

Hinricher, Douglas & Porter LLP

Certified Public Accountants

3275 Old Conejo Road

Thousand Oaks, Ca 91320

(805) 496-1883 Fax (805) 496-5602

www.HD-CPAs.Com

Ventura Office
199 Figueroa Street
Ventura, Ca 93001

Encino Office
16055 Ventura Boulevard, Suite 1215
Encino, Ca 91436

October 19, 2016

**Bear Valley Springs Association
29541 Rolling Oak
Tehachapi, CA 93561**

Enclosed is the Association's audit report for the year ended **June 30, 2016**. Also enclosed is a resolution to accept the audit report, which should be adopted and attached to the minutes of the meeting in which it is adopted. This form is designed to assist the Association in documenting its actions.

We recognize that our presence in performing the audit is disruptive to normal operations, so we want to thank the staff for their courtesy and assistance in answering questions, and congratulate them on the excellent condition of the accounting records.

Furthermore, listed below are a selected group of informational articles that are intended to provide guidance to the Board and Association in establishing policies that document the Association's intent and actions. Please contact us if you wish to have a copy of any or all of the articles and we will be happy to provide them to you.

- Records retention checklist
- Guideline to establishing a resolutions manual
- Explanation of directors financial responsibilities
- Comparison of compilation, review, and audit services
- Conflicts of interest Policy, Annual disclosure statement, and Resolution to adopt
- California Civil Statutes Compliance

We appreciate your business, and look forward to a long relationship with you. Our philosophy is to develop relationships providing mutual benefit. Our goal is to provide long-range benefit for our clients. Much of this effort is aimed at adequately documenting the association's actions and compliance with laws and Association controlling documents. Please feel free to contact us with questions on any of the enclosed material, or for any other areas where we may be of assistance to you.

Sincerely,

GARY A. PORTER
Gary A. Porter, CPA

Enclosures

BEAR VALLEY SPRINGS ASSOCIATION

Resolution to Accept Audit Report

For The Year Ended June 30, 2016

The Board of Directors of **Bear Valley Springs Association** hereby resolves to accept the Association's audit report for the year ended **June 30, 2016**, as prepared by Hinricher, Douglas & Porter, LLP.

Resolution attested:

Date President or other Officer

Date Secretary or other Officer

Attach this form to minutes of meeting where approved

BEAR VALLEY SPRINGS ASSOCIATION

**Audit Report
Financial Statements
and
Supplemental Information
*June 30, 2016***

HINRICHER, DOUGLAS & PORTER, LLP
Certified Public Accountants

Hinricher, Douglas & Porter LLP

Certified Public Accountants

3275 Old Conejo Road

Thousand Oaks, Ca 91320

(805) 496-1883 Fax (805) 496-5602

www.HD-CPAs.Com

Ventura Office
199 Figueroa Street
Ventura, Ca 93001

Encino Office
16055 Ventura Boulevard, Suite 1215
Encino, Ca 91436

Board of Directors and Members

Bear Valley Springs Association
Tehachapi, CA

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of Bear Valley Springs Association, a non-profit corporation, which comprise the balance sheet as of June 30, 2016, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to 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.

Auditors' 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 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 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, 2016, 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information regarding replacement fund balances on page 11 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 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 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.

Hinricher, Douglas & Porter, LLP

October 18, 2016

Bear Valley Springs Association
Balance Sheet
As of June 30, 2016

	<u>Operating Fund</u>	<u>Property Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<u>ASSETS</u>				
Cash	\$ 2,728,112	\$ -	\$ 1,719,919	\$ 4,448,031
Investments	-	-	1,507,558	1,507,558
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$879,157	173,409	-	-	173,409
Other Receivables	32,464	-	-	32,464
Inventory	73,798	-	-	73,798
Prepaid Insurance	51,666	-	-	51,666
Property and Equipment, Net of Accumulated Depreciation of \$2,105,833	-	612,964	-	612,964
Total Assets	<u>\$ 3,059,449</u>	<u>\$ 612,964</u>	<u>\$ 3,227,477</u>	<u>\$ 6,899,890</u>
<u>LIABILITIES and FUND BALANCES</u>				
Accounts Payable	\$ 188,497	\$ -	\$ -	\$ 188,497
Accrued Expenses	28,765	-	-	28,765
Deferred Assessments	1,926,929	-	-	1,926,929
Accrued Payroll and Related Items	221,681	-	-	221,681
Other Liabilities	142,172	-	-	142,172
Total Liabilities	<u>2,508,044</u>	<u>-</u>	<u>-</u>	<u>2,508,044</u>
Fund Balances	<u>551,405</u>	<u>612,964</u>	<u>3,227,477</u>	<u>4,391,846</u>
Total Fund Balances	<u>551,405</u>	<u>612,964</u>	<u>3,227,477</u>	<u>4,391,846</u>
Total Liabilities and Fund Balances	<u>\$ 3,059,449</u>	<u>\$ 612,964</u>	<u>\$ 3,227,477</u>	<u>\$ 6,899,890</u>

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, 2016

<u>REVENUES</u>	<u>Operating</u> <u>Fund</u>	<u>Property</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u> <u>Funds</u>
Assessments	\$ 4,293,545	\$ -	\$ 800,000	\$ 5,093,545
Interest Income	17,293	-	946	18,239
Food and Beverage	1,808,509	-	-	1,808,509
Administration	448,023	-	-	448,023
Recreation	177,128	-	-	177,128
Ground Maintenance Income	18,045	-	-	18,045
Gain on Sale of Fixed Assets	-	26,185	-	26,185
Total Revenues	6,762,543	26,185	800,946	7,589,674
<u>EXPENSES</u>				
General and Administrative Expenses				
Professional Fees	38,757	-	-	38,757
Income Taxes	1,080	-	-	1,080
Administrative Supplies	17,300	-	-	17,300
Public Relations	76,913	-	-	76,913
Uniforms and Linens	37,073	-	-	37,073
Golf Course Management Fees	534,236	-	-	534,236
Other General and Administrative	170,065	-	-	170,065
Salaries and Related Expenses				
Salaries	2,585,321	-	-	2,585,321
Payroll Taxes	276,959	-	-	276,959
Retirement Contribution	38,513	-	-	38,513
Employee Benefits	606,847	-	-	606,847
Training	8,262	-	-	8,262
Cost of Sales	676,406	-	-	676,406
Recreation Services	51,697	-	-	51,697
Utilities	600,784	-	-	600,784
Insurance	179,841	-	-	179,841
Outside Services	103,553	-	-	103,553
Repairs and Maintenance	254,319	-	-	254,319
Operating Supplies	173,278	-	-	173,278
Equipment Rental	29,135	-	-	29,135
Mileage and Auto Expenses	47,121	-	-	47,121
Property Taxes	58,516	-	-	58,516
Major Repairs and Replacements	-	-	311,022	311,022
Total Expenses	6,565,976	-	311,022	6,876,998
Excess of Revenues Over Expenses				
Before Depreciation and Bad Debts	196,567	26,185	489,924	712,676
Depreciation Expense	-	200,395	-	200,395
Bad Debts	78,000	-	-	78,000
Excess (Deficiency) of Revenues Over Expenses	\$ 118,567	\$ (174,210)	\$ 489,924	\$ 434,281

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, 2016**

	<u>Operating Fund</u>	<u>Property Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<u>FUND BALANCES</u>				
Fund Balances, Beginning of Year	\$ 451,738	\$ 516,494	\$ 2,989,333	\$ 3,957,565
Transfers Between Funds	(18,900)	270,680	(251,780)	-
Subtotal	432,838	787,174	2,737,553	3,957,565
Excess (Deficiency) of Revenues Over Expenses	118,567	(174,210)	489,924	434,281
Fund Balances, End of Year	<u>\$ 551,405</u>	<u>\$ 612,964</u>	<u>\$ 3,227,477</u>	<u>\$ 4,391,846</u>

See Auditors' Report

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

**Bear Valley Springs Association
Statement of Cash Flows
For the Year Ended June 30, 2016**

	<u>Operating Fund</u>	<u>Property Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<u>Cash Flows From Operating Activities:</u>				
Excess (Deficiency) of Revenues Over Expenses	\$ 118,567	\$ (174,210)	\$ 489,924	\$ 434,281
<u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u>				
Depreciation	-	200,395	-	200,395
Bad Debts	78,000	-	-	78,000
Gain/(Loss) on Disposition of Fixed Assets	-	(26,185)	-	(26,185)
<u>Change in Assets and Liabilities:</u>				
(Increase) in Assessments Receivable	(141,396)	-	-	(141,396)
Decrease in Other Receivables	11,917	-	-	11,917
(Increase) in Inventory	(9,244)	-	-	(9,244)
(Increase) in Prepaid Expenses	(13,665)	-	-	(13,665)
(Decrease) in Accounts Payable	(5,438)	-	-	(5,438)
Increase in Accrued Payroll	24,829	-	-	24,829
(Decrease) in Special Assessments	(23,777)	-	-	(23,777)
Increase in Prepaid Assessments	356,236	-	-	356,236
Increase in Accrued Expenses	11,484	-	-	11,484
Increase in Other Liabilities	30,648	-	-	30,648
Total Adjustments	319,594	174,210	-	493,804
Net Cash Provided (Used) By Operations	438,161	-	489,924	928,085
<u>Cash Flows from Non-Cash Financing Activities:</u>				
Transfers Between Funds	(18,900)	270,680	(251,780)	-
Net Cash Provided (Used) By Financing Activities	(18,900)	270,680	(251,780)	-
<u>Cash Flows from Investing Activities</u>				
Purchase of Investments	-	-	(519,280)	(519,280)
Purchases of Fixed Assets	-	(270,680)	-	(270,680)
Net Cash (Used By) Investing Activities	-	(270,680)	(519,280)	(789,960)
Net Increase (Decrease) in Cash	419,261	-	(281,136)	138,125
Cash, Beginning of Year	2,308,851	-	2,001,055	4,309,906
Cash, End of Year	<u>\$ 2,728,112</u>	<u>\$ -</u>	<u>\$ 1,719,919</u>	<u>\$ 4,448,031</u>
<u>Supplemental Information:</u>				
Cash Paid for Income Taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Auditors' Report

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

Bear Valley Springs Association

Notes to Financial Statements

For the Year Ended June 30, 2016

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

Bear Valley Springs Association (the "Association") is a California nonprofit corporation formed August 17, 1970. The Association's members consist of those persons or entities owning the lots within the Bear Valley Springs Association development. The Association is responsible for recreational and community facilities in the Bear Valley Springs development for the use and enjoyment of its approximately 3,582 properties as of June 30, 2016. 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.

The Association's Board of Directors is comprised of five members elected by the membership. The Board of Directors, among other things, establishes assessments on members of the Association and establishes user fees for Association amenities.

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

To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds, established according to their nature and purpose:

Operating Fund - Used to account for financial resources available for the general operations of the Association.

Replacement Fund - Used to account for financial resources designated for future major repairs and replacements of the amenities.

Property Fund - Used to account for financial resources available for purchases of capitalized common area assets and personal property owned.

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.

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.

The Association maintains bank accounts at various financial institutions. Balances in these accounts may occasionally exceed the FDIC federally insured amount of \$250,000. Funds maintained in brokerage accounts are invested in time deposits, which are not federally insured, but are privately insured by the SIPC (Securities Investors Protection Corporation).

Investments

The securities held by the Organization are classified as held-to-maturity investments and accordingly recorded at cost. Accumulated unrealized gains were approximately \$13,339 as of June 30, 2016. Maturity dates range from June 3, 2017 to June 3, 2021.

The Association's investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

Assessments Receivable

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at June 30, 2016 represent amounts due from members whose property is subject to lien and foreclosure. The Association's collection policy includes, among other things, assessing a late charge and interest, and filing a lien and assessing a lien fee on payments not received within the allowable time periods.

The Association has the right to suspend certain membership rights and pursue collection through foreclosure action. An allowance for doubtful accounts is created when an account's collectability is uncertain. Accounts are written off when the Association is notified that it is a bad debt, such as after bankruptcy or foreclosure proceedings. The Association derives a significant portion of its revenue from dues assessments that are levied against each lot within the development.

Bear Valley Springs Association

Notes to Financial Statements
For the Year Ended June 30, 2016

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES,
(continued):**

Assessments Receivable

An allowance of \$879,157 has been made for uncollectible assessments receivable. This allowance is an estimate based on an analysis of delinquent assessments receivable, historical collection activities, and existing economic conditions. Receivables are determined to be past due and are accounted for by increasing the allowance for doubtful accounts after three months.

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 6). 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 income.

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.

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, 2016, and the related accumulated depreciation consisted of:

	Amount
Furniture and Fixtures	\$ 2,104,390
Autos and Trucks	435,696
Golf Carts	178,711
Total Cost	2,718,797
Less: Accumulated Depreciation	(2,105,833)
Net Fixed Assets	\$ 612,964

Amounts due between funds

Amounts due between the funds consist of lending/borrowing arrangements outstanding at the end of the year are reported as “due to/from other funds.”

Amenity Cards Deposits

Members are charged through escrow for amenity cards, which allows them access to the Association’s various amenities. The deposits are refunded when the cards are returned to the Association office.

Renters Deposits

Renters Cards deposits represent amounts collected from tenants within the community for use of the Association’s various amenities. The deposits are refunded when the cards are returned to the Association office.

Deferred Revenue

Deferred revenue represents assessment revenues received during 2016 that are applicable to the following year.

Deferred Special Assessment Revenue

Special assessments are levied for specific projects, which are approved by the membership. Funding is recognized in the period when the funding is spent for its intended purpose. At year end, unspent funding is deferred as unearned revenue. The deferred special assessment revenue as of June 30, 2016 represents the unspent portion of the special assessment levied in a prior year for construction of the bathroom at the baseball field.

Interest Income

The Association records interest income in the respective fund holding the investments, but records related income tax expenses in the operating fund.

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 assets and contingent 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.

Lines of Business

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

Bear Valley Springs Association

Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 2 - REPLACEMENT FUND AND RESTRICTED CASH:

Even though the provisions in the Association's governing documents do not require it to do so, the Association does accumulate funds for the major repair and replacement of its common area components. Such funds are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such expenditures are necessary.

However, actual expenditures may vary from the estimated amounts and the variations may be material. In addition, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, to borrow the necessary funds, or to delay major repairs and replacements until the funds are available.

The Association annually reviews its reserve funding program as part of the budget process, and funds its reserves on a monthly basis. Cash and investment balances accumulated for the designated capital reserves represent cash restricted for this purpose only.

The Association commissioned a reserve study update without site visit in 2016 to estimate these future funding requirements. The study used a pooled funding method that included an inflation factor of 2% to estimate future expenditures.

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.

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

The Association's policy is to record tax interest expense or penalties in operating expenses. For the year ended June 30, 2016 no tax interest or penalties were paid or accrued.

Bear Valley Springs Association's federal and state tax returns are open for examination for the years ended June 30, 2014, 2015, and 2016.

NOTE 4 - 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 \$75,525 in ECC deposits as of June 30, 2016.

NOTE 5 - COMMITMENTS AND CONTINGENCIES:

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 sell 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 lease agreement. Instead of amending their current insurance policy, the Association has elected to exercise its option to reimburse the District for the costs of the required coverage.

Contingency

The Association was involved in litigation with an individual who was allegedly injured by a golf ball when fishing on an Association lake. The Association's legal costs have been covered by its insurance carrier. The case was settled in August of 2015 and all costs incurred were covered by the Association's insurance company.

Bear Valley Springs Association

Notes to Financial Statements
For the Year Ended June 30, 2016

**NOTE 5 – COMMITMENTS AND CONTINGENCIES,
(continued):**

Equipment leases

The Association has operating leases for various office equipment totaling approximately \$2,300 in payments per month. The leases expire in 2018. Future commitments on this lease are:

Year	Amount
6/30/17	\$ 27,864
6/30/18	\$ 27,864
6/30/19	\$ 22,548
Total	<u>\$ 78,276</u>

NOTE 6 – 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 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

FASB ASC 820-10, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of fair value of an asset or a liability as of the measurement date. The three levels are defined as follows:

Level 1 – Represented by quoted prices that are available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities.

Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset backed securities, and swap agreements.

Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining fair value measurement include reporting entity’s own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

Fair value of assets measured on a recurring basis at June 30, 2016 are as follows:

Fair Value	<u>Federated Treasury Obligation</u>		
	Level 1	Level 2	Level 3
\$ 3,705,341	\$ 3,705,341	\$ -	\$ -
<u>\$ 3,705,341</u>	<u>\$ 3,705,341</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 8 – PENSION PLAN:

The Association participates in a 401(k) defined contribution plan (the “Plan”) which covers all employees who meet the eligibility requirements. The Association matches 50% of the employee’s contributions up to 10% of the employee’s salary. Employees are vested in the employer contributions at a rate of 20% in the first year, 50% in the second year and are fully vested in the third year of participation in the Plan. Total contributions made by the Association to the Plan for the year ended June 30, 2016, were \$38,513.

NOTE 9 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The Association maintains demand accounts at various banks. At June 30, 2016, the aggregate balance of the cash accounts in Mutual of Omaha Bank exceeds the federally insured limits by \$241,964. The Association manages risk by maintaining balances in multiple financial institutions and by investing in funds comprised of U.S. treasury obligations, which are not FDIC nor SIPC insured, but carry the full faith and credit of the U.S. Government. The total of the Federated Treasury Obligations at June 30, 2016 was \$3,705,341.

Financial instruments that potentially subject the Association to credit risk consist principally of accounts receivable.

NOTE 10 – SUBSEQUENT EVENTS:

The financial statements were issued on and subsequent events were evaluated through October 18, 2016.

Bear Valley Springs Association
 Supplemental Information on Replacement Fund Balances
 For the Year Ended June 30, 2016
 (unaudited)

The Board of Directors commissioned a reserve study update, with site visit, in 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association has assessed the present condition of all 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 2%, interest earnings of 0.9%, and a 0% provision for taxes.

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

Component	Estimated Remaining Useful Lives	Estimated Current Replacement Cost
Asphalt & Concrete	0-21 yrs.	\$ 1,144,930
Courts	0-22 yrs.	\$ 287,038
Decking	8-20 yrs.	\$ 89,531
Doors	0-17 yrs.	\$ 124,830
Drainage	0-8 yrs.	\$ 187,384
Equipment	0-23 yrs.	\$ 1,998,596
Fence/Gates/Rail	0-26 yrs.	\$ 621,249
Fire Safety	2-4 yrs.	\$ 9,497
Fixtures	1-13 yrs.	\$ 46,062
Flooring	0-18 yrs.	\$ 140,793
Furniture	0-27 yrs.	\$ 498,131
Golf	0 yrs.	\$ 7,272
Golf Course Amenities	0-6 yrs.	\$ 471,441
HVAC System	0-16 yrs.	\$ 182,449
Irrigation	0-23 yrs.	\$ 2,564,439
Lighting	0-18 yrs.	\$ 437,188
Paint	0-7 yrs.	\$ 163,688
Park Amenities	0-18 yrs.	\$ 286,190
Pool & Wading Area	1-15 yrs.	\$ 455,445
Remodeling	6-15 yrs.	\$ 74,016
Restrooms	1-20 yrs.	\$ 219,703
Roofing	7-16 yrs.	\$ 548,540
Septic System	0-17 yrs.	\$ 95,972
Septic Systems	7-22 yrs.	\$ 74,857
Siding	1-32 yrs.	\$ 177,804
Signs	0-11 yrs.	\$ 45,564
Spa Area	4 yrs.	\$ 21,684
Structure	0-25 yrs.	\$ 789,858
Vehicle	0-3 yrs.	\$ 200,634
Window Covering	0-13 yrs.	\$ 24,914
Windows	0-10 yrs.	\$ 64,475
Totals		\$ 12,054,174
Balance at June, 30, 2016		\$ 3,227,477 *
Annual Funding, per Reserve Study, for Year 2017		\$ 888,628 *
Annual Funding, per Approved Budget, for Year 2017		\$ 828,000 *

* Funding calculated on aggregate cash flow basis only

Hinricher, Douglas & Porter LLP

Certified Public Accountants

3275 Old Conejo Road

Thousand Oaks, Ca 91320

(805) 496-1883 Fax (805) 496-5602

www.HD-CPAs.Com

Ventura Office
199 Figueroa Street
Ventura, Ca 93001

Encino Office
16055 Ventura Boulevard, Suite 1215
Encino, Ca 91436

October 18, 2016

Board of Directors
Bear Valley Springs Association
Tehachapi, CA

We have audited the financial statements of Bear Valley Springs Association as of and for the year ended June 30, 2016, and have issued our report thereon dated October 18, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated February 26, 2016. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Bear Valley Springs Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

Management's estimate of collectibility of assessments receivable is based on history and knowledge of current status of receivables, plus authority to lien property. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management are material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management Letter of Representations dated October 18, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Required Supplementary Information

With respect to the supplementary information on replacement fund balances required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

This information is intended solely for the use of the Board of Directors and management of Bear Valley Springs Association and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Hinricher, Douglas & Porter, LLP

Hinricher, Douglas & Porter, LLP

Hinricher, Douglas & Porter LLP

Certified Public Accountants

3275 Old Conejo Road

Thousand Oaks, Ca 91320

(805) 496-1883 Fax (805) 496-5602

www.HD-CPAs.Com

Ventura Office
199 Figueroa Street
Ventura, Ca 93001

Encino Office
16055 Ventura Boulevard, Suite 1215
Encino, Ca 91436

October 18, 2016

Board of Directors
Bear Valley Springs Association
Tehachapi, CA

In planning and performing our audit of the financial statements of Bear Valley Springs Association as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Bear Valley Springs Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Association's internal control to be significant deficiencies.

Cash Reconciliations

During our audit procedures it was noted that the operating bank reconciliations for June 30, 2016 did not agree to the general ledger and differed from the financial statements by an immaterial amount. During our discussion with management, it was noted that this may be the result of adjusting the cash accounts throughout the year for various reconciling items. We also noticed that there are various stale dated checks and other reconciling items listed on the bank reconciliations that need to be addressed. We also recommend that management address stale dated checks and old outstanding items listed in the bank reconciliations in a timely manner. We are aware that Management has involved an outside accountant to assist the Finance Manager with addressing these matters.

Fixed Assets and Depreciation

During our audit procedures we noticed that the total accumulated depreciation and depreciation expense listed on the Association's fixed asset excel schedule did not agree to the general ledger and as a result the Association's financial statements were materially misstated. We also noticed that the additions and dispositions, which occurred during the year, were indicated in the fixed asset listing, however, were not recorded in the financial statements. We believe that this deficiency may have contributed to the material misstatement surrounding depreciation mentioned above. We recognize that in past years the Association's audit firm has prepared the annual depreciation schedule and has provided the Association with audit adjustments in order to properly state fixed assets and depreciation at the end of the year. However, in order to avoid material misstatements related to fixed assets and related depreciation, we recommend the Association record the additions and dispositions of fixed assets during the year and reconcile the depreciation schedule to the financial statements on a monthly basis. In order to properly track assets and related depreciation, the Association will either need to update the excel schedule of depreciation or purchase depreciation software.

Accounts Receivable

During our audit procedures it was noted that the assessments receivable aging report from the Association's software package was not reconciled to the general ledger, but that management was using information from the general ledger to create an accounting of assessments receivable in an excel spreadsheet separate from the general ledger. This process could provide for misstatements in reporting receivables due to the volume of transactions that occur in those accounts or otherwise cleared from the software system. We understand that part of the difference between the assessments receivable aging report and the general ledger is due to prior year postings to the receivable module in the general ledger package that cannot be reconciled to the control account. This is due to a problem with the accounts receivable module and we recommend that the Association consult with a QuickBooks software professional in order to resolve this issue. We also noticed that the supporting schedules for the other receivables listed in the general ledger differed from the financial statements as of June 30, 2016 by an immaterial amount. Once the software issues have been resolved we recommend the Association use the accounts receivable module of the general ledger software to track receivables and reconcile the other receivable reports to the general ledger on a monthly basis. It was noted during our audit procedures that the Association has been working with an outside QuickBooks professional in order to reconcile the accounts receivable module.

Any immaterial items noted during the course of our audit are attached to this letter as "Current Findings and Recommendations."

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Association, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Hinricher, Douglas & Porter, LLP

Hinricher, Douglas & Porter, LLP

Status of Prior Years' Recommendations

In the prior year we recommended that the Association should obtain a reserve study including an onsite visit with the corresponding reserve study report. The Association did engage Facilities Advisors, Inc. in 2015 to conduct a new Reserve Study with an onsite visit.

In the prior year we noted that there had not been an inventory of the amount of fuel completed during the prior year and also that access has not been limited to the fuel. As a result, we recommended that the Association implement internal control procedures to periodically measure the amount of fuel kept in the tank, limit access to the fuel to the appropriate individuals, and to account for the fuel used and received by the appropriate individuals.

The Association has implemented a process, and is monitoring the fuel inventory on a monthly basis, accounting for fuel received and dispensed, and controlling and limiting access to the fuel.