



Bear Valley Springs

Bear Tracks

Volume 6, Issue: November 2011 (Supplemental)

Official Publication of The Bear Valley Springs Association

Bear Valley Springs Association

Auditors' Report
Financial Statements
and
Supplemental Information
June 30, 2011



SBH & ASSOCIATES, LLP
Certified Public Accountants

BVSA Annual Audit 2010-2011
Julia Stavlo – Finance Manager

The Independent Auditor's Report enclosed in this Bear Tracks Supplemental Edition contains the accountant's review of the year end Financial Statements. Homeowner associations are required at the end of each fiscal year to perform a "review" or an "audit" of the Financial Statements by the Davis-Stirling Common Interest Development Act Civil Code 1365(c). Bear Valley Springs Association contracts to have a year-end audit performed of the Association Financial Statements.

In doing so, a Certified Public Accountant (CPA) is engaged. A CPA is an accountant who has met the requirements of California state law and has been issued a license to practice public accounting by the California Board of Accountancy. CPAs audit financial statements of both publicly and privately held companies, including homeowner associations.

Again this year, Certified Public Accountant firm, SBH & Associates, LLP from Palms Springs, California (SBH & Associates, LLP) was contracted to audit our accounting practices and financial statements for the year ending June 30, 2011.

As you read through their findings, keep in mind their responsibility is to ask and answer the questions, "Are the BVSA Board of Directors and Management Team using generally accepted accounting practices (GAAP) to manage, prepare and report the financial position of the Association to it's membership? "Are these practices mitigating the risk for loss?" And, "Have the BVSA Board of Directors and/or Management Team, made any material misstatements in those records for the fiscal year being audited?"

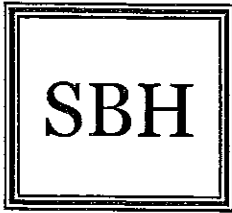
The Association was fortunate to be continuing with the same CPA firm, because this presented them the perfect opportunity to delve deeper into our records and practices. During the time that SBH & Associates, LLP were onsite at the Association Office, they and the BVSA Management team and Accounting staff had numerous opportunities to discuss the past events and practices within the Association. When the draft version of this Auditor's Report was received in mid-October, questions were brought forward by the Audit Committee, BVSA Board of Directors and the BVSA Management Team. SBH & Associates, LLP went to great lengths to explain and clarify the results. This year Steve Haigler, SBH & Associates, LLP partner, was able to attend a meeting of the Board of Directors to address questions and concerns first hand.

The auditor's continuing review of the Property, Equipment and Depreciation practiced by the Association was also in depth this year. Included was the auditor evaluating the policy by which an asset is deemed capital or not. The cornerstone of the policy is, as was clarified in the audit from a year ago, whether the asset is **Real** (land, buildings or anything permanently attached to same) or **Personal Property** (property not a building, land or permanently attached to it; like furniture, fixtures, vehicles or equipment). And as defined within the new policy the threshold for the cost of the component and the amount of time the item will be in service to the Association.

Also as part of the audit process, but not part of the official publication, is the *Auditor's Management Letter*, is a collection of suggestions pertaining to our accounting practices, that the auditor believes would be beneficial for the Association to implement, thereby improving the procedures and controls already in place. This *Management Letter* is reviewed by the Audit Committee, BVSA Board of Directors and BVSA Management Team to consider and or implement these items to improve our Accounting practices and controls.

We appreciate that you have been looking forward to these results and are hopeful that you will find that they authenticate the financial health of the Bear Valley Springs Association.

For additional information or copies of this Bear Tracks Supplemental Edition you can contact the BVSA Administrative Office located at 29541 Rolling Oak Drive, Tehachapi CA 93561. Contact Julia Stavlo, BVSA Finance Manager 661-821-5537 extension 219, email julias.bvsa@bluetie.com or Kirk Wooldridge, BVSA General Manager 661-821-5537 extension 212, email kirkw.bvsa@bluetie.com.



SBH & 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, 2011, 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, 2011, 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.

Accounting principles generally accepted in the United States of America require that Supplemental Information on Replacement Fund Balances is 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.

SBH and Associates, LLP

Palm Springs, CA
September 15, 2011

SBH & Associates, LLP (formerly Siebert Botkin Hickey & Associates, LLP)

4375 Calle de Ricardo, Suite B, Palm Springs, CA 92264
1680 E. 6th Street, Suite A, Beaumont, CA 92223

Telephone: (760) 325-2353
Telephone: (951) 845-2625

Fax: (760) 325-8053
Fax: (951) 922-6591

Bear Valley Springs Association

Balance Sheet

As of June 30, 2011

With Comparative Totals For June 30, 2010

| | <u>Operating Fund</u> | <u>Property Fund</u> | <u>Replacement Fund</u> | <u>2011 Total Funds</u> | <u>2010 Total Funds</u> |
|---|----------------------------|--------------------------|-----------------------------|---------------------------------|---------------------------------|
| <u>ASSETS</u> | | | | | |
| Cash | \$ 1,697,943 | \$ - | \$ 58,615 | \$ 1,756,558 | \$ 3,847,845 |
| Investments | 666,257 | - | 1,825,309 | 2,491,566 | 526,319 |
| Assessments receivable (net) | 61,914 | - | - | 61,914 | 48,139 |
| Other receivables | 42,945 | - | - | 42,945 | 42,404 |
| Inventory | 80,524 | - | - | 80,524 | 62,141 |
| Prepaid insurance | 33,716 | - | - | 33,716 | 51,725 |
| Prepaid income taxes | 3,273 | - | - | 3,273 | 3,273 |
| Other prepaid expenses | 12,500 | - | - | 12,500 | 13,025 |
| Property and equipment (net) | - | 674,337 | - | 674,337 | 825,776 |
| Total Assets | <u>2,599,072</u> | <u>674,337</u> | <u>1,883,924</u> | <u>5,157,333</u> | <u>5,420,647</u> |
| <u>LIABILITIES and FUND BALANCES</u> | | | | | |
| Accounts payable | 92,531 | - | 297 | 92,828 | 220,764 |
| Prepaid assessments | 1,467,267 | - | - | 1,467,267 | 1,586,487 |
| Deferred special assessment revenue | 30,957 | - | - | 30,957 | 121,063 |
| Accrued payroll and related items | 145,125 | - | - | 145,125 | 130,656 |
| Other liabilities | 111,632 | - | - | 111,632 | 141,159 |
| Total liabilities | <u>1,847,512</u> | <u>-</u> | <u>297</u> | <u>1,847,809</u> | <u>2,200,129</u> |
| Fund balances | <u>751,560</u> | <u>674,337</u> | <u>1,883,627</u> | <u>3,309,524</u> | <u>3,220,518</u> |
| Total Liabilities and Fund Balances | <u>\$ 2,599,072</u> | <u>\$ 674,337</u> | <u>\$ 1,883,924</u> | <u>\$ 5,157,333</u> | <u>\$ 5,420,647</u> |

Bear Valley Springs Association

Statement of Revenues and Expenses

For the Year Ended June 30, 2011

With Comparative Totals For June 30, 2010

| | Operating Fund | Property Fund | Replacement Fund | 2011 Total Funds | 2010 Total Funds |
|---|-------------------|-------------------|---------------------|------------------------|------------------------|
| <u>REVENUES</u> | | | | | |
| Assessments | \$ 3,704,568 | \$ - | \$ 764,580 | \$ 4,469,148 | \$ 4,243,485 |
| Special assessments | 12,027 | - | - | 12,027 | 111,702 |
| Interest income | 1,689 | - | 5,926 | 7,615 | 14,323 |
| Food and beverage | 1,530,314 | - | - | 1,530,314 | 1,379,123 |
| Administration | 173,761 | - | - | 173,761 | 185,174 |
| Recreation | 344,910 | - | - | 344,910 | 318,854 |
| Ground maintenance income | 11,580 | - | - | 11,580 | 18,255 |
| Other income | 291 | - | - | 291 | 563 |
| Total revenues | 5,779,140 | - | 770,506 | 6,549,646 | 6,271,479 |
| <u>EXPENSES</u> | | | | | |
| General and administrative expenses * | 858,437 | - | - | 858,437 | 868,110 |
| Salaries and related expenses* | 3,011,243 | - | - | 3,011,243 | 2,816,410 |
| Food, beverage and recreation purchases | 714,244 | - | - | 714,244 | 577,850 |
| Recreation services | 109,759 | - | - | 109,759 | 117,021 |
| Utilities | 420,047 | - | - | 420,047 | 470,340 |
| Insurance | 172,045 | - | - | 172,045 | 187,405 |
| Outside services | 53,045 | - | - | 53,045 | 60,944 |
| Repairs and maintenance | 189,469 | - | - | 189,469 | 189,407 |
| Operating supplies | 35,783 | - | - | 35,783 | 35,272 |
| Equipment rental | 24,305 | - | - | 24,305 | 26,717 |
| Mileage and auto expenses | 45,004 | - | - | 45,004 | 33,392 |
| Property taxes | 34,871 | - | - | 34,871 | 26,681 |
| Income taxes | - | - | - | - | 1,187 |
| Project expenses | 155,841 | - | - | 155,841 | 111,702 |
| Major repairs and replacements | - | - | 357,013 | 357,013 | 509,380 |
| Depreciation expense | - | 203,950 | - | 203,950 | 198,867 |
| Bad debt expense | 75,584 | - | - | 75,584 | 100,008 |
| Total expenses | 5,899,677 | 203,950 | 357,013 | 6,460,640 | 6,330,693 |
| Excess (deficiency) of revenues over expenses | (120,537) | (203,950) | 413,493 | 89,006 | (59,214) |
| Fund balances, beginning of year | 581,852 | 825,776 | 1,812,890 | 3,220,518 | 3,279,732 |
| Transfers between funds | 290,245 | 52,511 | (342,756) | - | - |
| Fund balance, end of year | \$ 751,560 | \$ 674,337 | \$ 1,883,627 | \$ 3,309,524 | \$ 3,220,518 |

* see supplemental information schedules for additional detail.

Bear Valley Springs Association

Statement of Cash Flows

For the Year Ended June 30, 2011

With Comparative Totals For June 30, 2010

| | Operating Fund | Property Fund | Replacement Fund | 2011 Total Funds | 2010 Total Funds |
|---|---------------------|------------------|---------------------|------------------------|------------------------|
| <u>Cash Flows From Operating Activities:</u> | | | | | |
| Excess (deficiency) of revenues over expenses | \$ (120,537) | \$ (203,950) | \$ 413,493 | \$ 89,006 | \$ (59,214) |
| <u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u> | | | | | |
| Depreciation | - | 203,950 | - | 203,950 | 198,867 |
| Bad debt expense | 75,000 | - | - | 75,000 | 100,008 |
| <u>Change in Assets and Liabilities:</u> | | | | | |
| Change in assessments receivable | (88,775) | - | - | (88,775) | (96,209) |
| Change in other receivables | (6,090) | - | 5,549 | (541) | 18,212 |
| Change in inventory | (18,383) | - | - | (18,383) | (6,060) |
| Change in prepaid expenses | 18,009 | - | - | 18,009 | (23,709) |
| Change in prepaid income taxes | - | - | - | - | 1,187 |
| Change in other prepaid expenses | 525 | - | - | 525 | 534 |
| Change in accounts payable | (128,233) | - | 297 | (127,936) | 30,400 |
| Change in accrued payroll and related items | 14,469 | - | - | 14,469 | 23,536 |
| Change in prepaid assessments | (119,220) | - | - | (119,220) | 3,061 |
| Change in deferred special assessments | (90,106) | - | - | (90,106) | 121,063 |
| Change in accrued expenses | - | - | - | - | (7,841) |
| Change in income taxes payable | - | - | - | - | 3,047 |
| Change in other liabilities | (29,527) | - | - | (29,527) | 8,575 |
| Total adjustments | (372,331) | 203,950 | 5,846 | (162,535) | 374,671 |
| Net cash provided (used) by operations | (492,868) | - | 419,339 | (73,529) | 315,457 |
| <u>Cash Flows from Non-Cash Financing Activities:</u> | | | | | |
| Net borrowing between funds | (278,588) | - | 278,588 | - | - |
| Transfers between funds | 290,245 | 52,511 | (342,756) | - | - |
| Net cash provided (used) by financing activities | 11,657 | 52,511 | (64,168) | - | - |
| <u>Cash Flows from Investing Activities</u> | | | | | |
| Purchase of investments | (666,257) | - | (1,298,990) | (1,965,247) | 82,099 |
| Net increase in fixed assets | - | (52,511) | - | (52,511) | - |
| Net cash (used by) investing activities | (666,257) | (52,511) | (1,298,990) | (2,017,758) | 82,099 |
| Net increase (decrease) in cash | (1,147,468) | - | (943,819) | (2,091,287) | 397,556 |
| Cash, beginning of year | 2,845,411 | - | 1,002,434 | 3,847,845 | 3,450,289 |
| Cash, end of year | <u>\$ 1,697,943</u> | <u>\$ -</u> | <u>\$ 58,615</u> | <u>\$ 1,756,558</u> | <u>\$ 3,847,845</u> |

Bear Valley Springs Association

Notes to Financial Statements

For the Year Ended June 30, 2011

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 approximate 3,581 properties as of June 30, 2011. 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.

Special assessments

Special assessments are revenues for specific projects, 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.

| Description | Amounts |
|--------------------------------|------------|
| Special Assessment Income 2010 | \$ 232,765 |
| Special assessment Expenses | (111,702) |
| Deferred assessment 2010 | \$ 121,063 |
| Special Assessment 2011 | 42,984 |
| Special assessment Expenses | (133,090) |
| Deferred assessment 2011 | \$ 30,957 |

Assessments Receivable

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. At June 30, 2011 Assessments receivable is:

| Description | Amount |
|---|------------|
| Assessments receivables | \$ 388,904 |
| Penalties, fees and interest receivable | 11,848 |
| Allowance for doubtful accounts | (338,838) |
| Total assessments receivable | \$ 61,914 |

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, 2011, and the related accumulated depreciation consisted of:

| Description | 2011 |
|-----------------------------------|--------------|
| Furniture, Fixtures and Equipment | \$ 1,606,412 |
| Autos and Trucks | 420,018 |
| Golf Carts | 85,653 |
| Total Cost | \$ 2,112,083 |
| Less: Accumulated Depreciation | (1,437,746) |
| Net Cost | \$ 674,337 |

| Description | 2010 |
|-----------------------------------|--------------|
| Furniture, Fixtures and Equipment | \$ 1,598,430 |
| Autos and 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.

Bear Valley Springs Association

Notes to Financial Statements

For the Year Ended June 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING

POLICIES (continued):

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.

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 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 \$85,225 in ECC deposits as of June 30, 2011.

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.

Bear Valley Springs Association

Notes to Financial Statements

For the Year Ended June 30, 2011

NOTE 7 – COMMITMENTS AND CONTINGENCIES

(continued):

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.

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 staff, 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 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 operating leases

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> |
|----------------------------|------------------|
| 2012 | \$ 13,040 |
| 2013 | 13,040 |
| 2014 | 5,860 |
| Total lease payments | <u>\$ 60,385</u> |

Contingencies

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, 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.

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, 2011, the Association contributed \$37,738 to the plan.

Bear Valley Springs Association
Supplemental Information on Replacement Fund Balances
For the Year Ended June 30, 2011
(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 for 2010-2011 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 (yrs) | Replacement Cost | 6/30/2011 Balance * | 2010-2011 Annual Funding |
|----------------------------|---|-----------------------------|--------------------------------|---|
| Administration | 0 to 29 | \$ 353,273 | \$ - | \$ - |
| Facilities and maintenance | 0 to 23 | 183,788 | - | - |
| Oak Tree Country Club | 0 to 28 | 932,866 | - | - |
| Administration | 3 to 10 | 1,590 | - | - |
| ECC | 0 to 5 | 36,997 | - | - |
| Mulligan Room | 0 to 29 | 248,928 | - | - |
| Golf Shop | 0 to 29 | 145,340 | - | - |
| Parks/lakes/ranges | 0 to 24 | 651,144 | - | - |
| Equestrian center | 0 to 29 | 1,198,453 | - | - |
| Whiting center | 0 to 29 | 847,509 | - | - |
| Golf maintenance | 0 to 27 | 3,140,726 | - | - |
| Pool | 0 to 24 | 488,297 | - | - |
| Bar | 0 to 29 | 212,042 | - | - |
| Restaurant | 0 to 29 | 1,020,441 | - | - |
| Janitorial | 0 to 10 | 65,412 | - | - |
| Tennis | 0 to 29 | 394,701 | - | - |
| Grounds maintenance | 1 to 7 | 165,870 | - | - |
| Totals | | \$ 10,087,377 | \$ 1,883,627 | \$ 764,580 |

*Information not provided in the study.

Bear Valley Springs Association
Schedule of General and Administrative Expenses
For the Year Ended June 30, 2011
With Comparative Totals For June 30, 2010

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Professional fees: | | |
| Disaster planning | \$ 575 | \$ 774 |
| Legal fees | 25,041 | 32,027 |
| Legal settlements | - | 8,100 |
| Audit services | 17,250 | 16,950 |
| Payroll services | 27,347 | 25,579 |
| Consulting fees | 3,127 | 2,050 |
| Professional fees total | <u>73,340</u> | <u>85,480</u> |
| Administrative Supplies: | | |
| Office supplies | 14,491 | 14,817 |
| Software supplies and services | 123 | 7,371 |
| Software and upgrades | 8,668 | 9,063 |
| Total Administrative Supplies: | <u>23,282</u> | <u>31,251</u> |
| Community/employee relations | | |
| Community relations | 18,383 | 19,661 |
| Employee relations | 17,779 | 13,810 |
| Total Community/employee relations | <u>36,162</u> | <u>33,471</u> |
| Linens, uniforms and mats | <u>28,028</u> | <u>30,112</u> |
| Golf course management fees | <u>485,100</u> | <u>490,200</u> |
| Other General and Administrative: | | |
| First aid | 790 | 1,281 |
| Drug testing | 3,878 | 2,438 |
| Elections | 14,740 | 15,158 |
| Banking and billing supplies | 2,838 | - |
| Licenses, fees and subs | 31,244 | 31,246 |
| Postage and shipping | 6,951 | 6,968 |
| Committee fees | 5,500 | 4,600 |
| Contingency fund expense | 42,684 | 50,000 |
| Travel | 1,524 | 1,793 |
| Federal and CA filing fees | 993 | 1,008 |
| Advertising and promotion | 9,072 | 4,929 |
| Promotions and incentives | 1,555 | - |
| Collection expense | 6,932 | 917 |
| Newsletter | 7,855 | 8,340 |
| 401k plan administration fees | 3,783 | 4,002 |
| Miscellaneous expense | 206 | 4,525 |
| Janitorial supplies | 23,548 | 25,080 |
| Bank fees and credit card charges | 3,869 | 1,479 |
| Background investigations | 137 | 177 |
| Cash over/short | (54) | (144) |
| Credit card commission | 40,572 | 33,799 |
| Theft loss | 3,822 | - |
| Late charge - paying invoices | 86 | - |
| Total Other General and Administrative | <u>212,525</u> | <u>197,596</u> |
| Total General and Administrative Expenses | <u>\$ 858,437</u> | <u>\$ 868,110</u> |

Bear Valley Springs Association
Schedule of Salaries and Related Expenses
For the Year Ended June 30, 2011
With Comparative Totals For June 30, 2010

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|---------------------|---------------------|
| Salaries | | |
| Payroll expense - hourly | \$ 1,632,012 | \$ 1,502,268 |
| Payroll expense - salaried | 648,426 | 644,315 |
| Vacations benefits | 81,614 | 82,212 |
| Employee meals | 34,377 | 39,969 |
| Total Salaries | <u>2,396,429</u> | <u>2,268,764</u> |
| Payroll taxes | | |
| Social security | 154,239 | 146,727 |
| Medicare | 36,481 | 34,694 |
| Federal unemployment insurance | 7,272 | 7,199 |
| California unemployment insurance | 49,153 | 40,796 |
| Total Payroll Taxes | <u>247,145</u> | <u>229,416</u> |
| Retirement contributions | 37,738 | 35,313 |
| Employee Benefits | | |
| Workers compensation | 110,546 | 99,726 |
| Group health insurance | 185,445 | 149,515 |
| Employee incentive programs | 25,875 | 22,564 |
| Uniform allowance | 4,721 | 3,673 |
| Total Employee Benefits | <u>326,587</u> | <u>275,478</u> |
| Conference, seminars and training | 3,344 | 7,439 |
| Total Salaries and Related Benefits | <u>\$ 3,011,243</u> | <u>\$ 2,816,410</u> |