

**BEAR VALLEY SPRINGS ASSOCIATION  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

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## Independent Auditor's Report

To the Board of Directors of Bear Valley Springs Association

We have audited the accompanying financial statements of Bear Valley Springs Association (the "Association"), which comprise the balance sheet as of June 30, 2018, and the related statements of revenues, expenses, and changes in fund balance 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 these 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 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's judgment, including the assessment of the 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 Bear Valley Springs Association as of June 30, 2018, and 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

### **Emphasis of Matter - Future Major Repairs and Replacements**

Our audit was made for the purpose of forming an opinion on the basic financial statement, taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements (Note 4), are adequate to meet such future costs, because such determination is outside the scope of our audit. Our opinion is not modified with respect to this matter.

### **Disclaimer of Opinion of Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Repairs and Replacements on page 8 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 for placing the basic financial statements in an appropriate operational, economic or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Newman & Associates, CPA, PC*  
**Newman and Associates, Inc.**  
**An Accountancy Corporation**  
Carlsbad, California  
September 7, 2018

**BEAR VALLEY SPRINGS ASSOCIATION**  
**BALANCE SHEET**  
**June 30, 2018**

	<u>Operating Fund</u>	<u>Property Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 2,381,299	\$ -	\$ 2,323,648	\$ 4,704,947
Investments	-	-	1,519,060	1,519,060
Assessments receivable	190,089	-	-	190,089
Allowance for doubtful accounts	(72,650)	-	-	(72,650)
Prepaid insurance	54,239	-	-	54,239
Inventory	73,681	-	-	73,681
Property and equipment	-	2,718,797	-	2,718,797
Less: accumulated depreciation	-	(2,488,984)	-	(2,488,984)
Due from (to) fund	69,500	-	(69,500)	-
<b>Total Assets</b>	<u>\$ 2,696,158</u>	<u>\$ 229,813</u>	<u>\$ 3,773,208</u>	<u>\$ 6,699,179</u>
<b>Liabilities</b>				
Accounts payable	\$ 218,842	\$ -	\$ -	\$ 218,842
Prepaid assessments	1,763,257	-	-	1,763,257
Accrued payroll and related expenses	287,638	-	-	287,638
Other liabilities	99,297	-	-	99,297
<b>Total liabilities</b>	2,369,034	-	-	2,369,034
<b>Fund balances</b>	<u>327,124</u>	<u>229,813</u>	<u>3,773,208</u>	<u>4,330,145</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,696,158</u>	<u>\$ 229,813</u>	<u>\$ 3,773,208</u>	<u>\$ 6,699,179</u>

**BEAR VALLEY SPRINGS ASSOCIATION**  
**STATEMENT OF REVENUES AND EXPENSES AND**  
**CHANGES IN FUND BALANCES**  
**For the Year Ended June 30, 2018**

	Operating Fund	Property Fund	Replacement Fund	Total
<b>Revenues</b>				
Owners' assessments	\$ 4,281,835	\$ -	\$ 856,980	\$ 5,138,815
Food and beverage	2,005,634	-	-	2,005,634
Recreation fee income	234,773	-	-	234,773
Ground maintenance income	19,500	-	-	19,500
Interest	16,295	-	29,040	45,335
Other member income	438,481	-	-	438,481
<b>Total revenues</b>	<u>6,996,518</u>	<u>-</u>	<u>886,020</u>	<u>7,882,538</u>
<b>Expenses</b>				
General and administrative				
Professional fees	38,999	-	-	38,999
Income Taxes	-	-	-	-
Administrative supplies	22,930	-	-	22,930
Public relations	66,440	-	-	66,440
Uniforms and linens	41,471	-	-	41,471
Golf course management fees	548,428	-	-	548,428
Bad debt expense	90,419	-	-	90,419
Other general and administrative	222,514	-	-	222,514
Salaries and related expenses				
Salaries	3,118,545	-	-	3,118,545
Payroll taxes	318,909	-	-	318,909
Retirement contribution	13,960	-	-	13,960
Employee benefits	519,911	-	-	519,911
Training	6,151	-	-	6,151
Cost of sales	754,511	-	-	754,511
Recreation services	72,206	-	-	72,206
Utilities	605,705	-	-	605,705
Insurance	170,339	-	-	170,339
Outside services	77,721	-	-	77,721
Repairs and maintenance	132,169	-	-	132,169
Operating supplies	173,989	-	-	173,989
Equipment rentals	26,662	-	-	26,662
Depreciation expense	-	220,106	-	220,106
Mileage and auto expense	43,184	-	-	43,184
Property taxes	47,685	-	-	47,685
Major repairs and replacements	-	-	511,509	511,509
Write off property fund balance	-	-	-	-
<b>Total expenses</b>	<u>7,112,848</u>	<u>220,106</u>	<u>511,509</u>	<u>7,844,463</u>
<b>Excess(deficit) of revenues over(under) expenses</b>	(116,330)	(220,106)	374,511	38,075
<b>Beginning fund balances</b>	443,336	449,919	3,413,044	4,306,299
Interfund transfers, net	118	-	(118)	-
Unrealized loss on investments	-	-	(14,229)	(14,229)
<b>Ending fund balances</b>	<u>\$ 327,124</u>	<u>\$ 229,813</u>	<u>\$ 3,773,208</u>	<u>\$ 4,330,145</u>

The accompanying notes are an integral part of the financial statements  
(See Independent Auditor's Report)

**BEAR VALLEY SPRINGS ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2018**

	<u>Operating Fund</u>	<u>Property Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Excess(deficit) of revenues over(under) expenses	\$ (116,330)	\$ (220,106)	\$ 374,511	\$ 38,075
Adjustments to reconcile excess(deficit) of revenues over(under) expenses to net cash provided(used) by operating activities				
Depreciation	-	220,106	-	220,106
Assessments receivable	(181,053)	-	-	(181,053)
Allowance for doubtful accounts	72,650	-	-	72,650
Other receivables	12,806	-	-	12,806
Prepaid insurance	2,971	-	-	2,971
Inventory	10,767	-	-	10,767
Accounts payable	73,117	-	-	73,117
Prepaid assessments	157	-	-	157
Net cash provided(used) by operating activities	<u>(8,585)</u>	<u>220,106</u>	<u>-</u>	<u>211,521</u>
Cash provided(used) by investing activities:				
Change in investments	-	-	(7,957)	(7,957)
Net cash flows from investing activities	<u>-</u>	<u>-</u>	<u>(7,957)</u>	<u>(7,957)</u>
Cash provided(used) by financing activities:				
Interfund transfers	118	-	(118)	-
Interfund borrowings	(77,225)	-	77,225	-
Net cash flows from financing activities	<u>(77,107)</u>	<u>-</u>	<u>77,107</u>	<u>-</u>
Net increase(decrease) in cash and cash equivalents	(202,022)	-	443,661	241,639
Cash and cash equivalents at beginning of year	2,583,321	-	1,879,987	4,463,308
Cash and cash equivalents at end of year	<u>\$ 2,381,299</u>	<u>\$ -</u>	<u>\$ 2,323,648</u>	<u>\$ 4,704,947</u>
SUPPLEMENTAL DISCLOSURE				
Income taxes paid				<u>\$ -</u>
Interest paid				<u>\$ -</u>

The accompanying notes are an integral part of the financial statements  
(See Independent Auditor's Report)

**BEAR VALLEY SPRINGS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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**1. Organization**

Bear Valley Springs Association (the "Association") was incorporated on August 17, 1970 as a nonprofit mutual benefit corporation under the laws of California. The Association is responsible for maintaining and preserving common property, including recreational and community facilities. The Association consists of 3,582 residential properties on over 25,000 acres, and is located in Tehachapi, California.

**2. Summary of Significant Accounting Policies**

*Basis of Accounting*

The Association maintains its financial records on the accrual basis of accounting, which recognizes revenues when earned and expenses when incurred.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires the board of directors 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. Actual results could differ significantly from those estimates.

*Fund Accounting*

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the replacement generally may be made only for designated purposes. The Association's property fund is used to account for purchases of capitalized common property.

*Property and Equipment*

Bear Valley Community Services District owns a significant portion of real property common areas in Bear Valley. The Association, however, maintains and operates the property under a lease agreement (see note 8). The common area consists of two lakes, golf course (nine holes), pro shop, restaurant, country club restaurant, recreation center, equestrian center, equestrian trails, swimming pool, tennis courts, campgrounds and a rifle range. Replacements and improvements to these common areas are not capitalized, except for amenities providing significant income.

**BEAR VALLEY SPRINGS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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Personal property is capitalized at cost and depreciated over estimated useful lives using the straight-line depreciation method. Property, equipment and accumulated depreciation consists of the following at June 30, 2017:

Furniture and fixtures	\$ 2,104,390
Autos and trucks	435,696
Gold carts	<u>178,711</u>
Total cost	2,718,797
Accumulated depreciation	<u>(2,488,984)</u>
Net fixed assets	<u><u>\$ 229,813</u></u>

*Cash and Cash Equivalents*

Cash and cash equivalents include the Association's cash, checking accounts, money market funds and investments in certificates of deposit with original maturities of 90 days or less.

*Investments*

Investments consist of certificates of deposit and other securities and investment accounts with original maturities of more than 90 days.

*Inventories*

The Association accounts for its food, beverage and golf pro shop inventories at the lower of cost or market value, using cost on a first in first out basis.

*Amenity Card Deposits*

The Association charges members for amenity cards, which permit access to the Association's amenities. Deposits are refunded to members when members return their amenity cards to the Association's office.

*Renters Card Deposits*

The Association accounts for member payments for use of the Association's amenities as renter deposits. Deposits are returned to members upon return of the cards to the Association's office.

*Prepaid Assessments*

Prepaid Assessments represents assessments received during the year ended June 30, 2017 that are to be applied to the following fiscal year.

*Subsequent Events*

Subsequent events have been evaluated through September 7, 2018, which is the date the financial statements were available to be issued.

*Concentration of Credit Risk*

The Association maintains bank accounts one financial institution, where the balances in these accounts exceed FDIC federal insurance of \$250,000. The financial institution may carry private insurance, which may or may not be sufficient to reimburse for any losses.



**BEAR VALLEY SPRINGS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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**3. Assessments and Assessments Receivable**

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable represent fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments and fees, including filing of liens on an owner's unit, foreclosing on a unit owner, and obtaining a legal judgment on an owner's other assets. Any excess operating funds are retained at the end of the fiscal year for use in future periods. After the Association has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Association records an allowance for doubtful accounts to reflect an estimate of accounts that may not be collectible, which generally includes accounts receivable greater than 90 days old.

**4. Future Major Repairs and Replacements**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for expenditures for normal operations.

The board of directors in conjunction with a reserve study expert, conducted a reserve study during 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The 2016 reserve study has been updated by management and approved by the Board of Directors. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on this study.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to its governing documents, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

**5. Income Taxes**

The Association elected to file its federal income tax returns as a homeowners' association under Internal Revenue Code Section 501 (c) 4. For its California income tax return, the Association qualifies for tax exempt status as a homeowners' association under California Revenue and Taxation code section 23701(t). For its California returns, the Association is generally taxed on income not related to membership dues and assessments, such as interest income and non-member income, at a rate of 8.84%. The Internal Revenue Service and the California Franchise Tax Board can examine the Association's income tax returns generally up to three years and four years, respectively.

**BEAR VALLEY SPRINGS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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**6. Environmental Control Committee (ECC) Deposits**

The Association's ECC inspects and approves all new construction and improvements to structures by property owners in Bear Valley. The Association collects fees and deposits for each project. Deposits are returned to owners upon satisfactory completion of projects. At June 30, 2018, the Association recorded a balance of \$36,450 in its ECC account.

**7. Fair Value of Financial Instruments**

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The Association's balance sheet includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- Investments in certificates of deposit totaling \$1,519,060 at June 30, 2018, are considered Level 1 assets, and are reported at fair value based on quoted prices in active markets for identical assets at the measurement date.

**8. Commitments and Contingencies**

*Community Facilities Lease*

The Association executed a Community Facilities Lease (the "Lease") with Bear Valley Community Services District (the "District") in January 2007. The Lease, which extends to January 29, 2047, may be terminated earlier should the Association default. Lease terms and conditions are reviewed every five years, and automatically extends with agreement of both parties. The Lease requires the Association to pay \$1 per year.

The Lease requires the Association to maintain and operate community amenities, collect and disburse Association funds, employ staff, purchase and sell food, beverages, merchandise, supplies and other

**BEAR VALLEY SPRINGS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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services; purchase insurance, facilitate disputes with third parties, pay taxes, obtain permits, and comply with all other Lease terms, and the terms of the Association's Covenants and Restrictions, Bylaws and Articles of Incorporation. The Association is not permitted to remove any District improvements without permission from the District.

*Contingencies*

The Association retains legal counsel to advise the Association's Board of Directors and management.

*Equipment Leases*

The Association has entered into operating leases for office equipment totaling approximately \$2,300 per month. Future commitments for these leases, and for subsequent leases are projected to approximate current expense for such leases.

**9. Related Party Transactions**

Bear Valley Community Services District ("District") owns the real property common areas that are maintained by the Association. The District provides various services for Association residents, including water, sewer, road maintenance, trash service and policing.

**10. Pension Plan**

The Association provides a 401(k) defined contribution plan (the "Plan") for Association employees who meet eligibility requirements. The Association contributes a 50% match up to 10% of eligible employees' annual pay. Association contributions are vested 20% after one year, 50% after two years, and fully vested after three years. The Association contributed \$13,960 to the Plan during the year ended June 30, 2018.

**BEAR VALLEY SPRINGS ASSOCIATION**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR**  
**REPAIRS AND REPLACEMENTS**  
**For the Year Ended June 30, 2018**  
**(Unaudited)**

The Association's board of directors, in conjunction with a reserve study expert, conducted a reserve study during 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The Board of Directors approved a 2018 update to the reserve study. Replacement costs were based on the estimated costs to repair or replace the common property components on the date of the study.

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

Study Component	Estimated remaining useful lives	Estimated current replacement costs	Study recommended annual funding requirement	Study recommended fund balance
Asphalt and concrete	0-29	\$ 2,412,156	\$ 105,493	\$ 1,508,768
Courts	0-13	240,473	14,299	78,211
Decking	0-21	54,178	4,409	20,882
Doors	0-14	132,101	13,624	102,658
Drainage	8-8	8,000	275	3,739
Equipment	0-19	2,199,739	260,206	1,215,093
Fences, gates, rails	0-23	552,015	38,981	304,026
Fire safety	2-4	8,863	725	5,951
Fixtures	1-13	39,010	3,146	24,286
Flooring	0-24	107,411	13,088	63,073
Furniture	0-27	491,004	44,678	249,760
Golf course amenities	0-13	699,535	47,883	543,293
HVAC system	0-16	150,694	8,655	82,478
Irrigation	1-24	2,319,487	72,900	1,169,295
Lighting	0-18	327,692	12,384	124,781
Paint	0-10	182,507	18,909	88,518
Park amenities	0-13	265,543	45,468	224,134
Pool and wading area	1-15	422,199	20,214	175,901
Remodelling	3-11	79,400	2,523	34,721
Restrooms	0-20	288,959	12,610	115,717
Ride-on vehicle	6-6	11,795	494	1,125
Roofing	2-24	461,024	12,799	233,635
Septic system	2-39	100,050	2,837	36,807
Siding	1-29	131,608	5,032	57,363
Signs	0-11	41,892	3,724	22,978
Spa area	4-4	20,000	1,233	11,852
Structure	0-49	774,910	36,328	260,125
Vehicle	0-5	424,573	48,100	284,357
Window covering	1-5	24,966	2,272	8,162
Windows	0-10	62,600	3,691	46,489
		\$ 13,034,384	\$ 856,980	\$ 7,098,178
				\$ 3,773,208
<b>Replacement fund balance at June 30, 2018</b>				<b>\$ 3,773,208</b>
Other Assumptions:				
Interest rate				0.90%
Inflation rate				2.00%