

**BEAR VALLEY SPRINGS ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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FINANCIAL STATEMENTS
For the Year Ended June 30, 2019**

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Independent Auditor's Report

To the Board of Directors of Bear Valley Springs Association

We have audited the accompanying financial statements of Bear Valley Springs Association (the "Association"), which comprise the balance sheet as of June 30, 2019, and the related statements of revenues, expenses, and changes in fund balance 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

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 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our 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, 2019, and 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

Emphasis of Matter - Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statement, taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements (Note 4), are adequate to meet such future costs, because such determination is outside the scope of our audit. Our opinion is not modified with respect to this matter.

Disclaimer of Opinion of Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Repairs and Replacements on page 8 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. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Newman & Associates, CPA, PC

Newman and Associates, Inc.
An Accountancy Corporation
Carlsbad, California
August 31, 2019

BEAR VALLEY SPRINGS ASSOCIATION
BALANCE SHEET
June 30, 2019

	<u>Operating Fund</u>	<u>Property Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 2,402,631	\$ -	\$ 2,714,681	\$ 5,117,312
Investments	-	-	1,519,060	1,519,060
Assessments receivable	320,815	-	-	320,815
Allowance for doubtful accounts	(9,560)	-	-	(9,560)
Other receivables	5,855	-	-	5,855
Prepaid insurance	68,196	-	-	68,196
Inventory	76,353	-	-	76,353
Property and equipment	-	2,718,797	-	2,718,797
Less: accumulated depreciation	-	(2,718,797)	-	(2,718,797)
Due from (to) fund	42,692	-	(42,692)	-
Total Assets	<u>\$ 2,906,982</u>	<u>\$ -</u>	<u>\$ 4,191,049</u>	<u>\$ 7,098,031</u>
Liabilities				
Accounts payable	\$ 238,314	\$ -	\$ -	\$ 238,314
Prepaid assessments	1,760,037	-	-	1,760,037
Accrued payroll and related expenses	138,355	-	-	138,355
Other liabilities	148,815	-	-	148,815
Total liabilities	<u>2,285,521</u>	<u>-</u>	<u>-</u>	<u>2,285,521</u>
Fund balances	<u>621,461</u>	<u>-</u>	<u>4,191,049</u>	<u>4,812,510</u>
Total liabilities and fund balances	<u>\$ 2,906,982</u>	<u>\$ -</u>	<u>\$ 4,191,049</u>	<u>\$ 7,098,031</u>

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

BEAR VALLEY SPRINGS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND BALANCES
For the Year Ended June 30, 2019

	Operating Fund	Property Fund	Replacement Fund	Total
Revenues				
Owners' assessments	\$ 4,454,060	\$ -	\$ 856,980	\$ 5,311,040
Food and beverage	1,997,372	-	-	1,997,372
Recreation fee income	213,555	-	-	213,555
Ground maintenance income	18,000	-	-	18,000
Interest	38,639	-	18,740	57,379
Other member income	482,655	-	-	482,655
Total revenues	<u>7,204,281</u>	<u>-</u>	<u>875,720</u>	<u>8,080,001</u>
Expenses				
General and administrative				
Professional fees	98,491	-	-	98,491
Income Taxes	4,420	-	-	4,420
Administrative supplies	16,932	-	-	16,932
Public relations	49,216	-	-	49,216
Uniforms and linens	46,593	-	-	46,593
Golf course management fees	559,246	-	-	559,246
Bad debt expense	9,560	-	-	9,560
Other general and administrative	168,329	-	-	168,329
Salaries and related expenses				
Salaries	3,163,368	-	-	3,163,368
Payroll taxes	309,076	-	-	309,076
Retirement contribution	66,069	-	-	66,069
Employee benefits	643,692	-	-	643,692
Training	6,262	-	-	6,262
Cost of sales	590,260	-	-	590,260
Recreation services	81,115	-	-	81,115
Utilities	450,256	-	-	450,256
Insurance	173,599	-	-	173,599
Outside services	104,730	-	-	104,730
Repairs and maintenance	123,136	-	-	123,136
Operating supplies	168,284	-	-	168,284
Equipment rentals	23,802	-	-	23,802
Mileage and auto expense	46,167	-	-	46,167
Property taxes	51,893	-	-	51,893
Depreciation	-	229,813	-	229,813
Major repairs and replacements	-	-	527,379	527,379
Total expenses	<u>6,954,496</u>	<u>229,813</u>	<u>527,379</u>	<u>7,711,688</u>
Excess(deficit) of revenues over(under) expenses	249,785	(229,813)	348,341	368,313
Beginning fund balances	441,176	229,813	3,773,208	4,444,197
Interfund transfers, net	(69,500)	-	69,500	-
Ending fund balances	<u>\$ 621,461</u>	<u>\$ -</u>	<u>\$ 4,191,049</u>	<u>\$ 4,812,510</u>

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

BEAR VALLEY SPRINGS ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

	<u>Operating Fund</u>	<u>Property Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Excess(deficit) of revenues over(under) expenses	\$ 249,785	\$ (229,813)	\$ 348,341	\$ 368,313
Adjustments to reconcile excess(deficit) of revenues over(under) expenses to net cash provided(used) by operating activities				
Depreciation	-	229,813	-	229,813
Assessments receivable	(130,726)	-	-	(130,726)
Allowance for doubtful accounts	50,962	-	-	50,962
Other receivables	(5,855)	-	-	(5,855)
Prepaid insurance	(13,957)	-	-	(13,957)
Inventory	(2,672)	-	-	(2,672)
Accounts payable	(80,293)	-	-	(80,293)
Prepaid assessments	(3,220)	-	-	(3,220)
Net cash provided(used) by operating activities	<u>(185,761)</u>	<u>229,813</u>	<u>-</u>	<u>44,052</u>
Cash provided(used) by investing activities:				
Change in investments	-	-	-	-
Net cash flows from investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash provided(used) by financing activities:				
Interfund transfers	(69,500)	-	69,500	-
Interfund borrowings	26,808	-	(26,808)	-
Net cash flows from financing activities	<u>(42,692)</u>	<u>-</u>	<u>42,692</u>	<u>-</u>
Net increase(decrease) in cash and cash equivalents	21,332	-	391,033	412,365
Cash and cash equivalents at beginning of year	2,381,299	-	2,323,648	4,704,947
Cash and cash equivalents at end of year	<u>\$ 2,402,631</u>	<u>\$ -</u>	<u>\$ 2,714,681</u>	<u>\$ 5,117,312</u>
SUPPLEMENTAL DISCLOSURE				
Income taxes paid				<u>\$ -</u>
Interest paid				<u>\$ -</u>

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

BEAR VALLEY SPRINGS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

1. Organization

Bear Valley Springs Association (the "Association") was incorporated on August 17, 1970 as a nonprofit mutual benefit corporation under the laws of California. The Association is responsible for maintaining and preserving common property, including recreational and community facilities. The Association consists of 3,582 residential properties on over 25,000 acres, and is located in Tehachapi, California.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Association maintains its financial records on the accrual basis of accounting, which recognizes revenues when earned and expenses when incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the board of directors 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. Actual results could differ significantly from those estimates.

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the replacement generally may be made only for designated purposes. During the year ended June 30, 2019, the Association wrote off the remaining undepreciated balances.

Property and Equipment

Bear Valley Community Services District owns a significant portion of real property common areas in Bear Valley. The Association, however, maintains and operates the property under a lease agreement (Note 8). The common area consists of two lakes, golf course (nine holes), pro shop, restaurant, country club restaurant, recreation center, equestrian center, equestrian trails, swimming pool, tennis courts, campgrounds and a rifle range. Replacements and improvements to these common areas are not capitalized, except for amenities providing significant income.

Cash and Cash Equivalents

Cash and cash equivalents include the Association's cash, checking accounts, money market funds and investments in certificates of deposit with original maturities of 90 days or less.

Investments

Investments consist of certificates of deposit and other securities and investment accounts with original maturities of more than 90 days. Investments in certificates of deposit are considered a Level 1 investment.

BEAR VALLEY SPRINGS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

Inventories

The Association accounts for its food, beverage and golf pro shop inventories at the lower of cost or market value, using cost on a first in first out basis.

Amenity Card Deposits

The Association charges members for amenity cards, which permit access to the Association's amenities. Deposits are refunded to members when members return their amenity cards to the Association's office.

Renters Card Deposits

The Association accounts for member payments for use of the Association's amenities as renter deposits. Deposits are returned to members upon return of the cards to the Association's office.

Prepaid Assessments

Prepaid Assessments represents assessments received during the year ended June 30, 2018 that are to be applied to the following fiscal year.

Subsequent Events

Subsequent events have been evaluated through August 31, 2019, which is the date the financial statements were available to be issued.

Concentration of Credit Risk

The Association maintains bank accounts one financial institution, where the balances in these accounts exceed FDIC federal insurance of \$250,000. The financial institution may carry private insurance, which may or may not be sufficient to reimburse for any losses.

3. Assessments and Assessments Receivable

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable represent fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments and fees, including filing of liens on an owner's unit, foreclosing on a unit owner, and obtaining a legal judgment on an owner's other assets. Any excess operating funds are retained at the end of the fiscal year for use in future periods. After the Association has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Association records an allowance for doubtful accounts to reflect an estimate of accounts that may not be collectible, which generally includes accounts receivable greater than 90 days old.

BEAR VALLEY SPRINGS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

4. Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for expenditures for normal operations.

The board of directors in conjunction with a reserve study expert, conducted a reserve study during 2017 to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on this study.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to its governing documents, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

5. Income Taxes

The Association elected to file its federal income tax returns as a homeowners' association under Internal Revenue Code Section 501 (c) (4). For its California income tax return, the Association qualifies for tax exempt status as a homeowners' association under California Revenue and Taxation code section 23701(t). For its California returns, the Association is generally taxed on income not related to membership dues and assessments, such as interest income and non-member income, at a rate of 8.84%. The Internal Revenue Service and the California Franchise Tax Board can examine the Association's income tax returns generally up to three years and four years, respectively.

6. Environmental Control Committee (ECC) Deposits

The Association's ECC inspects and approves all new construction and improvements to structures by property owners in Bear Valley. The Association collects fees and deposits for each project. Deposits are returned to owners upon satisfactory completion of projects. At June 30, 2019, the Association recorded a balance of \$66,400 in its ECC account.

7. Fair Value of Financial Instruments

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant

BEAR VALLEY SPRINGS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level I that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The Association's balance sheet includes certificates of deposit, which are presented at fair value and are considered Level 1 inputs. At June 30, 2019, the Association's cost of its investments in certificates of deposit totaled \$1,519,060. The fair value of the investments in certificates of deposit at June 30, 2019 totaled \$1,519,060.

8. Commitments and Contingencies

Community Facilities Lease

The Association executed a Community Facilities Lease (the "Lease") with Bear Valley Community Services District (the "District") in January 2007. The Lease, which extends to January 29, 2047, may be terminated earlier should the Association default. Lease terms and conditions are reviewed every five years, and automatically extends with agreement of both parties. The Lease requires the Association to pay \$1 per year.

The Lease requires the Association to maintain and operate community amenities, collect and disburse Association funds, employ staff, purchase and sell food, beverages, merchandise, supplies and other services; purchase insurance, facilitate disputes with third parties, pay taxes, obtain permits, and comply with all other Lease terms, and the terms of the Association's Covenants and Restrictions, Bylaws and Articles of Incorporation. The Association is not permitted to remove any District improvements without permission from the District.

The Association has accrued water liability totaling \$94,617 payable to the District at June 30, 2019.

Contingencies

The Association retains legal counsel advise the Association's Board of Directors and management.

Equipment Leases

The Association has entered into operating leases for office equipment totaling approximately \$2,300 per month. Future commitments for these leases, and for subsequent leases are projected to approximate current expense for such leases.

BEAR VALLEY SPRINGS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2019

9. Related Party Transactions

Bear Valley Community Services District (“District”) owns the real property common areas that are maintained by the Association. The District provides various services for Association residents, including water, sewer, road maintenance, trash service and policing.

10. Pension Plan

The Association provides a 401(k) defined contribution plan (the “Plan”) for Association employees who meet eligibility requirements. The Association contributes a 50% match up to 10% of eligible employees’ annual pay. Association contributions are vested 20% after one year, 50% after two years, and fully vested after three years. The Association contributed \$66,069 to the Plan during the year ended June 30, 2019.

11. Operating Opening Fund Balances

The operating opening fund balance was increased by \$114,052 to account for the reversal of assessment receivable that have been written off in the prior year.

BEAR VALLEY SPRINGS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
For the Year Ended June 30, 2019
(Unaudited)

The Association's board of directors, in conjunction with a reserve study expert, conducted a reserve study during 2017 to estimate the remaining useful lives and the replacement costs of the components of common property. The following information is based on the study and presents significant information about the components of common property.

Study Component	Estimated remaining useful lives	Estimated future replacement costs
Asphalt and concrete	0-21	\$ 1,135,797
Courts	0-22	287,038
Decking	8-20	89,531
Doors	0-17	124,830
Drainage	0-8	187,384
Equipment	0-23	2,007,808
Fences, gates, rails	0-26	621,249
Fire safety	2-4	9,497
Fixtures	1-13	46,062
Flooring	0-18	140,793
Furniture	0-27	498,131
Golf course amenities	0-6	483,713
HVAC system	0-16	182,449
Irrigation	0-23	2,564,439
Lighting	0-18	437,188
Paint	0-7	163,688
Park amenities	0-18	286,190
Pool and wading area	1-15	455,445
Remodelling	6-15	74,016
Restrooms	1-20	219,703
Roofing	7-19	548,540
Septic system	0-17	170,829
Siding	1-32	177,804
Signs	0-11	45,564
Spa area	4-4	21,684
Structure	0-25	789,858
Vehicle	0-3	200,634
Window covering	0-13	24,914
Windows	0-10	64,475
		<u>\$ 12,059,253</u>
		<u>\$ 4,191,049</u>
Replacement fund balance at June 30, 2019		
Other Assumptions:		
Interest rate		0.90%
Inflation rate		2.00%