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AMERICAN INSTITUTE  
OF CERTIFIED  
PUBLIC ACCOUNTANTS

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MEMBER:  
CALIFORNIA SOCIETY  
OF CERTIFIED PUBLIC  
ACCOUNTANTS

BEAR BRAND RANCH COMMUNITY ASSOCIATION  
BALANCE SHEET  
JUNE 30, 2011

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Bear Brand Ranch Community Association

We have audited the accompanying balance sheet of Bear Brand Ranch Community Association as of June 30, 2011, and the related statements of revenue and expenses and association funds, and cash flows for the year then ended. These financial statements are the responsibility of the Association's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 above present fairly, in all material respects, the financial position of Bear Brand Ranch Community Association as of June 30, 2011, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.



Robert A. Owens, CPA A PAC

October 4, 2011

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>ASSETS</b>			
Cash	\$ 336,808	\$ 389,130	\$ 725,938
Assessments Receivable	67,038	-	67,038
Less: Allowance For Doubtful Accounts	(43,597)	-	(43,597)
Prepaid Taxes	330	-	330
Prepaid Insurance	1,903	-	1,903
<b>Total Assets</b>	<b>\$ 362,482</b>	<b>\$ 389,130</b>	<b>\$ 751,612</b>
<b>LIABILITIES AND ASSOCIATION FUNDS</b>			
<b>Liabilities</b>			
MNWD Loan Payable	\$ 22,566	\$ -	\$ 22,566
Accounts Payable	42,187	-	42,187
Prepaid Assessments	53,756	-	53,756
Architectural Deposits	187,732	-	187,732
Income Taxes Payable	10	-	10
<b>Total Liabilities</b>	<b>306,251</b>	<b>-</b>	<b>306,251</b>
Commitments	-	-	-
<b>Association Funds (Deficit)</b>	<b>56,231</b>	<b>389,130</b>	<b>445,361</b>
<b>Total Liabilities And Association Funds</b>	<b>\$ 362,482</b>	<b>\$ 389,130</b>	<b>\$ 751,612</b>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

BEAR BRAND RANCH COMMUNITY ASSOCIATION  
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>REVENUE</b>			
Assessments	\$ 776,616	\$ 227,928	\$ 1,004,544
Interest Income	272	144	416
Road Use Fees	-	60,000	60,000
Other Income	<u>3,848</u>	-	<u>3,848</u>
<b>Total Revenue</b>	<b>780,736</b>	<b>288,072</b>	<b>1,068,808</b>
<b>EXPENSES</b>			
Landscape Maintenance	212,554	10,102	222,656
Management Fees	52,880	-	52,880
Administrative	25,346	-	25,346
Legal And Audit	24,791	-	24,791
Insurance	6,200	-	6,200
Bad Debt	3,002	-	3,002
Pest Control	9,709	-	9,709
General Maintenance	4,517	-	4,517
Reserve Study	850	-	850
Interest Expense	1,548	-	1,548
Electricity	20,581	-	20,581
Water	27,793	-	27,793
Street Sweeping	3,520	-	3,520
Security	270,792	-	270,792
Custodial	3,865	-	3,865
Street Repair	-	85,169	85,169
Gate	28,224	21,136	49,360
Holiday Decorations	2,800	-	2,800
Guardhouse	-	11,595	11,595
Surveillance System	-	44,349	44,349
Slopes	-	12,000	12,000
Lighting and Electrical	4,457	-	4,457
Income Tax	10	-	10
<b>Total Expenses</b>	<b>703,439</b>	<b>184,351</b>	<b>887,790</b>
Excess of Revenue Over Expenses	77,297	103,721	181,018
Association Funds Balance (Deficit) Beginning of Year	<u>(21,066)</u>	<u>285,409</u>	<u>264,343</u>
<b>Association Funds Balance End of Year</b>	<b>\$ 56,231</b>	<b>\$ 389,130</b>	<b>\$ 445,361</b>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

BEAR BRAND RANCH COMMUNITY ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>Cash Flows From Operating Activities:</b>			
Cash Received From Members	\$ 764,250	\$ 287,928	\$ 1,052,178
Cash Paid To Suppliers of Goods And Services	(706,017)	(192,171)	(898,188)
Architectural Deposits Returned	(20,000)	-	(20,000)
Interest Received	272	144	416
Interest Paid	(1,548)	-	(1,548)
Income Taxes Paid	<u>1,190</u>	<u>-</u>	<u>1,190</u>
<b>Net Cash Provided By Operating Activities</b>	<b>38,147</b>	<b>95,901</b>	<b>134,048</b>
<b>Cash Flows From Financing Activities:</b>			
Interfund Borrowings	(78,116)	78,116	-
Principal Payments On Debt	<u>(5,901)</u>	<u>-</u>	<u>(5,901)</u>
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>(84,017)</b>	<b>78,116</b>	<b>(5,901)</b>
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<b>(45,870)</b>	<b>174,017</b>	<b>128,147</b>
<b>Cash And Cash Equivalents At Beginning of Year</b>	<b>382,678</b>	<b>215,113</b>	<b>597,791</b>
<b>Cash And Cash Equivalents At End of Year</b>	<b>\$ 336,808</b>	<b>\$ 389,130</b>	<b>\$ 725,938</b>
<b>RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Excess (Deficiency) of Revenue Over Expenses	\$ 77,297	\$ 103,721	\$ 181,018
<b>Adjustments To Reconcile Excess (Deficiency) of Revenue Over Expenses To Net Cash Provided By Operating Activities:</b>			
Change In Assessments Receivable	(19,860)	-	(19,860)
Change In Prepaid Insurance	1,324	-	1,324
Change In Prepaid Taxes	1,200	-	1,200
Change In Accounts Payable	(8,462)	(7,820)	(16,282)
Change In Prepaid Assessments	6,648	-	6,648
Change In Architectural Deposits	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 38,147</b>	<b>\$ 95,901</b>	<b>\$ 134,048</b>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

NOTE 1 NATURE OF ORGANIZATION

Bear Brand Ranch Community Association was incorporated on June 30, 1977, in the state of California. It is responsible for the operation and maintenance of the common property within the development, which is located in the city of Laguna Niguel, California. The development consists of 128 residential units.

Originally, the Association incorporated an area in the city of San Juan Capistrano known as Peppertree Bend ("Peppertree"). Effective July 23, 1996, a separate association formed to de-annex Peppertree from Bear Brand. The original grant deed was executed to transfer the Peppertree Bend common area to the separate association. In addition, 17% of all reserves and operating cash of the Association was transferred to Peppertree. The 17% distribution totaled \$ 56,687.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of Bear Brand Ranch Community Association are maintained on the cash basis of accounting with entries made to convert them to the accrual basis for audit and tax purposes.

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 - This fund is used to account for financial resources available for the general operations of the Association.
- Replacement fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Property and Equipment

Real property and common areas acquired by the original homeowners from the developer are owned by the individual owners in common and are not capitalized on the Association's financial statements. Replacements and improvements to the real property and common areas also belong to the owners and are not capitalized on the Association's financial statements.

Cash Equivalents and Short-term Investments

Cash equivalents consist primarily of certificates of deposit and other securities with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments. Cash equivalents and short-term investments are stated at cost, which approximates market value.

Use of Estimates

The Association uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

SEE INDEPENDENT AUDITORS' REPORT

NOTE 3 REPLACEMENT FUND

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the replacement fund. Since the actual costs are dependent upon the frequency of occurrence and future costs, there is no assurance that this fund is adequate.

A study of the Association's funding program for the replacement of Association common areas, projected to June 30, 2011, indicates the Association's ideal cash replacement fund balance was \$ 659,622 at that date. The study recommends a 2011/2012 contribution to the replacement fund of \$ 171,816 (\$ 112.74 per owner per month). The 2011/2012 budgeted contribution is \$ 237,432.

The preparation of such a study involves significant estimates by the persons preparing the study, and these estimates are subject to annual revision for changing prices, circumstances and assumptions. If actual replacement costs exceed funds available, or where replacement of common areas is necessary where no fund has been previously established, the Association has the right to increase the monthly assessments, pass special assessments, or delay replacement until funds are available.

NOTE 4 INCOME TAXES

The Association is a corporation that is potentially taxable on all of its net income, including unspent member assessments. However, under state and federal filing elections, the Association may choose to be taxed only on its net non-membership income, which includes interest income.

The State of California allows qualifying homeowner associations to file an election to be taxed under special rules. Under this election, income from members (such as assessments) is exempt from taxation.

Federal law offers a similar election, which must be made annually. However, net non-membership income under this election is taxed at a flat rate of 30%. If the Association chooses to file as a regular corporation, it may still exclude from taxation its net membership income by making certain elections. Tax at the regular corporate tax rate is generally lower. Some of these elections, however, have come under IRS attack and certain issues are yet to be clarified. In fiscal 2011, the Association filed as an exempt corporation.

Regardless of how the Association files its taxes, non-membership income (interest) may not be offset with membership expenses (such as common area maintenance costs). That is why the Association's taxable income can be greater than its net income as recorded in the financial statements.

Federal and California income taxes have been accrued based on the taxable portion of the income reported in the accompanying financial statements. Income taxes for the current year were:

2011 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	\$ -	\$ -	\$ 10	\$ 10
Less: Credit from prior year return	(204)	(126)	-	(330)
<b>Prepaid tax</b>	<b>\$ 204</b>	<b>\$ 126</b>	<b>\$ -</b>	<b>\$ 330</b>
<b>Income tax payable</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10</b>	<b>\$ 10</b>

SEE INDEPENDENT AUDITORS' REPORT

NOTE 5 CASH

The Association's cash account balances as of June 30, 2011, were as follows:

<u>INSTITUTION</u>	<u>INTEREST RATE</u>	<u>AMOUNT</u>	<u>MATURITY DATE</u>
Pacific Western Bank	-	\$ 119,709	-
Merrill Lynch ISA Account	0.10%	217,099	-
Wells Fargo Bank	0.05%	389,130	-
Total		<u>\$ 725,938</u>	

As of June 30, 2011, the Association's account at Wells Fargo Bank exceeded the FDIC insurance limit of \$ 250,000 per depositor per institution.

The Merrill Lynch Insured Savings Account (ISA) program is a series of electronically-linked money market deposit accounts at one or more banks or savings associations insured by the Federal Deposit Insurance Corporation (FDIC). Because there are more than 30 banks participating in the program, ISA provides access to over \$7 million of FDIC insurance through one account.

NOTE 6 ASSESSMENTS RECEIVABLE

Association members are subject to annual assessments (paid in monthly installments) to fund the Association's operating expenses, future capital acquisitions and major repairs and replacements. Assessments receivable at the balance sheet date represent assessments and other fees due from unit owners. Most owners live within Southern California and their ability to pay would be influenced by the local economy. The Association's CC & R's provide for various collection remedies for delinquent assessments including filing of liens on the owner's unit, foreclosing on the unit owner, and obtaining judgement on other assets of the unit owner.

NOTE 7 ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Association uses the allowance method of recording bad debts. This method requires an annual provision for bad debts based on past or industry experience.

NOTE 8 ASSESSMENTS

During fiscal 2011, assessments were billed at a rate of \$ 654.00 per unit per month. The rate is budgeted to remain at \$ 654.00 per unit per month for fiscal 2012.

NOTE 9 MNWD RECLAMATION PROJECT

During fiscal 2004, the Association completed the conversion of its irrigation system to use reclaimed water. In July 2004, the Moulton Niguel Water District loaned the Association \$ 56,998 to partially cover the cost of the conversion. The repayment of the loan plus interest depends upon Association water usage. Based upon the average water usage from 1999 to 2001, a set amount of interest on the loan has been calculated at \$ 21,584. The stated interest rate on the loan is 6% with a loan term of 10.55 years.

SEE INDEPENDENT AUDITORS' REPORT

NOTE 9 MNWD RECLAMATION PROJECT (Continued)

Using the above stated interest rate and loan term, an amortization schedule has been calculated using a monthly payment of \$ 620.70. The principal payments through maturity according to this schedule are as follows:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2012	\$ 6,265
June 30, 2013	\$ 6,651
June 30, 2014	\$ 7,062
June 30, 2015	<u>\$ 2,588</u>
	<u>\$ 22,566</u>

NOTE 10 SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is October 4, 2011, which is the date on which the financial statements were issued.

SEE INDEPENDENT AUDITORS' REPORT

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BEAR BRAND RANCH COMMUNITY ASSOCIATION  
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS  
AND REPLACEMENTS  
JUNE 30, 2011  
(UNAUDITED)

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors  
Bear Brand Ranch Community Association

Our report on our audit of the basic financial statements of Bear Brand Ranch Community Association for the year ended June 30, 2011 appears on page 3. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on future major repairs and replacements is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.



Robert A. Owens, CPA A PAC

October 4, 2011

The board of directors contracted an independent consultant who conducted a February 4, 2011 study, projected to June 30, 2011, to estimate the remaining useful lives and replacement costs of the components of common property. Funding requirements include an inflation factor of 2% and an investment yield of 1%.

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

Components	Estimated Remaining Useful Lives	Estimated Current Replacement Cost	2011/2012 Funding Requirement	Recommended Fund Balances
Streets	0 to 29 years	\$ 1,340,000	\$ 110,565	\$ 291,048
Painting	0 to 1 year	10,948	3,267	8,327
Access	1 to 18 years	116,577	11,514	64,944
Fencing/Walls	3 to 26 years	59,806	2,861	33,023
Lighting	0 years	6,500	1,689	6,500
Recreation Areas	2 to 8 years	13,604	872	10,547
Gate House	0 to 11 years	33,478	1,923	31,383
Monument Signs	6 years	10,000	467	8,286
Irrigation	0 to 26 years	107,220	5,881	79,153
Landscape	0 to 3 years	125,000	24,563	95,000
Contingency	n/a	-	8,214	31,411
		<u>\$ 1,823,133</u>	<u>\$ 171,816</u>	<u>\$ 659,622</u>

As shown above, the study recommends a replacement fund balance of \$659,622 as of June 30, 2011 and contributions to reserves of \$171,816 during 2011/2012. The Association's replacement fund balance at June 30, 2011 was \$389,130 or 58.99% of the recommended fund balance.

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION