

BEAR VALLEY SPRINGS ASSOCIATION

**Auditor's Report
Financial Statements
and
Supplemental Information
*June 30, 2008***

PORTER & COMPANY
Certified Public Accountant



Certified Public Accountant

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Board of Directors and Members

Bear Valley Springs Association

Tehachapi, CA

Independent Auditor's Report

I have audited the accompanying balance sheet of Bear Valley Springs Association as of June 30, 2008 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my 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, 2008 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.

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

Porter & Company

October 6, 2008

Bear Valley Springs Association

Balance Sheet

As of June 30, 2008

With Comparative Totals For June 30, 2007

	Operating Fund	Property Fund	Replacement Fund	2008 Total Funds	2007 Total Funds
<u>ASSETS</u>					
Cash	\$ 2,695,373	\$ -	\$ 382,761	\$ 3,078,134	\$ 3,527,682
Investments	-	-	500,000	500,000	-
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$63,812 and \$25,840, respectively	29,670	-	-	29,670	12,450
Other Receivables	307,896	-	5,071	312,967	31,487
Inventory	69,119	-	-	69,119	74,737
Prepaid Insurance	20,911	-	-	20,911	70,348
Prepaid Income Taxes	4,453	-	-	4,453	-
Other Prepaid Expenses	13,073	-	-	13,073	875
Property and Equipment, Net of Accumulated Depreciation of \$2,325,886 and \$1,861,767, respectively	-	3,905,175	-	3,905,175	1,900,317
Construction in Progress	-	144,717	-	144,717	890,653
	\$ 3,140,495	\$ 4,049,892	\$ 887,832	\$ 8,078,219	\$ 6,508,549
 <u>LIABILITIES and FUND BALANCES</u>					
Accounts Payable	\$ 178,150	\$ -	\$ -	\$ 178,150	\$ 170,871
Accrued Expenses	18,810	-	-	18,810	10,398
Prepaid Assessments	1,679,685	-	-	1,679,685	1,299,003
Accrued Payroll and Related Items	152,034	-	-	152,034	267,347
Income Taxes Payable	-	-	-	-	1,848
Other Liabilities	207,500	-	-	207,500	240,828
	2,236,179	-	-	2,236,179	1,990,295
Contributed Capital	160,616	-	-	160,616	149,268
Fund Balances	743,700	4,049,892	887,832	5,681,424	4,368,986
Total Fund Balances	904,316	4,049,892	887,832	5,842,040	4,518,254
	\$ 3,140,495	\$ 4,049,892	\$ 887,832	\$ 8,078,219	\$ 6,508,549

See Auditor's 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, 2008

With Comparative Totals For June 30, 2007

	Operating Fund	Property Fund	Replacement Fund	2008 Total Funds	2007 Total Funds
<u>REVENUES</u>					
Assessments	\$ 3,520,940	\$ -	\$ 750,000	\$ 4,270,940	\$ 3,811,277
Interest Income	62,558	-	35,453	98,011	148,894
Food and Beverage	1,517,899	-	-	1,517,899	1,370,887
Administration	92,565	-	-	92,565	141,651
Recreation	332,599	-	-	332,599	338,706
Ground Maintenance Income	13,306	-	-	13,306	-
Total Revenues	5,539,867	-	785,453	6,325,320	5,811,415
<u>EXPENSES</u>					
General and Administrative Expenses					
Professional Fees	85,775	-	-	85,775	65,634
Income Taxes	8,555	-	-	8,555	12,964
Administrative Supplies	25,738	-	-	25,738	34,925
Public Relations	32,738	-	-	32,738	31,407
Uniforms and Linens	35,742	-	-	35,742	32,764
Golf Course Management Fees	367,516	-	-	367,516	-
Other General and Administrative	173,058	-	-	173,058	164,606
Salaries and Related Expenses					
Salaries	2,162,039	-	-	2,162,039	2,011,090
Payroll Taxes	226,732	-	-	226,732	227,764
Retirement Contribution	30,262	-	-	30,262	20,050
Employee Benefits	219,823	-	-	219,823	302,147
Training	11,523	-	-	11,523	6,371
Cost of Sales	652,741	-	-	652,741	536,383
Recreation Services	125,763	-	-	125,763	136,973
Utilities	469,929	-	-	469,929	400,469
Insurance	277,279	-	-	277,279	267,062
Outside Services	52,081	-	-	52,081	64,340
Repairs and Maintenance	238,087	-	-	238,087	261,807
Operating Supplies	40,969	-	-	40,969	58,353
Equipment Rental	18,759	-	-	18,759	32,543
Mileage and Auto Expenses	44,726	-	-	44,726	52,823
Property Taxes	20,364	-	-	20,364	24,814
Major Repairs and Replacements	-	-	-	-	329,926
Total Expenses	5,320,199	-	-	5,320,199	5,075,215
Excess (Deficiency) of Revenues Over Expenses					
Before Depreciation and Bad Debts	219,668	-	785,453	1,005,121	736,200
Depreciation Expense	-	464,119	-	464,119	148,243
Bad Debts	37,972	-	-	37,972	-
Excess (Deficiency) of Revenues Over Expenses	\$ 181,696	\$ (464,119)	\$ 785,453	\$ 503,030	\$ 587,957

See Auditor's 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, 2008

With Comparative Totals For June 30, 2007

	Operating Fund	Property Fund	Replacement Fund	2008 Total Funds	2007 Total Funds
<u>FUND BALANCES</u>					
Fund Balances, Beginning of Year	\$ 549,902	\$ 2,790,970	\$ 1,028,114	\$ 4,368,986	\$ 4,102,124
Prior Period Adjustment	-	1,144,046	-	1,144,046	(321,095)
Fund Balances, Beginning of Year, As Restated	549,902	3,935,016	1,028,114	5,513,032	3,781,029
Transfers Between Funds	12,102	578,995	(925,735)	(334,638)	-
Subtotal	562,004	4,514,011	102,379	5,178,394	3,781,029
Excess (Deficiency) of Revenues Over Expenses	181,696	(464,119)	785,453	503,030	587,957
Fund Balances, End of Year	<u>\$ 743,700</u>	<u>\$ 4,049,892</u>	<u>\$ 887,832</u>	<u>\$ 5,681,424</u>	<u>\$ 4,368,986</u>

See Auditor's 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, 2008

With Comparative Totals For June 30, 2007

	Operating Fund	Property Fund	Replacement Fund	2008 Total Funds	2007 Total Funds
<u>Cash Flows From Operating Activities:</u>					
Excess (Deficiency) of Revenues Over Expenses	\$ 181,696	\$ (464,119)	\$ 785,453	\$ 503,030	\$ 587,957
<u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u>					
Depreciation	-	464,119	-	464,119	13,842
Bad Debts	37,972	-	-	37,972	(385,106)
<u>Change in Assets and Liabilities:</u>					
Change in Assessments Receivable	(55,192)	-	-	(55,192)	397,116
Change in Other Receivables	(276,409)	-	(5,071)	(281,480)	(11,353)
Change in Inventory	5,618	-	-	5,618	(36,323)
Change in Prepaid Expenses	49,437	-	-	49,437	(70,348)
Change in Prepaid Income Taxes	(4,453)	-	-	(4,453)	431
Change in Other Prepaid Expenses	(12,198)	-	-	(12,198)	1,161
Change in Deposits	-	-	-	-	24,018
Change in Accounts Payable	7,279	-	-	7,279	(225,641)
Change in Accrued Payroll and Related Items	(115,313)	-	-	(115,313)	44,718
Change in Prepaid Assessments	380,682	-	-	380,682	134,952
Change in Accrued Expenses	8,412	-	-	8,412	2,279
Change in Income Taxes Payable	(1,848)	-	-	(1,848)	(5,850)
Change in Other Liabilities	(356,618)	-	-	(356,618)	396,100
Total Adjustments	(332,631)	464,119	(5,071)	126,417	279,996
Net Cash Provided (Used) By Operations	(150,935)	-	780,382	629,447	867,953
<u>Cash Flows from Non-Cash Financing Activities:</u>					
Capital Contributions	334,638	-	-	334,638	(334,638)
Prior Period Adjustment	-	1,144,046	-	1,144,046	(321,095)
Transfers Between Funds	12,102	578,995	(925,735)	(334,638)	-
Net Cash Provided (Used) By Financing Activities	346,740	1,723,041	(925,735)	1,144,046	(655,733)
<u>Cash Flows from Investing Activities</u>					
Purchase of Investments	-	-	(500,000)	(500,000)	1,500,000
Change in Construction in Progress	-	745,936	-	745,936	(31,290)
Net Increase in Fixed Assets	-	(2,468,977)	-	(2,468,977)	(997,401)
Net Cash (Used By) Investing Activities	-	(1,723,041)	(500,000)	(2,223,041)	471,309
Net Increase (Decrease) in Cash	195,805	-	(645,353)	(449,548)	683,529
Cash, Beginning of Year	2,499,568	-	1,028,114	3,527,682	2,844,153
Cash, End of Year	\$ 2,695,373	\$ -	\$ 382,761	\$ 3,078,134	\$ 3,527,682
<u>Supplemental Information:</u>					
Cash Paid for Income Taxes	\$ 12,964	\$ -	\$ -	\$ 12,964	\$ 18,736

See Auditor's 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, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

Bear Valley Springs Association is a California non-profit corporation formed August 17, 1970. The Association is responsible for recreational and community facilities in the Bear Valley Springs development for the use and enjoyment of its approximately 3,575 properties as of June 30, 2008. The Bear Valley Springs development encompasses approximately 25,000 acres and is located in the southern part of the Sierra Nevada mountain range near the City of Tehachapi, California.

Accounting Method

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

Fund Accounting

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

Cash and Cash Equivalents

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

Assessments Receivable

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

Inventories

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

Property, Equipment and Depreciation

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

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, 2008, and the related accumulated depreciation consisted of:

Description	Amount
Furniture, Fixtures & Equipment	\$ 3,529,039
Leasehold Improvements	846,242
Autos & Trucks	371,352
Golf Carts	116,891
Irrigation System	1,367,537
Total Cost	\$ 6,231,061
Less: Accumulated Depreciation	(2,325,886)
Net Cost	\$ 3,905,175

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

Estimates

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

Bear Valley Springs Association

Notes to Financial Statements

For the Year Ended June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Lines of Business

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

NOTE 2 - REPLACEMENT FUND AND RESTRICTED CASH:

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

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

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

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

NOTE 3 - INCOME TAXES:

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

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

NOTE 4 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The Association maintains bank accounts at various financial institutions. The balances in these accounts may occasionally exceed the federally insured amount of \$100,000. Cash held with brokerage firms is privately insured by the SIPC.

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 \$189,150 in ECC deposits as of June 30, 2008.

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, 2008

NOTE 7 – COMMITMENTS AND CONTINGENCIES *(continued):*

Operating Leases

Bear Valley Community Services District Lease

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

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

Other Actions

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

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

Other Receivables

Included in other receivables is an amount of approximately \$200,000 representing the anticipated amount to be received from Philadelphia Insurance Companies under the terms of the Association's employee dishonesty policy. The claim has been submitted but the insurance company has not yet completed its evaluation of the claim.

Leases Payable

The Association has an operating lease for copiers at \$895 per month for a five year period that expires June 14, 2011. Future commitments on this lease are:

<u>Year Ended June 30,</u>	<u>Amount</u>
2009	\$ 10,744
2010	10,744
2011	10,296
Total minimum future lease payments	<u>\$ 31,784</u>

Bear Valley Springs Association
Supplemental Information on Replacement Fund Balances
For the Year Ended June 30, 2008
(unaudited)

The Board of Directors, through a reserve committee, updated the Association's reserve study in 2007 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%, interest of 3%, and taxes of 10%.

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

<u>Major Component</u>	<u>Estimated Remaining Life</u>	<u>Estimated Current Replacement Cost</u>
2006 New Kitchen	0.67-18.42	\$ 208,948
Building Renovation	1.00-28.92	621,259
Computer Software	0.67-8.33	50,045
Computers & Printers	0.08-4.08	55,678
Doors	0.92-25.92	92,479
Equipment	0.00-32.83	1,722,294
Exterior Projects	0.00-48.67	3,736,985
Fencing	0.17-34.92	202,326
Furniture	0.00-20.50	327,341
Gutters & Downspouts	1.50-8.50	11,736
HVAC System	0.75-12.92	260,276
Interior Finishes	0.25-47.83	318,018
Interior Projects	0.08-17.92	70,127
Lights	1.58-18.08	75,726
Non-Asset Activities	0.00-7.42	13,963
Out Structure/Buildings	0.92-33.75	328,373
Paint Exterior	0.08-9.92	65,914
Paint Interior	2.08-8.08	17,664
Paving/Asphalt/Concrete	0.50-23.50	423,762
Retired Assets	4.58-18.08	49,997
Roofing	3.50-38.42	192,571
Signage	1.92-16.33	14,490
Vehicle	0.00-7.58	503,810
		<u>\$ 9,363,782</u>

The fund balance allocation at June 30, 2008 is \$887,832

The 2008-09 projected replacement fund assessment is \$772,500