

**Bear Valley Springs Association
Financial Statements
For the Year Ended June 30, 2025**



NEWMAN
Certified Public Accountant, PC

**Bear Valley Springs Association
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For the Year Ended June 30, 2025**

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Independent Auditor's Report

To the Board of Directors of Bear Valley Springs Association

Opinion

We have audited the accompanying financial statements of Bear Valley Springs Association, which comprise the balance sheet as of June 30, 2025, 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.

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, 2025, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Bear Valley Springs Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter - Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 5 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bear Valley Springs Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting

from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Bear Valley Springs Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bear Valley Springs Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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 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 inquires 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 Certified Public Accountant, PC.

Newman Certified Public Accountant, PC

Carlsbad, California

October 2, 2025

Bear Valley Springs Association
Balance Sheet
June 30, 2025

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 2,883,115	\$ 3,704,511	\$ 6,587,626
Investments	-	2,222,000	2,222,000
Assessments receivable	2,822,870	-	2,822,870
Allowance for credit losses	(1,902,380)	-	(1,902,380)
Prepaid insurance	123,452	-	123,452
Prepaid expenses	4,606	-	4,606
Lake fill credit	33,327	-	33,327
Inventory	70,761	-	70,761
Due from (to) fund	(11,520)	11,520	-
Total assets	<u><u>\$ 4,024,231</u></u>	<u><u>\$ 5,938,031</u></u>	<u><u>\$ 9,962,262</u></u>
Liabilities			
Accounts payable	\$ 324,573	\$ 18,204	\$ 342,777
Accrued payroll and related expenses	267,097	-	267,097
Prepaid assessments	2,604,327	-	2,604,327
Other liabilities	215,637	-	215,637
Contract liabilities (assessments received in advance - replacement fund)	-	5,870,588	5,870,588
Total liabilities	<u><u>3,411,634</u></u>	<u><u>5,888,792</u></u>	<u><u>9,300,426</u></u>
Fund balances	<u><u>612,597</u></u>	<u><u>49,239</u></u>	<u><u>661,836</u></u>
Total liabilities and fund balances	<u><u>\$ 4,024,231</u></u>	<u><u>\$ 5,938,031</u></u>	<u><u>\$ 9,962,262</u></u>

Bear Valley Springs Association
Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended June 30, 2025

	Operating Fund	Replacement Fund	Total
Revenues			
Owners' assessments	\$ 5,918,673	\$ 1,034,003	\$ 6,952,676
Merchandise sales income	39,725	-	39,725
Food and beverage income	2,964,400	-	2,964,400
Event Income	30,940	-	30,940
Recreation fee income	677,068	-	677,068
Interest	19,251	92,141	111,392
Other member income	429,008	-	429,008
Total revenues	<u>10,079,065</u>	<u>1,126,144</u>	<u>11,205,209</u>
Expenses			
Cost of sales	1,214,682	-	1,214,682
	<u>1,214,682</u>		<u>1,214,682</u>
Utilities			
Electricity and gas	319,950	-	319,950
Water and sewer	299,293	-	299,293
Telephone	37,149	-	37,149
Trash removal	71,874	-	71,874
	<u>728,266</u>	<u>-</u>	<u>728,266</u>
Common Area			
Landscape and irrigation	98,872	-	98,872
Outside services	258,657	-	258,657
Repairs and maintenance	44,721	-	44,721
Janitorial	34,858	-	34,858
Pool and spa	90,819	-	90,819
Equipment and vehicle	94,960	-	94,960
Golf course maintenance	726,162	-	726,162
Major repairs and replacements	-	1,107,940	1,107,940
	<u>1,349,049</u>	<u>1,107,940</u>	<u>2,456,989</u>
Administrative			
Insurance	393,709	-	393,709
Legal and professional	42,762	-	42,762
Payroll and related expenses	5,312,582	-	5,312,582
Administrative expense	544,550	18,204	562,754
IT and software support	59,210	-	59,210
Credit losses – receivables	523,066	-	523,066
Property tax	36,604	-	36,604
Licenses, permits and fees	59,241	-	59,241
	<u>6,971,724</u>	<u>18,204</u>	<u>6,989,928</u>
Total expenses	<u>10,263,721</u>	<u>1,126,144</u>	<u>11,389,865</u>
Excess (deficit) of revenues over (under) expenses	(184,656)	-	(184,656)
Beginning fund balances	797,253	49,239	846,492
Ending fund balances	<u>\$ 612,597</u>	<u>\$ 49,239</u>	<u>\$ 661,836</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, 2025

	Operating Fund	Replacement Fund	Total
Excess (deficit) of revenues over (under) expenses	\$ (184,656)	\$ -	\$ (184,656)
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Decrease (Increase) in operating assets:			
Assessments receivable	(353,499)	-	(353,499)
Allowance for credit losses	553,776	-	553,776
Prepaid insurance	(762)	-	(762)
Prepaid expenses	951	-	951
Inventory	9,389	-	9,389
Increase (Decrease) in operating liabilities:			
Accounts payable	86,189	17,636	103,825
Accrued payroll and related expenses	18,114	-	18,114
Prepaid assessments	(80,102)	-	(80,102)
Deferred special assessments	(62,464)	-	(62,464)
Other liabilities	(12,184)	-	(12,184)
Contract liabilities (assessments received in advance - replacement fund)	-	416,302	416,302
Total adjustments	159,408	433,938	593,346
Net cash provided (used) by operating activities	(25,248)	433,938	408,690
Cash provided (used) by investing activities:			
Investments	-	(691,000)	(691,000)
Net cash flows from investing activities	-	(691,000)	(691,000)
Cash provided (used) by financing activities:			
Interfund borrowings	11,520	(11,520)	-
Net cash flows from financing activities	11,520	(11,520)	-
Net increase (decrease) in cash and cash equivalents	(13,728)	(268,582)	(282,310)
Beginning cash and cash equivalents	2,896,843	3,973,093	6,869,936
Ending cash and cash equivalents	\$ 2,883,115	\$ 3,704,511	\$ 6,587,626
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			\$ -
Interest paid			\$ -

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, 2025**

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 25,000 acres, and is located in Tehachapi, California.

2. Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 2, 2025, the date that the financial statements were available to be issued.

3. Summary of Significant Accounting Policies

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 revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - The fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - The fund is used to accumulate financial resources designated for future major repairs and replacements.

Members Assessments and Allowance for Credit Losses

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on properties of owners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include closely monitoring of outstanding assessment balances by management, member payment history of outstanding assessment balances, and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$2,469,371 and \$2,822,870, respectively. After the Board of Directors has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

**Bear Valley Springs Association
Notes to Financial Statements
For the Year Ended June 30, 2025**

The Association recorded an allowance for credit losses of \$1,902,380 to reflect an estimate of accounts that may not be collectible.

Property

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.

Contract Liabilities (Assessments received in advance – replacement fund)

The Association recognizes replacement fund (reserves) revenue from members as related performance obligations are satisfied. A contract liability (assessments received in advance – replacement fund) is recorded when the Association has the right to receive payment in advance of satisfaction of performance obligations related to replacement reserve assessments. The balance of Contract Liabilities (assessments received in advance – replacement fund) as of the beginning and end of the year are \$5,454,286 and \$5,870,588, respectively.

Income Tax

The Association's policy is to record interest expense or penalties related to income tax in operating expenses.

Interest Income

Interest income is recognized when earned and allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

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.

Concentration of Credit Risk

The Association maintains bank accounts with balances that exceed FDIC federal insurance of \$250,000. The financial institution carries private insurance, may or may not be sufficient to reimburse any losses. At December 31, 2024, \$2,543,930 was exposed to risk.

4. Income Taxes

The Association was granted federal tax exemption under Internal Revenue Code (IRC) Section 501(c)(4). An entity with a federal tax exemption is required to file Form 990 and report income separately in the following three categories, as applicable: exempt function income, unrelated business income, and revenue excluded from tax under IRC Sections 512-514. Taxable income includes unrelated business income which is defined based on the federal tax exemption that was obtained. The Association is required to file Form 990-T if it has unrelated business income. The Form 990-T tax rate is 21%.

**Bear Valley Springs Association
Notes to Financial Statements
For the Year Ended June 30, 2025**

In the event that the Association is required to file Form 990-T, then it will also be required to file California's Form 109 income tax return subject to California Revenue & Taxation Code section 23701f. The Form 109 tax rate is 8.84%.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of the year end, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions. 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. There are currently no audits in progress for any tax period.

5. 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 operating fund expenses.

The Board of Directors conducted a reserve study 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 or may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

6. FASB ASC 606 Revenue Recognition

The Financial Accounting Standards Board (FASB) issued ASC 606 guidance, Revenue from Contracts with Customers, effective January 1, 2019, which superseded the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRA), Revenue Recognition. The Association has presented the attached financial statements in accordance with FASB ASC 606. Assessments attributed to the Operating Fund are recognized in the period earned. Assessments allocated to the Replacement Fund are recognized as revenue only when there are replacement fund expenditures, and to the extent the replacement fund expenditures exceed replacement fund interest income.

**Bear Valley Springs Association
Notes to Financial Statements
For the Year Ended June 30, 2025**

The cumulative balance of Replacement Fund assessments that have not been recognized as income are accumulated as deferred replacement fund assessments and presented as Contract Liabilities (Assessments received in advance - Replacement fund) on the Balance Sheet. Deferred replacement fund assessments are increased by unrecognized replacement fund assessments and decreased as replacement fund assessments are recognized as revenue in the Statement of Revenue and Expenses and Changes in Fund Balances.

Contract liabilities (assessments received - in advance - replacement fund) as of July 01, 2024	\$ 5,454,286
Assessments budgeted for Replacement Fund	1,450,305
Recognized Replacement Fund assessments	(1,034,003)
Contract liabilities (assessments received - in advance - replacement fund) as of June 30, 2025	<u>\$ 5,870,588</u>

7. Other Liabilities

As of June 30, 2025, the Association recorded other liabilities totaling \$215,637 which comprised of the following:

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. As of June 30, 2024, deposits totaled \$97,315.

Amenity Card Deposits

Members and renters of the Association pay a deposit fee for a card that allows them access to certain amenities provided by the Association which is refundable upon the return of the card. As of June 30, 2025, the Association recorded amenity and renter card deposits totaling \$77,375.

As of June 30, 2025, the Association recorded sales tax payable of \$24,438 and gift certificates payable of \$16,509.

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.

Legal Counsel

The Association retains legal counsel to advise the Association's Board of Directors and management, regarding ongoing legal issues. In some instances, the outcome of ongoing situations involving legal counsel is not determinable as of the date of this report.

**Bear Valley Springs Association
Notes to Financial Statements
For the Year Ended June 30, 2025**

9. Special Assessment

In July 2022, the Board of Directors approved a special assessment of \$19 per unit, totaling \$68,058, to expand the Mulligan Room kitchen. As of June 30, 2025, the total remaining deferred special assessment income of \$62,464 was fully recognized for related expenses.

10. Pension Plan

The Association provides a 401(k) defined contribution plan (the "Plan") for Association employees who meet eligibility requirements. The Association contributes 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 \$85,133 to the Plan during the year ended June 30, 2025.

11. Related Party Transactions

Bear Valley Community Services District ("District") owns certain 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.

The Association receives credits from the District to offset future water bills. As of June 30, 2025, the Association recorded an unused lake fill credit of \$33,327.

The Association employed a member of the Board of Directors as a third party consultant which was overseen by the Association's general manager. This Board member served for only a portion of the year.

Bear Valley Springs Association
Supplementary Information on Future Major Repairs and Replacements
June 30, 2025
(Unaudited)

The Association's Board of Directors, in conjunction with a reserve study expert, conducted a reserve study dated March 12, 2024, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair and replacement.

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

Study Component	Estimated remaining useful lives (years)	Estimated future replacement costs
Oak Tree Country Club	0-28	\$ 2,131,400
Country Club kitchen equipment	0-16	385,750
Pool and volleyball area	0-15	598,900
Tennis and pickleball courts	0-26	716,200
Administration building	0-23	461,800
Whiting Center	0-20	1,019,215
Equestrian Center	0-18	1,734,000
Mulligan's Room and Pro Shop	0-24	725,700
Maintenance yard	0-18	167,500
Golf course	0-19	4,132,250
Vehicles and equipment	1-12	1,832,000
Parks, fields and shooting range	0-18	1,901,750
Camp grounds	0-9	714,300
		<u>\$ 16,520,765</u>
Interest rate		2.00%
Inflation rate		3.00%

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at June 30, 2025