

# **BEAR VALLEY SPRINGS ASSOCIATION**

**Auditors' Report  
Financial Statements  
and  
Supplementary Information  
for the year ending**

*June 30, 2014*

S. HAIGLER, CPA  
Certified Public Accountant

## TABLE OF CONTENTS

<b>Independent Auditors' Report</b>	<b>1</b>
<b>Balance Sheet</b>	<b>3</b>
<b>Statement of Revenues, Expenses and Change in Fund Balances</b>	<b>4</b>
<b>Statement of Cash Flows</b>	<b>5</b>
<b>Notes to the Financial Statements</b>	<b>6</b>
<b>Required Supplementary Information:</b>	
<b>Supplementary Information on Future Major Repairs and Replacement</b>	<b>12</b>
<b>Other Supplementary Information:</b>	
<b>Schedule of General and Administrative Expenses</b>	<b>13</b>
<b>Schedule of Salaries and Related Expenses</b>	<b>14</b>
<b>Schedule of Special Funding Reimbursements and Expenses</b>	<b>15</b>

# S. Haigler, CPA

Certified Public Accountant

## INDEPENDENT AUDITORS' REPORT

**To the Board of Directors of**  
Bear Valley Springs Association  
Tehachapi, CA

I have audited the accompanying balance sheet of Bear Valley Springs Association as of June 30, 2014, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bear Valley Springs Association as of June 30, 2014, 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.

### ***Report of Summarized Comparative Information***

I have previously audited the Bear Valley Springs Association's June 30, 2013 financial statements, and I expressed an unmodified opinion on those financial statements in the report dated September 23, 2013. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived. For additional information on the presentation of comparative data see the Notes to the Financial Statements disclosure related to *Accounting Method*.

***Disclaimer of Opinion on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that *Supplementary Information on Future Major Repairs and Replacements* on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

***Report on Other Supplementary Information***

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Other Supplementary information* listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



San Bernardino, CA  
September 22, 2014

**Bear Valley Springs Association**  
**Balance Sheet**  
**As of June 30, 2014**  
**With Comparative Totals for 2013**

	2014				2013 Totals
	Operating Fund	Property Fund	Replacement Fund	Total Funds	Comparative Purposes Only
<b>ASSETS</b>					
Cash	\$ 1,863,895	\$ -	\$ 101,448	\$ 1,965,343	\$ 1,607,018
Investments	775,415	-	2,489,125	3,264,540	2,969,827
Assessments receivable (net)	209,925	-	-	209,925	119,205
Other receivables	57,037	-	-	57,037	72,264
Inventory	85,637	-	-	85,637	68,042
Prepaid insurance	42,695	-	-	42,695	40,907
Other prepaid expenses	-	-	-	-	19,051
Capital assets:- see restatement footnote					
Non-depreciable assets	-	-	-	-	95,656
Depreciable capital assets	-	781,884	-	781,884	891,471
<b>TOTAL ASSETS</b>	<b>\$ 3,034,604</b>	<b>\$ 781,884</b>	<b>\$ 2,590,573</b>	<b>\$ 6,407,061</b>	<b>\$ 5,883,441</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Accounts payable	\$ 212,425	\$ -	\$ 50,850	\$ 263,275	\$ 140,372
Prepaid assessments	1,735,460	-	-	1,735,460	1,556,336
Deferred special assessment revenue	23,777	-	-	23,777	26,319
Accrued payroll and related items	183,710	-	-	183,710	164,498
Other liabilities	144,377	-	-	144,377	85,765
<b>TOTAL LIABILITIES</b>	<b>2,299,749</b>	<b>-</b>	<b>50,850</b>	<b>2,350,599</b>	<b>1,973,290</b>
Fund balances	734,855	781,884	2,539,723	4,056,462	3,910,151
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,034,604</b>	<b>\$ 781,884</b>	<b>\$ 2,590,573</b>	<b>\$ 6,407,061</b>	<b>\$ 5,883,441</b>

See the accompanying notes to financial statements.

**Bear Valley Springs Association**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended June 30, 2014**  
**With Comparative Totals for 2013**

	2014				2013 Totals
	Operating Fund	Property Fund	Replacement Fund	Total Funds	Comparative Purposes Only
<b>REVENUES</b>					
Assessments	\$ 3,880,536	\$ -	\$ 847,704	\$ 4,728,240	\$ 4,549,711
Special assessments	2,542	-	-	2,542	19,600
Interest income	541	-	362	903	768
Food and beverage	1,647,985	-	-	1,647,985	1,662,751
Administration fees	242,606	-	-	242,606	212,409
Recreation	401,884	-	-	401,884	408,490
Ground maintenance income	14,970	-	-	14,970	13,785
Project reimbursements	128,646	-	-	128,646	123,276
July 4th contributions	6,021	-	-	6,021	10,122
Other income	7,166	-	2,036	9,202	-
<b>TOTAL REVENUES</b>	<b>6,332,897</b>	<b>-</b>	<b>850,102</b>	<b>7,182,999</b>	<b>7,000,912</b>
<b>EXPENSES</b>					
General and administrative	888,381			888,381	866,007
Salaries and related	3,320,376			3,320,376	3,215,641
Food, beverage and recreation purchases	731,612	-	-	731,612	787,761
Recreation services	130,002	-	-	130,002	110,694
Utilities	509,003	-	-	509,003	476,002
Insurance	156,595	-	-	156,595	158,010
Outside services	101,622	-	-	101,622	101,320
Repairs and maintenance	182,780	-	-	182,780	204,342
Operating supplies	58,718	-	-	58,718	57,253
Equipment rental	30,619	-	-	30,619	25,243
Mileage and auto expenses	56,297	-	-	56,297	45,651
Property taxes	57,106	-	-	57,106	56,787
Income taxes	-	-	-	-	-
Project expenses	41,266	-	-	41,266	22,414
Special assessment related expenses	6,857	-	-	6,857	19,600
Major repairs and replacements	-	-	424,814	424,814	192,899
Depreciation expense	-	278,508	-	278,508	270,761
Bad debt expense	62,132	-	-	62,132	101,374
<b>TOTAL EXPENSES</b>	<b>6,333,366</b>	<b>278,508</b>	<b>424,814</b>	<b>7,036,688</b>	<b>6,711,759</b>
<b>EXCESS (DEFICIENCY) OF</b>					
<b>REVENUES</b>	(469)	(278,508)	425,288	146,311	289,153
<b>TRANSFERS</b>	-	73,265	(73,265)	-	-
<b>CHANGE IN FUND BALANCES</b>	(469)	(205,243)	352,023	146,311	289,153
<b>FUND BALANCES, BEGINNING OF</b>					
<b>YEAR, AS RESTATED</b>	735,324	987,127	2,187,700	3,910,151	3,620,998
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 734,855</b>	<b>\$ 781,884</b>	<b>\$ 2,539,723</b>	<b>\$ 4,056,462</b>	<b>\$ 3,910,151</b>

See the accompanying notes to financial statements.

**Bear Valley Springs Association**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2014**  
**With Comparative Totals for 2013**

	2014				2013 Totals
	Operating Fund	Property Fund	Replacement Fund	Total Funds	Comparative Purposes Only
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Excess (Deficiency) of Revenues Over Expenses	\$ (469)	\$ (278,508)	\$ 425,288	\$ 146,311	\$ 289,153
Adjustments to reconcile excess of revenues over expenses:					
Depreciation	-	278,508	-	278,508	270,761
Bad debt expense	62,133	-	-	62,133	101,556
(Increase) Decrease in current assets:					
Assessments receivable	(152,853)	-	-	(152,853)	(129,355)
Other receivables	15,227	-	-	15,227	(36,046)
Inventory	(17,595)	-	-	(17,595)	3,700
Prepaid expenses	(1,788)	-	-	(1,788)	(2,477)
Other prepaid expenses	-	-	-	-	(19,051)
Increase (Decrease) in current liabilities:					
Accounts payable	72,053	-	50,850	122,903	73,808
Accrued payroll and related items	19,212	-	-	19,212	(3,373)
Prepaid assessments	179,124	-	-	179,124	83,688
Deferred special assessments	(2,542)	-	-	(2,542)	4,903
Other liabilities	77,663	-	-	77,663	(20,153)
<b>Net Cash Flows from     Operating Activities</b>	<b>250,165</b>	<b>-</b>	<b>476,138</b>	<b>726,303</b>	<b>617,114</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investments	-	-	(402,878)	(402,878)	-
Sale of investments	108,165	-	-	108,165	(364,787)
Sale of capital assets	-	(73,265)	-	(73,265)	(387,103)
<b>Net Cash Flows from     Investing Activities</b>	<b>108,165</b>	<b>(73,265)</b>	<b>(402,878)</b>	<b>(367,978)</b>	<b>(751,890)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Transfers between funds	-	73,265	(73,265)	-	-
<b>Net Cash Flows from Financing Activities</b>	<b>-</b>	<b>73,265</b>	<b>(73,265)</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>358,330</b>	<b>-</b>	<b>(5)</b>	<b>358,325</b>	<b>(134,776)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>1,505,565</b>	<b>-</b>	<b>101,453</b>	<b>1,607,018</b>	<b>1,741,794</b>
<b>CASH, END OF YEAR</b>	<b>\$ 1,863,895</b>	<b>\$ -</b>	<b>\$ 101,448</b>	<b>\$ 1,965,343</b>	<b>\$ 1,607,018</b>

See the accompanying notes to financial statements.

# Bear Valley Springs Association

## Notes to Financial Statements

For the Year Ended June 30, 2014

### ***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, 2014. 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. The financial statements are presented with comparative totals. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's previously issued 2013 financial statements.

#### **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 major 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.

#### **Capital Assets**

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. 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.

See independent auditors' report.



**Bear Valley Springs Association**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2014

**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.

**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 fair value.

<b>Description</b>	<b>2014</b>	<b>Annual Yield</b>	<b>Estimated Annual Income</b>
Federated Treasury OBL - CAB Reserve	\$ 2,489,125	0.01%	249
Federated Treasury OBL - Operating	775,415	0.01%	78
Total Investments	<u>\$ 3,264,540</u>		

<b>Description</b>	<b>2013</b>	<b>Annual Yield</b>	<b>Estimated Annual Income</b>
Federated Treasury OBL - CAB Reserve	\$ 2,086,247	0.01%	209
Federated Treasury OBL - Operating	883,580	0.01%	89
Total Investments	<u>\$ 2,969,827</u>		

**NOTE 3 – ASSESSMENTS RECEIVABLE**

Assessments Receivable consisted of:

<b>Description</b>	<b>2014</b>	<b>2013</b>
Assessments receivables	\$ 716,308	\$ 599,506
Penalties, fees and interest receivable	76,852	40,801
Allowance for doubtful accounts	(583,235)	(521,102)
Total	<u>\$ 209,925</u>	<u>\$ 119,205</u>

See independent auditors' report.

# Bear Valley Springs Association

## Notes to Financial Statements

For the Year Ended June 30, 2014

### **NOTE 4 – CAPITAL ASSETS**

Capital assets consisted of:

<b>Description</b>	<b>2014</b>	<b>Restated 2013</b>
Non-depreciable capital assets		
Computer platform project	\$ -	\$ 95,656
Depreciable capital assets:		
Furniture, fixtures and equipment	\$ 1,963,131	\$ 1,794,210
Autos and trucks	415,371	415,371
Golf carts	112,059	112,059
Total cost	\$ 2,490,561	\$ 2,321,640
Less: accumulated depreciation	(1,708,677)	(1,430,169)
Total	\$ 781,884	\$ 891,471

### **NOTE 5 – DEFERRED SPECIAL ASSESSMENT**

Deferred Special Assessments is the cumulative balance related to special assessments of 2010-2013 as follows:

<b>Description</b>	<b>2014</b>	<b>2013</b>
Deferred assessment beginning balance	\$ 26,319	\$ 21,416
Returned to members	-	(14,899)
Special assessment	-	39,402
Special assessment expenses	(2,542)	(19,600)
Deferred assessment, ending balance	\$ 23,777	\$ 26,319

### **NOTE 6 - 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 7 - 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 2014 and 2013 are \$0 and \$477, 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.

See independent auditors' report.

**Bear Valley Springs Association**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2014**

***NOTE 8 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK***

As scheduled, the unlimited insurance coverage for noninterest-bearing transaction accounts provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. Deposits held in noninterest-bearing transaction account are now aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to at least \$250,000. 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, 2014, a balance of approximately \$1.2 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.

***NOTE 9 – 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. See transactions listed in Note 10 below and the Supplementary Schedule of Special Revenues and Reimbursements.

***NOTE 10 – 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, 2014, ECC deposits are \$52,900 and are reported in the balance sheet within the balance of Other Liabilities.

***NOTE 11 – 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 bills the Association. The Association is paying the Possessory Interest Tax for current years.

**Operating Leases**

**Bear Valley Community Services District Lease**

In 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.

See independent auditors' report.

**Bear Valley Springs Association**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2014

***NOTE 11 – COMMITMENTS AND CONTINGENCIES (CONTINUED)***

**Other Operating Leases**

The Association has individual operating leases on four copiers, two scanners and a postage machine totaling approximately \$2,300 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>
2015	\$ 34,075
2016	34,075
2017	34,075
2018	30,369
Total lease payments	<u>\$ 132,594</u>

**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 when realized. 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 12 – 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, 2014, the Association contributed \$38,127 to the plan.

***NOTE 13 – SUBSEQUENT EVENTS***

The Association has evaluated subsequent events through September 22, 2014, the date which the financial statements were available to be issued.

See independent auditors' report.

**Bear Valley Springs Association**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2014

**NOTE 14 – RESTATEMENT – CHANGE IN ACCOUNTING**

Fund balances are being restated to reflect certain changes to depreciable capital assets. Reconciliation was performed between the general ledger and the depreciation schedule (a subsidiary record used to track assets and calculate depreciation). As a result some items were added and others deleted from the depreciation schedule and an adjustment was recorded to certain ledger accounts to balance to the depreciation schedule. The effect of the change is summarized below.

<b>Description</b>	<b>2014</b>		<b>2013</b>
	<b>Property Fund</b>	<b>Total Funds</b>	<b>Total Funds</b>
Depreciable capital assets	\$ 670,844	\$ 670,844	\$ 780,431
Increase to depreciable capital assets	111,040	111,040	111,040
Depreciable capital assets , as restated	<u>\$ 781,884</u>	<u>\$ 781,884</u>	<u>\$ 891,471</u>
Fund balance beginning of the year	\$ 876,087	\$ 3,799,111	\$ 3,509,958
Effect of restatement	111,040	111,040	111,040
Fund balance, beginning of year, as restated	<u>\$ 987,127</u>	<u>\$ 3,910,151</u>	<u>\$ 3,620,998</u>

See independent auditors' report.

**Bear Valley Springs Association**  
**Supplementary Information on Future Major Repairs and Replacement**  
**For the Year Ended June 30, 2014,**

The Board of Directors, through a reserve committee, determines the need for a reserve study. The Association contracted a Professional Reserve Study Analysis in 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. No new update to the study was conducted during 2013. Civil Code section 1365 (a) states that at least once every three years, the Board of Directors should cause to be conducted a reasonable competent and diligent inspection of accessible areas of the major components that the association is obligated to repair, replace, restore or maintain as part of its reserve study. Management plans to recommend that a new study be commissioned due to be completed in the 2015 fiscal year. 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>
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>\$ 13,551,036</b>
Replacement fund balance		\$ 2,590,573
Current year funding		\$ 847,704

Note: Individual amounts are not shown, as the Association is funding for reserve components on a pooled funding concept.

See independent auditors' report.

**OTHER  
SUPPLEMENTARY INFORMATION  
SECTION**

**Bear Valley Springs Association**  
**Schedule of General and Administrative Expenses**  
For the Year Ended June 30, 2014,  
With Comparative Totals for 2013

	<u>2014</u>	<u>2013</u>
Professional Fees:		
Legal fees	\$ 25,071	\$ 34,662
Audit services	15,914	16,810
Payroll services	19,035	19,936
Consulting fees	2,950	2,200
Total Professional Fees	<u>62,970</u>	<u>73,608</u>
Administrative Supplies:		
Office supplies	14,013	14,496
Software supplies and services	1,306	520
Software and upgrades	8,963	8,797
Total Administrative Supplies:	<u>24,282</u>	<u>23,813</u>
Community/Employee Relations:		
Community relations	39,730	39,206
Employee relations	21,871	15,887
Total Community/Employee Relations	<u>61,601</u>	<u>55,093</u>
Linens, uniforms and mats	34,755	34,940
Golf course management fees	499,653	499,653
Other General and Administrative:		
First aid	1,512	2,383
Drug testing	3,653	4,395
Elections	11,038	10,750
Banking and billing supplies	3,271	2,846
Licenses, fees and subs	29,260	30,564
Postage and shipping	7,115	6,851
Committee fees	4,888	4,463
Contingency fund expense	31,511	10,955
Travel	4,802	2,991
Federal and State filing fees	1,049	1,119
Advertising and promotion	2,075	1,997
Collection expense	1,113	1,041
Newsletter	8,018	7,245
401k plan administration fees	4,425	3,207
Janitorial supplies	22,418	24,187
Bank fees and credit card charges	5,175	5,528
Cash over/short	334	667
Credit card commission	65,170	57,602
Late charge - paying invoices	313	45
Reconciliation discrepancies	(2,020)	64
Total Other General and Administrative	<u>205,120</u>	<u>178,900</u>
Total General and Administrative Expenses	<u>\$ 888,381</u>	<u>\$ 866,007</u>

See independent auditors' report.



**Bear Valley Springs Association**  
**Schedule of Salaries and Related Expenses**  
For the Year Ended June 30, 2014,  
With Comparative Totals for 2013

	<u>2014</u>	<u>2013</u>
Salaries:		
Payroll expense - hourly	\$ 1,631,080	\$ 1,607,543
Payroll expense - salaried	733,058	687,346
Payroll expense - overtime	30,518	26,664
Vacations benefits	110,058	101,602
Employee meals	26,659	25,783
Total Salaries	<u>2,531,373</u>	<u>2,448,938</u>
Payroll Taxes:		
Social security	162,924	159,195
Medicare	38,673	37,846
Federal unemployment insurance	13,689	11,129
California unemployment insurance	44,587	47,303
Total Payroll Taxes	<u>259,873</u>	<u>255,473</u>
Retirement contributions	38,127	44,947
Employee Benefits:		
Workers compensation	290,673	252,962
Group health insurance	162,320	175,819
Employee incentive programs	28,753	27,712
Uniform allowance	4,089	4,249
Total Employee Benefits	<u>485,835</u>	<u>460,742</u>
Conference, seminars and training	<u>5,168</u>	<u>5,541</u>
Total Salaries and Related Benefits	<u>\$ 3,320,376</u>	<u>\$ 3,215,641</u>

See independent auditors' report.

**Bear Valley Springs Association**  
**Schedule of Special Funding Reimbursements and Expenses**  
For the Year Ended June 30, 2014

	<b>2014</b>	<b>2013</b>
<b>Reimbursement revenues:</b>		
Park and recreation funds (Detachment funds)	\$ 119,674	\$ 118,785
Bear Valley Springs Community Recreational Facilities Foundation	8,972	4,491
TOTAL	\$ 128,646	\$ 123,276
<b>Project expenses:</b>		
Park and recreation - project expenses	\$ 111,062	\$ 18,341
Bear Valley Springs Community Recreational Facilities Foundation	-	4,073
Total of projects expense	111,062	22,414
Park and recreation - capital contributions/additions	-	100,444
TOTAL	\$ 111,062	\$ 122,858

See independent auditors' report.