENTS AND CONTINGENCIES:

Possessory Interest Tax

Kern County has assessed the Association for prior year property taxes. The Association entered into an installment agreement to pay the taxes. Under this agreement, the County is to bill the Association prior to payments being made, and the County has returned a payment made by the Association because it had not been previously billed by the County. Approximately \$15,000 has been paid under this agreement, but the County is not billing the Association under the installment agreement. Attempts by the Association to resolve this matter have been unsuccessful. The Association is paying the Possessory Interest Tax for current years.

Property Taxes

Kern County sent notices of proposed escape assessments to the Association based on an examination of prior years' reported property values. The Association expects to be subsequently billed for the change in assessed property value. The amount of taxes to be billed can not be reasonably estimated and therefore have not been accrued.

Bear Valley Springs Association

Notes to Financial Statements

For the Year Ended June 30, 2010

NOTE 7 – COMMITMENTS AND CONTINGENCIES
(continued):

Operating Leases

Bear Valley Community Services District Lease

On January 20, 2007 the Bear Valley Community Services District and Bear Valley Springs Association executed a lease agreement commencing on January 20, 2007, which extends to January 29, 2047. The lease may be terminated earlier in the event of a default by the Association. The terms and conditions of this lease are reviewed every five years, and the lease automatically extends if the parties agree. The annual lease payment under this agreement is \$1.

Under the agreement, the Association is to operate and maintain amenities, handle the collection and disbursement of all money, employ all employees, purchase and selling food, beverages, merchandise, supplies, and services, purchase insurance coverage, handle disputes with third parties, collect and pay appropriate taxes, obtain all appropriate permits, and otherwise comply with the terms and conditions of this lease agreement and the Covenants and Restrictions for Bear Valley Springs and the Articles of Incorporation and Bylaws of the Association. The Association may not remove any District improvements without prior authorization. The Association is responsible for obtaining insurance coverage as required by the new lease agreement. Instead of amending their current policy, the Association has elected to exercise its option to reimburse the District for the costs of the required coverage.

Other Actions

From time to time, BVSA has actions pending in Kern County Superior court in which they are the party plaintiff. These actions are brought by BVSA against various BVSA property owners/members seeking injunctive and declaratory relief, money damages and attorney fees with respect to the enforcement of BVSA's governing documents. In accordance with Statement of Financial Accounting Standards No. 5, the amount of gain, if any, that may be ultimately realized is reflected in the accompanying financial statements. Management and counsel believe it is improbable that any of the defendants will assert cross claims against BVSA in the above actions.

The Association is involved in various legal matters arising in the normal course of business. In the opinion of management, the Association has adequate insurance and legal defenses, and it is not anticipated that such matters will have a material impact upon the financial condition of the Association.

Leases Payable

The Association has individual operating leases for copiers, scanners and a postage machine totaling \$1,650 per month which includes related sales tax and property tax on the equipment. Future commitments on these leases are:

<u>Year Ended June 30,</u>	<u>Amount</u>
2011	\$ 19,800
2012	16,530
2013	12,784
2014	10,404
2015	867
Total minimum future lease payments	<u>\$ 60,385</u>

NOTE 8 – PENSION PLAN:

The Association has a 401(k) plan. The plan covers substantially all qualified employees who meet the plan's eligibility requirements and provides for a tax deferred contribution by the Association and an employee elective contribution, with an Association matching provision of 50% percent of the employee's contribution up to 10% of the employee's salary. The employee becomes 20% vested in the first year, 50% on the second year and fully vested by the third year. For the year ended June 30, 2010 the Association contributed \$35,313 to the plan.

NOTE 9 – PRIOR PERIOD ADJUSTMENT:

The Association's financial statements required a prior period adjustment to restate accrued payroll ending balance and payroll expense for the year ended June 30, 2009. The account adjustment resulted in a decrease to both accrued payroll and payroll expense of \$114,692 each.

NOTE 10 – CHANGE IN ACCOUNTING POLICY:

The Association changed its policy for accounting for common area real property. Previously, all common area real property was capitalized. To be more consistent with California homeowner associations the Association elected to remove all capitalized real property from the financial statements. The effect of this adjustment was a retrospective reduction of the net fixed assets of the property fund in the amount of \$2,893,079 and a reduction of depreciation expense for year ended June 30, 2009 in the amount of \$222,655.

Bear Valley Springs Association
Supplemental Information on Replacement Fund Balances
For the Year Ended June 30, 2010
(unaudited)

The Board of Directors, through a reserve committee, contracted a Professional Reserve Study Analysis performed by SCT Reserve Consultants, Inc., Temecula, California and updated the Association's reserve study in 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association has assessed the present condition of common area components; estimated replacement costs relying upon published data, contractor's or engineer's estimates, and previously paid amounts; and estimated remaining lives, relying upon consultants or published data. Funding has been provided using a pooled calculation with provisions for inflation of 3% and before-tax interest of 2%.

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

Component	Remaining Useful Lives	Future Replacement Cost	6/30/2010 Balance *	2010-2011 Annual Funding
Asphalt & Concrete	0-28 Yrs.	\$ 1,777,139	\$ -	\$ -
Bldgs- Decks	12-23 Yrs.	158,120	-	-
Bldgs- Doors, Flooring & Mech	0-29 Yrs.	1,006,368	-	-
Bldgs- Out Structure	0-24 Yrs.	427,906	-	-
Bldgs- Renovation	10-22 Yrs.	14,688	-	-
Bldgs- Roof	1-24 Yrs.	577,379	-	-
Bldgs- Windows & Wood Siding	0-29 Yrs.	753,255	-	-
Electrical	0-20 Yrs.	161,832	-	-
Equip- Kitchen and Bar	0-19 Yrs.	613,052	-	-
Equip- Office	0-8 Yrs.	140,207	-	-
Equipment	0-24 Yrs.	1,402,822	-	-
Fence/Gates/Rail	0-24 Yrs.	490,920	-	-
Fire Safety	0-6 Yrs.	29,605	-	-
Furniture	0-21 Yrs.	362,858	-	-
Golf Carts	3 Yrs.	93,595	-	-
Golf Course Amenities	0-10 Yrs.	625,363	-	-
Irrigation and Drainage	0-27 Yrs.	4,077,278	-	-
Paint	1-4 Yrs.	122,711	-	-
Park Amenities and Courts	0-29 Yrs.	753,158	-	-
Pool and Spa	0-20 Yrs.	463,565	-	-
Restrooms	0-23 Yrs.	576,628	-	-
Septic Systems	2-29 Yrs.	232,549	-	-
Signage	0-18 Yrs.	61,028	-	-
Vehicles	1-10 Yrs.	406,149	-	-
Totals		\$ 15,328,175	\$ 1,812,980	\$ 764,580

*Information not provided in the study.