

# **BEAR VALLEY SPRINGS ASSOCIATION**

**Auditor's Report  
Financial Statements  
and  
Supplemental Information  
*June 30, 2007***

**PORTER & COMPANY**  
*Certified Public Accountant*



PORTER & COMPANY

*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, 2007 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, 2007 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 the American Institute of Certified Public Accountants. 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*

August 9, 2007

# Bear Valley Springs Association

## Balance Sheet

As of June 30, 2007

With Comparative Totals For June 30, 2006

	Operating Fund	Property Fund	Replacement Fund	2007 Total Funds	2006 Total Funds
<b><u>ASSETS</u></b>					
Cash	\$ 2,499,568	\$ -	\$ 1,028,114	\$ 3,527,682	\$ 2,844,153
Investments	-	-	-	-	1,500,000
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$25,840 and \$410,946, respectively	12,450	-	-	12,450	24,460
Other Receivables	31,487	-	-	31,487	20,134
Inventory	74,737	-	-	74,737	38,414
Prepaid Insurance	70,348	-	-	70,348	-
Prepaid Income Taxes	-	-	-	-	431
Other Prepaid Expenses	875	-	-	875	2,036
Property and Equipment, Net of Accumulated Depreciation of \$759,421 and \$611,178, respectively	-	1,900,317	-	1,900,317	916,758
Construction in Progress	-	890,653	-	890,653	859,363
Deposits	-	-	-	-	24,018
 Total Assets	 \$ 2,689,465	 \$ 2,790,970	 \$ 1,028,114	 \$ 6,508,549	 \$ 6,229,767
 <b><u>LIABILITIES and FUND BALANCES</u></b>					
Accounts Payable	\$ 170,871	\$ -	\$ -	\$ 170,871	\$ 396,512
Accrued Expenses	10,398	-	-	10,398	8,119
Prepaid Assessments	1,299,003	-	-	1,299,003	1,164,051
Accrued Payroll and Related Items	267,347	-	-	267,347	222,629
Income Taxes Payable	1,848	-	-	1,848	7,698
Other Liabilities	240,828	-	-	240,828	170,125
 Total Liabilities	 1,990,295	 -	 -	 1,990,295	 1,969,134
Contributed Capital	149,268	-	-	149,268	158,509
Fund Balances	549,902	2,790,970	1,028,114	4,368,986	4,102,124
Total Fund Balances	699,170	2,790,970	1,028,114	4,518,254	4,260,633
 Total Liabilities and Fund Balances	 \$ 2,689,465	 \$ 2,790,970	 \$ 1,028,114	 \$ 6,508,549	 \$ 6,229,767

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, 2007

With Comparative Totals For June 30, 2006

	Operating Fund	Property Fund	Replacement Fund	2007 Total Funds	2006 Total Funds
<b><u>REVENUES</u></b>					
Assessments	\$ 3,102,477	\$ -	\$ 708,800	\$ 3,811,277	\$ 3,173,258
Interest Income	64,506	-	84,388	148,894	126,720
Food and Beverage	1,370,887	-	-	1,370,887	944,212
Administration	141,651	-	-	141,651	202,972
Recreation	338,706	-	-	338,706	308,446
Total Revenues	5,018,227	-	793,188	5,811,415	4,755,608
<b><u>EXPENSES</u></b>					
General and Administrative Expenses					
Professional Fees	65,634	-	-	65,634	315,560
Income Taxes	12,964	-	-	12,964	13,788
Administrative Supplies	34,925	-	-	34,925	39,953
Public Relations	31,407	-	-	31,407	31,021
Uniforms and Linens	32,764	-	-	32,764	25,509
Other General and Administrative	164,606	-	-	164,606	109,044
Salaries and Related Expenses					
Salaries	2,011,090	-	-	2,011,090	1,671,807
Payroll Taxes	227,764	-	-	227,764	171,333
Retirement Contribution	20,050	-	-	20,050	20,767
Employee Benefits	302,147	-	-	302,147	267,149
Training	6,371	-	-	6,371	4,700
Cost of Sales	536,383	-	-	536,383	396,351
Recreation Services	136,973	-	-	136,973	129,818
Utilities	400,469	-	-	400,469	398,700
Insurance	267,062	-	-	267,062	497,038
Outside Services	64,340	-	-	64,340	40,245
Repairs and Maintenance	261,807	-	-	261,807	181,126
Operating Supplies	58,353	-	-	58,353	39,536
Equipment Rental	32,543	-	-	32,543	21,201
Mileage and Auto Expenses	52,823	-	-	52,823	43,977
Property Taxes	24,814	-	-	24,814	23,139
Major Repairs and Replacements	-	-	329,926	329,926	7,109
Total Expenses	4,745,289	-	329,926	5,075,215	4,448,871
Excess (Deficiency) of Revenues Over Expenses					
Before Depreciation and Bad Debts	272,938	-	463,262	736,200	306,737
Depreciation Expense	-	148,243	-	148,243	119,995
Bad Debts	-	-	-	-	-
Excess (Deficiency) of Revenues Over Expenses	\$ 272,938	\$ (148,243)	\$ 463,262	\$ 587,957	\$ 186,742

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, 2007

With Comparative Totals For June 30, 2006

	<b>Operating Fund</b>	<b>Property Fund</b>	<b>Replacement Fund</b>	<b>2007 Total Funds</b>	<b>2006 Total Funds</b>
<b><i>FUND BALANCES</i></b>					
Fund Balances, Beginning of Year	\$ 94,441	\$ 1,776,121	\$ 2,231,562	\$ 4,102,124	\$ 3,915,382
Prior Period Adjustment	(152,115)	(168,980)	-	(321,095)	-
Fund Balances, Beginning of Year, As Restated	(57,674)	1,607,141	2,231,562	3,781,029	3,915,382
Transfers Between Funds	334,638	1,332,072	(1,666,710)	-	-
Subtotal	276,964	2,939,213	564,852	3,781,029	3,915,382
Excess (Deficiency) of Revenues Over Expenses	272,938	(148,243)	463,262	587,957	186,742
Fund Balances, End of Year	<u>\$ 549,902</u>	<u>\$ 2,790,970</u>	<u>\$ 1,028,114</u>	<u>\$ 4,368,986</u>	<u>\$ 4,102,124</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, 2007

With Comparative Totals For June 30, 2006

	Operating Fund	Property Fund	Replacement Fund	2007 Total Funds	2006 Total Funds
<b><u>Cash Flows From Operating Activities:</u></b>					
Excess (Deficiency) of Revenues Over Expenses	\$ 272,938	\$ (148,243)	\$ 463,262	\$ 587,957	\$ 186,742
<b><u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u></b>					
Depreciation	-	13,842	-	13,842	(25,707)
Bad Debts	(385,106)	-	-	(385,106)	(81,588)
<b><u>Change in Assets and Liabilities:</u></b>					
Change in Assessments Receivable	397,116	-	-	397,116	154,512
Change in Federal Taxes Refund Receivable	-	-	-	-	13,281
Change in Other Receivables	(11,353)	-	-	(11,353)	17,287
Change in Inventory	(36,323)	-	-	(36,323)	(341)
Change in Prepaid Expenses	(70,348)	-	-	(70,348)	60,774
Change in Prepaid Income Taxes	431	-	-	431	667
Change in Other Prepaid Expenses	1,161	-	-	1,161	(2,036)
Change in Deposits	24,018	-	-	24,018	-
Change in Accounts Payable	(225,641)	-	-	(225,641)	334,414
Change in Accrued Payroll and Related Items	44,718	-	-	44,718	51,558
Change in Prepaid Assessments	134,952	-	-	134,952	894,468
Change in Accrued Expenses	2,279	-	-	2,279	(5,051)
Change in Income Taxes Payable	(5,850)	-	-	(5,850)	7,698
Change in Other Liabilities	61,462	-	-	61,462	23,413
Total Adjustments	(68,484)	13,842	-	(54,642)	1,443,349
Net Cash Provided (Used) By Operations	204,454	(134,401)	463,262	533,315	1,630,091
<b><u>Cash Flows from Non-Cash Financing Activities:</u></b>					
Prior Period Adjustment	(152,115)	(168,980)	-	(321,095)	-
Transfers Between Funds	334,638	1,332,072	(1,666,710)	-	-
Net Cash Provided (Used) By Financing Activities	182,523	1,163,092	(1,666,710)	(321,095)	-
<b><u>Cash Flows from Investing Activities</u></b>					
Purchase of Investments	-	-	1,500,000	1,500,000	(1,500,000)
Other Changes in Fixed Assets	-	(31,290)	-	(31,290)	(639,944)
Purchases of Fixed Assets	-	(997,401)	-	(997,401)	(312,923)
Net Cash Provided (Used) By Investing Activities	-	(1,028,691)	1,500,000	471,309	(2,452,867)
Net Increase (Decrease) in Cash	386,977	-	296,552	683,529	(822,776)
Cash, Beginning of Year	2,112,591	-	731,562	2,844,153	3,666,929
Cash, End of Year	\$ 2,499,568	\$ -	\$ 1,028,114	\$ 3,527,682	\$ 2,844,153
<b><u>Supplemental Information:</u></b>					
Cash Paid for Income Taxes	\$ 18,736	\$ -	\$ -	\$ 18,736	\$ 3,504

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, 2007

### **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, 2007. 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.

Personal property acquired by the Association from the developer is not capitalized on the Association financial statements as the value is not readily determinable. Personal property purchased with Association funds, to which the Association holds the title, is capitalized at cost and depreciated over the estimated useful lives of the items purchased, using straight line or accelerated methods of depreciation. Property and equipment capitalized as of June 30, 2007, and the related accumulated depreciation consisted of:

<b>Description</b>	<b>Amount</b>
Furniture, Fixtures & Equipment	\$ 1,412,490
Autos & Trucks	262,425
Golf Carts	(759,421)
Total Cost	1,783,426
Less: Accumulated Depreciation	116,891
Net Cost	<u>\$ 1,900,317</u>

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, 2007

### **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 \$218,150 in ECC deposits as of June 30, 2007.

### **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, 2007

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

#### **Operating Leases**

##### **Bear Valley Community Services District Lease**

On September 1, 2003 the Bear Valley Community Services District and Bear Valley Springs Association executed a lease agreement commencing on September 1, 2003, which extends to August 31, 2013. The lease may be terminated earlier in the event of a default by the Association. The term of this lease agreement may be extended for an additional five-year term through August 31, 2018 with written consent of both the Association and the District. 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, BVSA 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.

### **NOTE 8 – PRIOR PERIOD ADJUSTMENT:**

#### **Operating Fund:**

The Association switched accounting software systems during the current year. During the switch the Association was able to correct an accounting issue that was unable to be corrected under the prior system. This correction resulted in a 152,115 charge to prior years earnings.

#### **Property Fund:**

The Association capitalized several Reserve Expenses as Construction in progress during the prior years. As these projects were completed it was determined that \$168,980 of the expenses did not meet the requirements for capitalization. This adjustment resulted in a \$168,980 charge to prior years earnings.

**Bear Valley Springs Association**  
**Supplemental Information on Replacement Fund Balances**  
For the Year Ended June 30, 2007  
(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.

<b>Major Component</b>	<b>Remaining Life (years)</b>	<b>Current Replacement Cost</b>	<b>Fund Balance Allocation</b>	<b>2008 Income Allocation</b>
2006 New Kitchen	1.8 - 14.5	\$ 189,762	\$ -	\$ 15,280
Building Renovation	0.6 - 30.0	1,230,499	-	52,135
Computer Software	1.8	3,147	-	802
Computers & Printers	0.3 - 4.1	50,177	-	11,139
Doors	2.0 - 27.0	62,850	-	4,068
Equipment	0.3 - 33.9	1,420,098	-	146,248
Exterior Projects	0.5 - 30.9	1,808,131	-	314,507
Fencing	0.6 - 19.9	127,749	-	8,026
Furniture	0.2 - 15.0	288,366	-	21,782
Gutters & Downspouts	0.6 - 7.6	9,328	-	844
HVAC System	1.8 - 14.0	153,181	-	24,226
Interior Finishes	0.2 - 31.1	245,968	-	40,880
Interior Projects	1.0 - 9.9	60,833	-	2,795
Lights	2.7 - 19.2	67,365	-	3,740
Out Structure/Buildings	0.6 - 30.6	243,597	-	8,107
Paint Exterior	0.3 - 4.8	39,976	-	4,403
Paint Interior	3.2 - 9.2	16,196	-	5,209
Paving/Asphalt/Concrete	0.6 - 18.0	314,454	-	39,406
Retired 07	7.9	7,060	-	289
Roofing	2.6 - 26.8	131,246	-	11,271
Signage	2.8 - 17.4	13,037	-	437
Vehicle	0.2 - 8.7	428,888	-	34,405
		<u>\$ 6,911,908</u>	<u>\$ 1,028,114*</u>	<u>\$ 750,000</u>

\* Detail not provided in the study.