

# **BEAR VALLEY SPRINGS ASSOCIATION**

**Auditors' Report  
Financial Statements  
and  
Supplementary Information  
June 30, 2012**

**SBH & ASSOCIATES, LLP**  
*Certified Public Accountants*



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, 2012, 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, 2012, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We 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 our audit. The *Supplementary Information on Replacement Fund Balances* included in the accompanying schedules is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*SBH and Associates, LLP*

Palm Springs, CA  
July 26, 2012

# Bear Valley Springs Association

## Balance Sheet

As of June 30, 2012

With Comparative Totals For June 30, 2011

	Operating Fund	Property Fund	Replacement Fund	2012 Total Funds	2011 Total Funds
<b>ASSETS</b>					
Cash	\$ 1,649,922	\$ -	\$ 91,872	\$ 1,741,794	\$ 1,756,558
Investments	771,253	-	1,833,787	2,605,040	2,491,566
Assessments receivable (net)	91,406	-	-	91,406	61,914
Other receivables	36,209	-	9	36,218	42,945
Inventory	71,742	-	-	71,742	80,524
Prepaid insurance	38,430	-	-	38,430	33,716
Prepaid income taxes	-	-	-	-	3,273
Other prepaid expenses	-	-	-	-	12,500
Property and equipment (net)	-	759,745	-	759,745	674,337
<b>TOTAL ASSETS</b>	<b>\$ 2,658,962</b>	<b>\$ 759,745</b>	<b>\$ 1,925,668</b>	<b>\$ 5,344,375</b>	<b>\$ 5,157,333</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Accounts payable	\$ 66,564	\$ -	\$ -	\$ 66,564	\$ 92,828
Prepaid assessments	1,472,648	-	-	1,472,648	1,467,267
Deferred special assessment revenue	21,416	-	-	21,416	30,957
Accrued payroll and related items	167,871	-	-	167,871	145,125
Other liabilities	105,918	-	-	105,918	111,632
<b>TOTAL LIABILITIES</b>	<b>1,834,417</b>	<b>-</b>	<b>-</b>	<b>1,834,417</b>	<b>1,847,809</b>
Fund balances	824,545	759,745	1,925,668	3,509,958	3,309,524
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,658,962</b>	<b>\$ 759,745</b>	<b>\$ 1,925,668</b>	<b>\$ 5,344,375</b>	<b>\$ 5,157,333</b>

The accompanying notes are an integral part of the financial statements.

## Bear Valley Springs Association

### Statement of Revenues and Expenses and Change in Fund Balances

For the Year Ended June 30, 2012

With Comparative Totals For June 30, 2011

	Operating Fund	Property Fund	Replacement Fund	2012 Total Funds	2011 Total Funds
<b>REVENUES</b>					
Assessments	\$ 3,843,768	\$ -	\$ 791,340	\$ 4,635,108	\$ 4,469,148
Special assessments	9,541	-	-	9,541	12,027
Interest income	705	-	655	1,360	7,615
Food and beverage	1,677,016	-	-	1,677,016	1,530,314
Administration	174,720	-	-	174,720	173,761
Recreation	388,016	-	-	388,016	344,910
Ground maintenance income	13,545	-	-	13,545	11,580
Project reimbursements	113,232	-	-	113,232	-
4th of July contributions	1,895	-	-	1,895	291
<b>TOTAL REVENUES</b>	<b>6,222,438</b>	<b>-</b>	<b>791,995</b>	<b>7,014,433</b>	<b>6,549,646</b>
<b>EXPENSES</b>					
General and administrative *	875,741			875,741	858,437
Salaries and related *	3,178,231			3,178,231	3,011,243
Food, beverage and recreation purchases	779,584	-	-	779,584	714,244
Recreation services	114,544	-	-	114,544	109,759
Utilities	450,204	-	-	450,204	420,047
Insurance	171,747	-	-	171,747	172,045
Outside services	53,342	-	-	53,342	53,045
Repairs and maintenance	184,888	-	-	184,888	189,469
Operating supplies	56,332	-	-	56,332	35,783
Equipment rental	23,114	-	-	23,114	24,305
Mileage and auto expenses	46,698	-	-	46,698	45,004
Property taxes	62,267	-	-	62,267	34,871
Project expenses *	91,681	-	-	91,681	22,751
Special assessment related expenses	3,656			3,656	133,090
Major repairs and replacements	-		426,146	426,146	357,013
Depreciation expense	-	215,171	-	215,171	203,950
Bad debt expense	80,653	-	-	80,653	75,584
<b>TOTAL EXPENSES</b>	<b>6,172,682</b>	<b>215,171</b>	<b>426,146</b>	<b>6,813,999</b>	<b>6,460,640</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>					
<b>OVER EXPENSES</b>	49,756	(215,171)	365,849	200,434	89,006
<b>FUND BALANCES, BEGINNING OF YEAR</b>	751,560	674,337	1,883,627	3,309,524	3,220,518
<b>TRANSFERS</b>	23,229	300,579	(323,808)	-	-
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 824,545</b>	<b>\$ 759,745</b>	<b>\$ 1,925,668</b>	<b>\$ 3,509,958</b>	<b>\$ 3,309,524</b>

\* see supplemental information schedules for additional detail.

# Bear Valley Springs Association

## Statement of Cash Flows

For the Year Ended June 30, 2012

With Comparative Totals For June 30, 2011

	Operating Fund	Property Fund	Replacement Fund	2012 Total Funds	2011 Total Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Excess (deficiency) of revenues over expenses	\$ 49,756	\$ (215,171)	\$ 365,849	\$ 200,434	\$ 89,006
Depreciation	-	215,171	-	215,171	203,950
Bad debt expense	80,708	-	-	80,708	75,000
(Increase) Decrease in current assets:					
Assessments receivable	(110,200)	-	-	(110,200)	(88,775)
Other receivables	6,736	-	(9)	6,727	(541)
Inventory	8,782	-	-	8,782	(18,383)
Prepaid expenses	(4,714)	-	-	(4,714)	18,009
Prepaid income taxes	3,273	-	-	3,273	-
Other prepaid expenses	12,500	-	-	12,500	525
Increase (Decrease) in current liabilities:					
Accounts payable	(25,967)	-	(297)	(26,264)	(127,936)
Accrued payroll and related items	22,746	-	-	22,746	14,469
Prepaid assessments	5,381	-	-	5,381	(119,220)
Deferred special assessments	(9,541)	-	-	(9,541)	(90,106)
Other liabilities	(5,714)	-	-	(5,714)	(29,527)
<b>Net Cash Flows from Operating Activities</b>	33,746	-	365,543	399,289	(73,529)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments	(104,996)	-	(8,478)	(113,474)	(1,965,247)
Net increase in fixed assets	-	(300,579)	-	(300,579)	(52,511)
<b>Net Cash Flows from Investing Activities</b>	(104,996)	(300,579)	(8,478)	(414,053)	(2,017,758)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Transfers between funds	23,229	300,579	(323,808)	-	-
<b>Net Cash Flows from Financing Activities</b>	23,229	300,579	(323,808)	-	-
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(48,021)	-	33,257	(14,764)	(2,091,287)
<b>CASH, BEGINNING OF YEAR</b>	1,697,943	-	58,615	1,756,558	3,847,845
<b>CASH, END OF YEAR</b>	\$ 1,649,922	\$ -	\$ 91,872	\$ 1,741,794	\$ 1,756,558

The accompanying notes are an integral part of the financial statements.

# **Bear Valley Springs Association**

## **Notes to Financial Statements**

**For the Year Ended June 30, 2012**

### ***NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES***

#### **Organizational Data**

Bear Valley Springs Association (the 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 3,582 properties as of June 30, 2012. 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 personal property. 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.

#### **Fair Value of Financial Instruments**

The carrying value of the Association's financial instruments is considered to approximate the fair value. Cash, accounts payable, and other accrued liabilities are settled close to the balance sheet date such that the fair value does not differ significantly from the stated amounts. Accounts receivable is recorded net of an estimate of uncollectable balances.

#### **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.

#### **Inventories**

Inventories at the golf pro shop, restaurant, bar, and snack bar are stated at the lower of cost or market with cost using the first-in, first-out (FIFO) method.

#### **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 discussed in further detail under "operating leases." 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.

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, 2012

### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **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.

<b>Description</b>	<b>Amounts</b>
Special assessment income 2010	\$ 232,765
Special assessment expenses (solar project)	(111,702)
Deferred assessment 2010	\$ 121,063
Special assessment 2011	42,984
Special assessment expenses (lighting project)	(133,090)
Deferred assessment 2011	\$ 30,957
Adjusted special assessment expenses 2012	(9,541)
Deferred assessment 2012	\$ 21,416

#### **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 – INVESTMENTS**

Investments consisted of U.S. Treasury Obligations. Investments are recorded at market value.

<b>Account name</b>	<b>Amount</b>	<b>Annual Yield</b>	<b>Estimated Annual Income</b>
Federated Treasury OBL - CAB Reserve	\$ 1,833,787	0.01%	183.38
Federated Treasury OBL - Operating	\$ 771,253	0.01%	77.13

### **NOTE 3 – ASSESSMENTS RECEIVABLE**

Assessments Receivable consisted of:

<b>Description</b>	<b>2012</b>	<b>2011</b>
Assessments receivables	\$ 487,283	\$ 388,904
Penalties, fees and interest receivable	23,669	11,848
Allowance for doubtful accounts	(419,546)	(338,838)
Total	\$ 91,406	\$ 61,914

# Bear Valley Springs Association

## Notes to Financial Statements

For the Year Ended June 30, 2012

### **NOTE 4 – PROPERTY AND EQUIPMENT**

Property and Equipment consisted of:

<b>Description</b>	<b>2012</b>	<b>2011</b>
Furniture, fixtures and equipment	\$ 1,721,628	\$ 1,606,412
Autos and trucks	401,352	420,018
Golf carts	112,059	85,653
Total cost	\$ 2,235,039	\$ 2,112,083
Less: accumulated depreciation	(1,475,294)	(1,437,746)
Total	<u>\$ 759,745</u>	<u>\$ 674,337</u>

### **NOTE 5 - 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 prior 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 6 - 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. The Association's federal and state tax liabilities for the year ended 2012 and 2011 are \$0 and \$0, respectively.

The Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Federal income tax returns are subject to examination by the IRS, generally for three years after they were filed.

### **NOTE 7 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK**

The Association maintains bank accounts at two financial institutions. Federal Deposits Insurance Corporation (FDIC) insured limits are \$250,000 for interest bearing accounts and unlimited for non interest bearing accounts. The Association receives a significant portion of its annual membership dues close to the end of the fiscal year as prepayments for the beginning of the next fiscal year. At June 30, 2012, a balance of approximately \$1.4 million was held in an interest bearing account subject to the \$250,000 FDIC limit. The Association manages risk by maintaining balances in multiple financial institutions and by purchasing treasury obligations.

# Bear Valley Springs Association

## Notes to Financial Statements

For the Year Ended June 30, 2012

### **NOTE 8 – 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 9 – 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. As of June 30, 2012, ECC deposits are \$70,550 and are reported in the balance sheet within the balance of Other Liabilities.

### **NOTE 10 – 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.

#### **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:

<b><u>Year Ended June 30,</u></b>	<b><u>Amount</u></b>
2013	\$ 13,040
2014	5,860
Total lease payments	<u>\$ 18,900</u>

# **Bear Valley Springs Association**

## **Notes to Financial Statements**

**For the Year Ended June 30, 2012**

### ***NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)***

#### **Contingencies**

From time to time, the Association is involved in actions pending in Kern County Superior court in which they are the party plaintiff. These actions are brought by BVSA against various the Associations' property owners/members seeking injunctive and declaratory relief, money damages and attorney fees with respect to the enforcement of the Association'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 the Association 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 11 – 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, 2012, the Association contributed \$44,397 to the plan.

### ***NOTE 12 – SUBSEQUENT EVENTS***

Management has evaluated subsequent events through July 26, 2012, the date which the financial statements were available to be issued.

**Bear Valley Springs Association**  
**Supplemental Information on Replacement Fund Balances**  
For the Year Ended June 30, 2012  
(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 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.

<b>Component</b>	<b>Remaining Useful Lives</b>	<b>Future Replacement Cost</b>	<b>6/30/2012 Balance *</b>	<b>2011-12 Annual Funding</b>
Asphalt & Concrete	0-28 Yrs.	\$ 1,777,139	\$ -	\$ -
Bldgs- Decks	12-23 Yrs.	158,120	-	-
Bldgs- Doors, Flooring & Mech	0-29 Yrs.	1,006,368	-	-
Bldgs- Out Structure	0-24 Yrs.	427,906	-	-
Bldgs- Renovation	10-22 Yrs.	14,688	-	-
Bldgs- Roof	1-24 Yrs.	577,379	-	-
Bldgs- Windows & Wood Siding	0-29 Yrs.	753,255	-	-
Electrical	0-20 Yrs.	161,832	-	-
Equip- Kitchen and Bar	0-19 Yrs.	613,052	-	-
Equip- Office	0-8 Yrs.	140,207	-	-
Equipment	0-24 Yrs.	1,402,822	-	-
Fence/Gates/Rail	0-24 Yrs.	490,920	-	-
Fire Safety	0-6 Yrs.	29,605	-	-
Furniture	0-21 Yrs.	362,858	-	-
Golf Carts	3 Yrs.	93,595	-	-
Golf Course Amenities	0-10 Yrs.	625,363	-	-
Irrigation and Drainage	0-27 Yrs.	4,077,278	-	-
Paint	1-4 Yrs.	122,711	-	-
Park Amenities and Courts	0-29 Yrs.	753,158	-	-
Pool and Spa	0-20 Yrs.	463,565	-	-
Restrooms	0-23 Yrs.	576,628	-	-
Septic Systems	2-29 Yrs.	232,549	-	-
Signage	0-18 Yrs.	61,028	-	-
Vehicles	1-10 Yrs.	406,149	-	-
<b>Totals</b>		<b>\$ 15,328,175</b>	<b>\$ 1,925,668</b>	<b>\$ 764,580</b>

\*Information not provided in the study.

**Bear Valley Springs Association**  
**Schedule of General and Administrative Expenses**  
For the Year Ended June 30, 2012  
With Comparative Totals For June 30, 2011

	<u>2012</u>	<u>2011</u>
Professional Fees:		
Disaster planning	\$ 435	\$ 575
Legal fees	16,499	25,041
Audit services	17,928	17,250
Payroll services	20,051	27,347
Consulting fees	2,299	3,127
Total Professional Fees	<u>57,212</u>	<u>73,340</u>
Administrative Supplies:		
Office supplies	12,940	14,491
Software supplies and services	-	123
Software and upgrades	7,003	8,668
Total Administrative Supplies:	<u>19,943</u>	<u>23,282</u>
Community/Employee Relations		
Community relations	37,372	18,383
Employee relations	18,654	17,779
Total Community/Employee Relations	<u>56,026</u>	<u>36,162</u>
Linens, uniforms and mats	<u>35,709</u>	<u>28,028</u>
Golf course management fees	<u>499,653</u>	<u>485,100</u>
Other General and Administrative:		
First aid	2,221	790
Drug testing	3,438	3,878
Elections	16,634	14,740
Banking and billing supplies	2,531	2,838
Licenses, fees and subs	34,497	31,244
Postage and shipping	7,386	6,951
Committee fees	4,675	5,500
Contingency fund expense	21,403	42,684
Travel	3,675	1,524
Federal and State filing fees	1,002	993
Advertising and promotion	1,202	9,072
Promotions and incentives	-	1,555
Collection expense	1,721	6,932
Newsletter	6,312	7,855
401k plan administration fees	3,820	3,783
Miscellaneous expense	15,737	206
Janitorial supplies	24,787	23,548
Bank fees and credit card charges	2,877	3,869
Background investigations	-	137
Refreshments	41	-
Cash over/short	32	(54)
Credit card commission	53,189	40,572
Theft loss	5	3,822
Late charge - paying invoices	13	86
Total Other General and Administrative	<u>207,198</u>	<u>212,525</u>
Total General and Administrative Expenses	<u>\$ 875,741</u>	<u>\$ 858,437</u>

See auditors' report.

**Bear Valley Springs Association**  
**Schedule of Salaries and Related Expenses**  
For the Year Ended June 30, 2012  
With Comparative Totals For June 30, 2011

	<u>2012</u>	<u>2011</u>
Salaries		
Payroll expense - hourly	\$ 1,653,362	\$ 1,632,012
Payroll expense - salaried	644,121	648,426
Payroll expense - overtime	28,160	-
Vacations benefits	114,525	81,614
Employee meals	25,156	34,377
Total Salaries	<u>2,465,324</u>	<u>2,396,429</u>
Payroll Taxes		
Social security	157,803	154,237
Medicare	37,437	36,481
Federal unemployment insurance	8,225	7,272
California unemployment insurance	50,583	49,153
Total Payroll Taxes	<u>254,048</u>	<u>247,143</u>
Retirement contributions	44,397	37,738
Employee Benefits		
Workers compensation	182,106	110,546
Group health insurance	199,767	185,445
Employee incentive programs	24,092	25,877
Uniform allowance	4,722	4,721
Total Employee Benefits	<u>410,687</u>	<u>326,589</u>
Conference, seminars and training	3,775	3,344
Total Salaries and Related Benefits	<u>\$ 3,178,231</u>	<u>\$ 3,011,243</u>

**Bear Valley Springs Association**  
Schedule of Project Reimbursements and Expenses  
For the Year Ended June 30, 2012  
With Comparative Totals For June 30, 2011

Reimbursement revenues:

Park and recreation funds (Detachment funds)	\$ 105,897
Bear Valley Springs Community Recreational Facilities Foundation (BVSCRFF)	<u>7,335</u>
TOTAL	<u><u>\$ 113,232</u></u>

Project expenses:

Park and recreation expenses	\$ 84,372
Bear Valley Springs Community Recreational Facilities Foundation (BVSCRFF)	<u>7,309</u>
TOTAL	<u><u>\$ 91,681</u></u>

# **BEAR VALLEY SPRINGS ASSOCIATION**

## **MANAGEMENT LETTER**

**June 30, 2012**



## SBH & Associates, LLP

July 26, 2012

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, 2012, 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 our auditing procedures 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, there can be no assurance that all such deficiencies have been 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 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.

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 conditions to be significant deficiencies in internal control.

### CAPITAL ASSETS

#### Condition:

We found that the general ledger is not reconciled to a subsidiary schedule. Management has developed a schedule to support capital assets tracking and the recording of depreciation. The schedule is currently a work in progress and is not yet fully reconciled to the general ledger.

#### Recommendation:

The schedule needs to completely reconcile to the general ledger. It should be used in conjunction with other supporting records, to track assets status and to calculate depreciation that is then recorded in the general ledger. Further, we examined the capitalization policies and procedures and recommend that the Association revise its policy by establishing a capitalization policy with an appropriate threshold that reduces some of the bookkeeping burden. Increasing the threshold can result in fewer additions and make the process less complicated and time consuming to track.

### IMPROVEMENTS TO FUND AND PROJECT REPORTING

#### Condition:

The financial system allows management flexibility in developing reporting that fits the needs of the Association. We find that this is currently under utilized and can be improved.

Recommendation:

1. Replacement fund- The equity account currently associated with the replacement fund in the audit report is the Golf Maintenance account 29100.2. This account should be eliminated and a new account created called replacement fund.
2. Yearend adjustments to fund balances- Once the audit is complete, reclassification entries are necessary to adjust the equity balances to match the audit report. In general it becomes necessary to record reclassification between accounts to match net income/loss of each fund to the associated fund balance/equity accounts. QuickBooks does not currently provide for this.
3. Special reporting- Park and Recreation Funds (Detachment funds) and Bear Valley Springs Community Recreation Facilities Foundation (BVSCRFF) funded projects- We recommend that new class codes be created for items that are funded by outside entities. By assigning a class code to each, monthly accounting can be simplified and reporting becomes more transparent. Once a class code is assigned to the funding source, all the activities associated with it will be captured on an income and expense statement that can be generated by each class code.
  - a. In general these programs are funded on a reimbursement basis. Expenses are incurred subject to reimbursement by the Community Services District or the BVSCRFF. When an invoice is created for periodic expenses, income is recorded and a corresponding receivable. Therefore, at any point in time income and expense are matched. We noted that this has not occurred in the past and recommend this to create accounting procedures that provide for this. We added a new supplementary schedule to the report to show the projects and it can be noted that the income and expense are not matched. This occurred because some project costs recorded last year were reimbursed this year. This is cash basis reporting and we recommend a more "full accrual" approach.

We will review the status of these comments during our next audit engagement.

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

Sincerely,

*SBH and Associates, LLP*

SBH and Associates, LLP



## SBH& Associates, LLP

July 26, 2012

Board of Directors  
Bear Valley Springs Association  
Tehachapi, CA

We have audited the financial statements of Bear Valley Springs Association for the year ended June 30, 2012, and have issued our report thereon dated July 26, 2012. 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 engagement letter to you dated April 25, 2012. Professional standards also require that we communicate to you the following information related to our audit.

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. 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.

In addition, 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.

Our discussion with you of accounting practices should include an overview of some of the more sensitive accounting practices. Accounting estimates are an integral part of the financial statements and should be 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. Examples include:

- i Property and Equipment/Accumulated Depreciation/Depreciation Expense
- i Allowance for bad debts/Bad Debts Expense

We are required to communicate our conclusions regarding presentation in the financial statements. We have concluded the disclosures in the financial statements are neutral, consistent, and clear.

### *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 me 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. We have provided to management a schedule of audit adjustments (corrections) and a schedule with one adjustment that we are not making (uncorrected). The nature of the most

significant adjustment was to record corrections to the capital assets. Additionally, we made corrections to report the remaining balance of the previous year's unspent special assessments as a liability. It is our understanding that the projects were completed and that a residual balance remains and will be returned to the members. We also found a couple of prepaid expense accounts with balances that need to be cleared out as to clean up to the balance sheet. The overall net effect of the adjustments was approximately \$80,000. In general, this is a significant decrease in the aggregate total of adjustments as compared to the previous year.

### ***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 auditors' report. Except as previously discussed under Qualitative Aspects of Accounting Practices, 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 July 26, 2012.

### ***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 have provided a management letter that contains our audit findings. Other than this letter 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. These types of discussions occur in the normal course of our professional relationship and our responses were not a condition to our retention.

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.

### **Required Supplementary Information- Reserve study**

With respect to the supplementary information 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 the 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.

Sincerely,

*SBH and Associates, LLP*

SBH & Associates, LLP