

BELL CANYON ASSOCIATION

30 Hackamore Lane, Suite 8
Bell Canyon, CA 91307-1001

December 20, 2018

Dear Owners,

Attached is the Bell Canyon Association's independent audited financial statements for the fiscal year, ending June 30, 2018. We are excited to report that Bell Canyon Association is in excellent financial condition.



QUICK OVERVIEW

- We have \$5.8 million in cash and equivalents compared with \$4.7 million in 2012.
- There is a \$365,348 deficit for the last fiscal year.
- Reserves are funded at 118%.

The \$365,348 deficit is the result of expenditures of legal fees from defending two lawsuits filed by real estate developers against the Association. After the fiscal year, our insurance company has reimbursed us \$105,000. More reimbursements are expected shortly.

The Board will continue to pursue the most cost-effective means of maintaining and improving our community and safeguarding its financial stability. Please feel free to contact me if you have any questions.

Sincerely,

Richard Levy, CPA
Treasurer
Bell Canyon Association

**BELL CANYON ASSOCIATION AND
SUBSIDIARIES**

Auditor's Report

Financial Statements and

Supplemental Information

For the Year Ended June 30, 2018

LICHTER, YU AND ASSOCIATES, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Members
Bell Canyon Association and Subsidiaries
Bell Canyon, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Bell Canyon Association and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2018 and the related consolidated 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

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 consolidated financial position of Bell Canyon Association and Subsidiaries as of June 30, 2018, 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 on Summarized Comparative Information

The consolidated financial statements of Bell Canyon Association and Subsidiaries as of and for the year ended June 30, 2017 were audited by a predecessor auditor. An unmodified opinion was issued February 8, 2018 by the predecessor auditor. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information regarding replacement fund balances on page 12-14 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 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Schedule of Operating Expense Budget vs Actual on pages 15-16 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. It 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.



Woodland Hills, CA
December 13, 2018

Bell Canyon Association and Subsidiaries

Consolidated Balance Sheet

As of June 30, 2018

(with comparative totals for 2017)

	2018				2017
	Operating Fund	Capital Improvement Fund	Replacement Fund	Total Funds	Total Funds
Assets					
Cash (see Note 1)	\$ 1,621,720	\$ 716,880	\$ 2,733,057	\$ 5,071,657	\$ 5,011,599
Investments (see Note 1)	-	373,000	394,000	767,000	1,090,000
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$73,492 (see Note 1)	27,684	-	-	27,684	67,449
Other Receivable	297	-	-	297	5,306
Prepaid Expenses	56,192	-	-	56,192	90,015
Property and Equipment, Net of Accumulated Depreciation of \$781,006 (see Note 1)	1,110,288	-	-	1,110,288	1,162,875
Due to/From Other Fund	(3,096)	3,096	-	-	-
Total Assets	\$ 2,813,085	\$ 1,092,976	\$ 3,127,057	\$ 7,033,118	\$ 7,427,244
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Expenses	\$ 45,999	\$ -	\$ -	\$ 45,999	\$ 86,632
Accrued Payroll and Related Expenses	62,039	-	-	62,039	52,761
Income Tax Payable	1,600	-	-	1,600	800
Prepaid Assessment	52,062	-	-	52,062	73,163
Deferred Revenue	2,313	-	-	2,313	7,826
Deposits - Construction	497,407	-	-	497,407	446,307
Deposits - Other	16,208	-	-	16,208	33,367
Loan Payable	8,313	-	-	8,313	13,863
Total Liabilities	685,941	-	-	685,941	714,719
Fund Balances					
Contributed Capital	1,498,507	-	-	1,498,507	1,498,507
Fund Balances	628,637	1,092,976	3,127,057	4,848,670	5,214,018
Total Fund Balances	2,127,144	1,092,976	3,127,057	6,347,177	6,712,525
Total Liabilities and Fund Balances	\$ 2,813,085	\$ 1,092,976	\$ 3,127,057	\$ 7,033,118	\$ 7,427,244

See accompanying notes to these consolidated financial statements

Bell Canyon Association and Subsidiaries
Consolidated Statement of Revenues, Expenses and Changes in Fund Balance
For the Year Ended June 30, 2018
(with comparative totals for 2017)

	2018				2017
	Operating Fund	Capital Improvement Fund	Replacement Fund	Total Funds	Total Funds
Revenues					
Member Assessments	\$ 2,151,016	\$ 3,793	\$ 298,393	\$ 2,453,202	\$ 2,449,106
Boarding Fees (see Note 8)	449,945	-	-	449,945	399,032
Rental Income, Bell Canyon Community Center (see Note 8)	21,862	-	-	21,862	33,282
Interest Income	78	6,005	11,227	17,310	19,254
Miscellaneous Income					
Doubtful Accounts	-	-	-	-	-
Plan Check/ Refund Fees	259,875	-	-	259,875	26,990
Late Charges	15,249	-	-	15,249	14,778
Holiday Bonus Fund	21,365	-	-	21,365	18,896
Equestrian Related Income	31,678	-	-	31,678	55,486
Decal, Lien, Handling and Other Miscellaneous Income	31,277	-	-	31,277	121,813
Total Revenues	<u>2,982,345</u>	<u>9,798</u>	<u>309,620</u>	<u>3,301,763</u>	<u>3,138,637</u>
Expenses					
Access Control Services (Schedule II)	459,250	-	-	459,250	464,593
Maintenance (Schedule II)	563,842	-	-	563,842	561,402
Administrative (Schedule II)	1,537,442	-	-	1,537,442	1,112,568
Major Repairs and Replacements (Schedule II)	-	-	231,060	231,060	844,218
Capital Improvements (Schedule II)	-	29,665	-	29,665	53,300
Depreciation	21,827	-	-	21,827	17,685
Tennis Court	2,026	-	-	2,026	2,994
Committees (Schedule II)	172,055	-	-	172,055	166,301
BCCC and BCEC Expenses (see Note 8)					
Operating Expenses	563,202	-	-	563,202	571,659
Depreciation	85,142	-	-	85,142	76,541
Income Taxes	1,600	-	-	1,600	1,600
Total Expenses	<u>3,406,386</u>	<u>29,665</u>	<u>231,060</u>	<u>3,667,111</u>	<u>3,872,861</u>
Excess (Deficiency) of Revenues Over Expenses	(424,041)	(19,867)	78,560	(365,348)	(734,224)
Other Comprehensive Income					
Unrealized gain/(loss) on Investments	-	-	-	-	(624)
Total Comprehensive Income	(424,041)	(19,867)	78,560	(365,348)	(734,848)
Fund Balances, Beginning of Year	2,591,524	1,152,295	2,968,706	6,712,525	7,447,373
Transfer of Assets	(40,339)	(39,452)	79,791	-	-
Fund Balances, End of Year	<u>\$ 2,127,144</u>	<u>\$ 1,092,976</u>	<u>\$ 3,127,057</u>	<u>\$ 6,347,177</u>	<u>\$ 6,712,525</u>

See accompanying notes to these consolidated financial statements

Bell Canyon Association and Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2018
(with comparative totals for 2017)

	<u>2018</u>			<u>2017</u>	
	<u>Operating Fund</u>	<u>Capital Improvement Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
<u>Cash Flows From Operating Activities:</u>					
Excess (Deficiency) of Revenues Over Expenses	\$ (424,041)	\$ (19,867)	\$ 78,560	\$ (365,348)	\$ (734,848)
<u>Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:</u>					
Depreciation	106,969	-	-	106,969	94,226
Bad Debts	4,493	-	-	4,493	6,710
<u>Change in Assets and Liabilities:</u>					
Assessments Receivable	35,272	-	-	35,272	(38,255)
Other Receivables	5,009	-	-	5,009	(21)
Prepaid Expenses	33,823	-	-	33,823	13,102
Accounts Payable	(40,633)	-	-	(40,633)	40,165
Accrued Payroll and Vacation	9,278	-	-	9,278	6,215
Income Taxes Payable	800	-	-	800	800
Deposits - Construction and Other	33,941	-	-	33,941	115,836
Prepaid Assessments	(21,101)	-	-	(21,101)	20,776
Deferred Income	(5,513)	-	-	(5,513)	7,826
Total Adjustments	162,338	-	-	162,338	267,380
Net Cash Provided (Used) by Operating Activities	(261,703)	(19,867)	78,560	(203,010)	(467,468)
<u>Cash Flows From Investing Activities:</u>					
Change in Investments, net	-	(123,000)	446,000	323,000	1,158,509
Purchase of Fixed Assets	(54,382)	-	-	(54,382)	-
Net Cash Provided (Used) by Investing Activities	(54,382)	(123,000)	446,000	268,618	1,158,509
<u>Cash Flows from Financing Activities:</u>					
Payments on Note Payable	(5,550)	-	-	(5,550)	(8,132)
Interfund Balances	43,049	(41,898)	(1,151)	-	(18,614)
Net Cash Provided (Used) by Financing Activities	37,499	(41,898)	(1,151)	(5,550)	(26,746)
Net Increase (Decrease) in Cash	(278,586)	(184,765)	523,409	60,058	664,295
Cash and Cash Equivalents at Beginning of Year	1,900,306	901,645	2,209,648	5,011,599	4,347,304
Cash and Cash Equivalents at End of Year	\$ 1,621,720	\$ 716,880	\$ 2,733,057	\$ 5,071,657	\$ 5,011,599
<u>Supplemental Information:</u>					
Cash Paid for Income Taxes	\$ 1,600	\$ -	\$ -	\$ -	\$ 800

See accompanying notes to these consolidated financial statements

Bell Canyon Association and Subsidiaries

Notes to Consolidated Financial Statements

For the Year Ended June 30, 2018

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

Bell Canyon Association and Subsidiaries (the "Association") is a nonprofit, mutual benefit corporation under the Laws of California. The Association's members consist of those persons or entities owning the lots within the development. Bell Canyon Association and Subsidiaries was incorporated March 11, 1969. The Association is responsible for the maintenance and operation of the common areas of a 799 lot planned development located in Bell Canyon, California.

The Association's Board of Directors is comprised of nine members elected by the membership. The Board of Directors, among other things, establishes assessments on members of the Association and establishes user fees for Association amenities.

Accounting Method

The Association maintains its books of account on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

Fund Accounting

The Association's governing documents provide certain guidelines for managing 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 - Used to account for financial resources available for the general operations of the Association.

Replacement Fund - Used to account for financial resources designated for future major repairs and replacements of the amenities.

Capital Improvements Fund - Used to account for financial resources designated for the acquisition and construction of new common area components as differentiated from the replacement fund which is designated for the repair and replacement of existing common area components.

Accounting Method

The Association maintains its books of account on the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

Fund Accounting

The Association has segregated its activities into three funds: the operating fund, the capital improvement fund and the replacement fund. The operating fund accounts for all current operating transactions of the Association. The capital improvement fund accounts for capital improvements and/or capital purchases. The replacement fund accounts for major road maintenance programs, repairs and/or reconstruction and maintenance, repair and/or reconstruction of drainage facilities.

Cash

Cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.

The Association maintains bank accounts at various financial institutions. Balances in these accounts may occasionally exceed the FDIC federally insured amount of \$250,000. Funds maintained in brokerage accounts are not federally insured, but are privately insured by the SIPC (Securities Investors Protection Corporation).

Investments

The investments consist of Certificates of Deposits and Money Market Mutual fund which are classified as available for sale investments and accordingly recorded at market value. Total carrying costs for these type of investments at June 30, 2018 was \$767,000. Accumulated unrealized loss was insignificant as of June 30, 2017. Maturity dates of the certificates of deposit range from September 2018 to February 2019.

Assessments Receivable, Bad Debt Expense, and Allowance for Doubtful Accounts

Association members are subject to monthly assessments to provide funds for the Association's operating and capital improvement expenses as well as major repairs and replacements. The Association derives a significant portion of its revenue from dues assessments that are levied against each lot within the development. Assessments receivable at June 30, 2018 represent amounts due from members whose residence is within the state of California and whose property is subject to lien and foreclosure.

The Association's collection policy includes, among other things, assessing a late charge and interest, and filing a lien and assessing a lien fee on payments not received within the allowable time periods. The Association has the right to suspend certain membership rights and pursue collection through foreclosure action.

An allowance for doubtful accounts is created when an account's collectability is uncertain. Accounts are written off when the Association determines that amounts are not collectible, such as after bankruptcy or foreclosure proceedings. An allowance of \$73,492 has been made for uncollectible assessments receivable. This allowance is an estimate based on an analysis of delinquent assessments receivable, historical collection activities, and existing economic conditions.

Property, Equipment and Depreciation

Real and personal property purchased with Association funds, to which the Association holds title and with a cost or donated value of \$1,000 or more, is capitalized only in the event that the property is severable and saleable by the Board of directors without member approval, or if the property produces significant income to the Association. Expenditures for minor renewals and improvements are charged to expense.

It is the Association's policy that real and personal property is capitalized at cost and depreciated over the estimated useful lives of the items purchased, using straight line or accelerated methods of depreciation.

Common areas are restricted to use by Association members, their tenants, guests and non-members who leases space from the Equestrian Center. The Association is responsible for the preservation and maintenance of the common areas.

Common area property not capitalized on the financial statements consists of roads, fences, and equestrian trails. A summary of Association property and equipment at June 30, 2018 is as follows:

Land	\$ 392,025
Buildings and Improvements	882,166
Leasehold Improvements	123,719
Land Improvements	198,207
Vehicles	280,881
Furniture and Fixtures	<u>1,444,548</u>
Total Assets	3,321,546
Less: Accumulated Depreciation	<u>(2,211,258)</u>
Net Book Value	<u>\$ 1,110,288</u>

Depreciation expense totaled \$106,969 for the year ended June 30, 2018.

The cost of property and equipment is depreciated over the estimated lives of the assets from date of acquisition based on the accelerated cost recovery system. The estimated useful lives are: Furniture and Machinery 3 to 10 years; Vehicles 4 to 5 years; Buildings and Improvements 7 to 40 years.

Amounts due between funds

Amounts due between the funds consist of lending/borrowing arrangements outstanding at the end of the year are reported as "due to/from other funds."

Deposits

The Association requires owners and builders to advance security deposits for any construction. The deposits are used to ensure adherence to the objectives of the Association rules and regulations and to pay for any clean-up costs or repairs to common property as a result of the construction. The funds are refundable upon completion of construction.

Deferred Revenue

Deferred revenue represents revenues received during 2018 that are applicable to the following year.

Interest Income

The Association records interest income in the respective fund holding the investments, but records related income tax expenses in the operating fund.

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 assets and contingent 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.

Principles of Consolidation

The consolidated financial statements include Bell Canyon Association and its wholly-owned Subsidiary, Bell Canyon Community Center, Inc. (BCCC). BCCC, in turn, is the sole shareholder of Bell Canyon Equestrian Center, Inc. All inter-company transactions and balances have been eliminated from these financial statements.

Lines of Business

The Association conducts only one line of business, which is providing management services to its members. This consists primarily of maintenance of the common areas and related administrative functions. The Bell Canyon Equestrian Center provides equestrian boarding for members and nonmembers. The Bell Canyon Community Center holds title to the certain buildings located in the Association and leases the office and other space to the Association and other entities.

NOTE 2 - REPLACEMENT FUND and RESTRICTED CASH:

The Association accumulates funds for the major repair and replacement of its common area components. Such funds are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such expenditures are necessary.

Funds accumulated are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such expenditures are necessary.

However, actual expenditures may vary from the estimated amounts and the variations may be material. In addition, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, to borrow the necessary funds, or to delay major repairs and replacements until the funds are available.

The Association annually reviews its reserve funding program as part of the budget process, and funds its reserves on a monthly basis. Cash and investment balances accumulated for the designated capital reserves represent cash restricted for this purpose only.

The Association commissioned a reserve study in 2018 to estimate these future funding requirements. The study used a pooled funding method that included an inflation factor of 3% to estimate future expenditures.

NOTE 3 - INCOME TAXES:

Bell Canyon Association and Subsidiaries is exempt from federal and state income tax under Section 501(c)(4) of the Internal Revenue Code and Section 23701(f) of the Revenue and Taxation code of the State of California.

Bell Canyon Community Center, Inc., (BCCC), and Bell Canyon Equestrian Center, Inc., (BCEC), its wholly owned subsidiary, are for-profit corporations which file a consolidated tax return. The subsidiaries have no significant differences between financial statement and tax return income.

The Association's policy is to record tax, interest expense or penalties in operating expenses. For the year ended June 30, 2018 no tax, interest or penalties were paid or accrued.

Bell Canyon Association and Subsidiaries federal and state tax returns are open for examination for the years 2016, 2017, and 2018.

NOTE 4 - SIGNIFICANT GROUP CONCENTRATIONS of CREDIT RISK:

The Association maintains cash in demand accounts at various banks. The balance in each bank are insured by the FDIC up to \$250,000. As of June 30, 2018, The Association's uninsured portion of the balances held at the banks aggregated to \$4,330,578. No reserve has been made in the financial statements for any possible loss due to any financial institution failure. The Association's management believes that the financial institutions holding its cash balances are financially secure.

Financial instruments that potentially subject the Association to credit risk consist principally of accounts receivable.

FASB ASC 820-10, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of fair value of an asset or a liability as of the measurement date. The three levels are defined as follows:

Level 1 – Represented by quoted prices that are available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities.

Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset backed securities, and swap agreements.

Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining fair value measurement include reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

Fair value of assets measured on a recurring basis at June 30, 2018 are as follows:

	<u>Total</u>		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>
Investment:							
Certificate of Deposit	\$	<u>767,000</u>	\$	<u>767,000</u>	\$	<u>-</u>	\$ <u>-</u>
Total	\$	<u><u>767,000</u></u>	\$	<u><u>767,000</u></u>	\$	<u><u>-</u></u>	\$ <u><u>-</u></u>

NOTE 5 – EMPLOYEE BENEFIT PLAN:

The Association participates in a 401(k) plan for employees that is qualified under the Internal Revenue Code. The plan is a discretionary, defined contribution plan that includes all employees who have completed three months of service and have attained the age of twenty-one.

Employer contributions vest based on years of service beginning from one year of service at 0% vested, through three years of service at 100% vested.

NOTE 6 – LOAN PAYABLE:

On December 18, 2014, the Bell Canyon Equestrian Center, Inc. purchased \$25,221 of equipment that was financed for \$27,727. The loan is payable in monthly payments of \$462.11 beginning January 2015 and ending December 2019. No interest is accrued for this loan. The loan balance as of June 30, 2018 was \$8,313. The debt maturities for the loan is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>
2019	\$ 5,546
2020	<u>2,767</u>
Total	<u><u>\$ 8,313</u></u>

NOTE 7 – INVESTMENT IN SUBSIDIARIES:

Bell Canyon Equestrian Center, Inc. is a wholly-owned subsidiary of Bell Canyon Community Center, Inc., and the Bell Canyon Community Center is a wholly-owned subsidiary of Bell Canyon Association. The separate financial statements for each subsidiary, which are included in the consolidated financial statements, are shown for additional analysis.

**Bell Canyon Community Center
Balance Sheet
As of June 30, 2018**

Assets	
Cash	\$ 153,001
Investment in BCEC	140,337
Accounts Receivable	-
Receivable from BCEC	1,800
Property and Equipment, Net	<u>655,704</u>
Total Assets	\$ <u>950,842</u>
Liabilities	
Accounts Payable and Accrued Expenses	\$ 4,318
Payable to BCA	21,827
Deposit	<u>2,184</u>
Total Liabilities	<u>28,329</u>
Equity	
Common Stock	150,000
Paid in Capital	1,481,129
Accumulated Deficit	(666,546)
Net Loss	<u>(42,070)</u>
Total Equity	<u>922,513</u>
Total Liabilities and Equity	\$ <u>950,842</u>

**Bell Canyon Community Center
Statement of Income
For the Year Ended June 30, 2018**

Revenue	
Rental Income *	\$ 119,075
Interest Income	1
Other Income	4,473
(Loss) in BCEC	<u>(9,568)</u>
Total Revenue	<u>113,981</u>
Expenses	
Operating Expenses	120,682
Depreciation Expense	<u>33,769</u>
Total Expenses	<u>154,451</u>
Net Loss before Taxes	(40,470)
Income Taxes	<u>1,600</u>
Net Loss	\$ <u>(42,070)</u>

**Bell Canyon Equestrian Center
Balance Sheet
As of June 30, 2018**

Assets	
Cash	\$ 187,878
Accounts Receivable, Net	3,722
Property and Equipment, Net	<u>180,437</u>
Total Assets	\$ <u>372,037</u>
Liabilities	
Accounts Payable and Accrued Expenses	\$ 6,767
Payable to BCA	196,837
Payable to BCCC	1,800
Loan Payable	8,313
Deferred Revenue	2,250
Deposit	<u>15,730</u>
Total Liabilities	<u>231,697</u>
Equity	
Common Stock	25,000
Paid in Capital	886,276
Accumulated Deficit	(761,368)
Net Loss	<u>(9,568)</u>
Total Equity	<u>140,340</u>
Total Liabilities and Equity	\$ <u>372,037</u>

**Bell Canyon Equestrian Center
Statement of Income
For the Year Ended June 30, 2018**

Revenue	
Boarding Income	\$ 455,121
Rental Income	6,900
Other Income	<u>22,305</u>
Total Revenue	<u>484,326</u>
Expenses	
Operating Expenses	451,680
Depreciation Expense	<u>42,214</u>
Total Expenses	<u>493,894</u>
Net Loss	\$ <u>(9,568)</u>

* Includes rental income of \$97,433 from BCA that will be eliminated on the consolidated financials.

NOTE 8 – CONTINGENCIES:

The Association is subject to legal proceedings in the normal course of operations. None of the pending actions are expected to have a material adverse effect on the financial position of the Association.

In June 2016, a claim was filed against the Association and another homeowner. The claim against the Association alleged the homeowner's breach of member responsibilities and duties and that the Association was liable for the owner's breach. In January 2018, the parties were unable to agree to a settlement and trial was scheduled for February 2019, with a January 2019 mandatory settlement conference. Settlement discussions have resumed.

In September 2016, a claim was filed against the Association, individual members of the board of directors and members of the architectural committee, by a developer who builds homes in the community. The Association has submitted the lawsuit to its insurance carrier for defense which has accepted defense under a reservation of rights. Trial has been rescheduled for April 2019. The Case is still in the preliminary stages and the outcome cannot be determined at this time.

In April 2018, a claim was filed against the Association and former members and a current member of the Architectural Committee by a homeowner. The claim was submitted to the Association's insurance carrier for defense, which the carrier denied, and which the Association is contesting. The Association intends to vigorously defend itself and seek an award of its own attorney fees. The Case is still in the preliminary stages and the outcome cannot be determined at this time.

In October 2017, a board member filed a personal claim against a homeowner and the homeowner cross-complained against the board member and a contractor for breach of fiduciary duty, intentional infliction of emotional distress, interference with contractual relations, and other claims. A claim was submitted to the Association's insurance carrier for the member's defense and indemnity against the lawsuit, which the carrier declined for the same reasons as above, claiming the cases were associated, and which the Association is contesting. The Case is still in the preliminary stages and the outcome cannot be determined at this time.

In May 2018, a claim was filed by the Association against the insurance carrier and insurance agency for breach of its contractual obligations and tortious breach of the implied covenant of good faith. The Association seeks compensatory damages for the costs of defenses and other damages. The Case is still in the preliminary stages and the outcome cannot be determined at this time.

NOTE 9 – MANAGEMENT AGREEMENT:

On November 1, 2016, the Association entered into a one year agreement with SeaBreeze Management Company, Inc. for their accounting services. At the time of the expiration, it will automatically renew on a year to year basis, unless terminated by either party. The agreement provides for accounting services at a rate of \$2,364 per month plus expenses. For the fiscal year ended June 30, 2018, the Association paid \$42,185 for the accounting services plus expenses.

NOTE 10 – SUBSEQUENT EVENTS:

The financial statements were issued on and subsequent events were evaluated through December 13, 2018.

The Woolsey fire, which started on November 9, 2018, destroyed at least 37 homes in Bell Canyon and damaged several others. There was no damage to the equestrian or community center. At this time management believes that there is no material financial responsibility to the Association.

Bell Canyon Association and Subsidiaries

Supplemental Information on Replacement Fund Balances For the Year Ended June 30, 2018 (unaudited)

The Board of Directors commissioned a study in 2018, for the Association, to estimate the remaining useful lives and the replacement costs of the components of common property. The Association has assessed the present condition of all 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%, interest earnings of 1%, and no provision for taxes.

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

Component	Estimated Remaining Useful Life	Estimated Current Replacement Cost
Streets and Drainage	0-28 years	\$ 5,331,850
Guard House/ Administrative Assets	8-28 years	144,850
Recreational Assets	1-17 years	96,600
Vehicles and Equipments	0-19 years	400,000
Totals		<u>\$ 5,973,300</u>
Balance at June 30, 2018		<u>\$ 3,127,057</u> *

* Funding calculated on aggregate cash flow basis only

Bell Canyon Association and Subsidiaries

Supplemental Information on Replacement Fund Balances For the Year Ended June 30, 2018 (unaudited)

The Board of Directors commissioned a study in 2017, for Bell Canyon Community Center, to estimate the remaining useful lives and the replacement costs of the components of common property. The Community Center has assessed the present condition of all 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%, interest earnings of 0.65%, and no provision for taxes.

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

Component	Estimated Remaining Useful Life	Estimated Current Replacement Cost
Exterior	0-23 years	\$ 236,500
Interior	0-29 years	193,050
Mechanical/Equipment	0-18 years	<u>137,800</u>
Totals		<u>\$ 567,350</u>
Balance at June 30, 2018		<u>\$ 922,514</u> *

* Funding calculated on aggregate cash flow basis only

Bell Canyon Association and Subsidiaries

Supplemental Information on Replacement Fund Balances
For the Year Ended June 30, 2018 (unaudited)

The Board of Directors commissioned a study in 2013, for Bell Canyon Equestrian Center, to estimate the remaining useful lives and the replacement costs of the components of common property. The Equestrian Center has assessed the present condition of all 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%, interest earnings of 0.65%, and an estimated 15% provision for taxes.

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

Component	Estimated Remaining Useful Life	Estimated Current Replacement Cost
Equipment	1.7 to 10.7	\$ 67,516
Roof	16.7	218,352
Paint	1.9 to 4.9	15,960
Fixtures	8.9 to 15.7	175,186
Furniture	6.7 to 7.7	7,755
Lighting	2.7 to 8.9	31,842
Structure	3.7 to 17.7	14,740
Doors	8.9 to 11.9	4,150
Vehicles	3.7 to 8.7	52,800
Signs	9.7	1,045
Floor Coverings	1.9 to 13.9	2,582
Fixtures- Plumbing	3.9 to 8.9	4,070
Railing/ Pens	1.7 to 24.7	134,974
Stations	6.7 to 30.7	55,000
Base	1.7 to 6.7	56,309
Totals		\$ 842,281
Balance at June 30, 2018		\$ 140,340

* Funding calculated on aggregate cash flow basis only

Bell Canyon Association and Subsidiaries
Supplemental Information
Bell Canyon Association Schedule of Budget Vs. Actual-Variance Report
For the Year Ended June 30, 2018
(Schedule II)

	June 30, 2018 Actual	June 30, 2018 Budget (Unaudited)	Variance
OPERATING			
<u>REVENUES</u>			
Assessments - Operating	\$ 2,151,016	\$ 2,449,106	\$ (298,090)
Interest Income - Operating (see Note 1)	58	60	(2)
Miscellaneous Income	320,829	106,200	214,629
Net Income (Loss) Bell Canyon Equestrian Center	(9,568)	-	(9,568)
Net Income (Loss) Bell Canyon Community Center	(32,501)	-	(32,501)
<i>Less: Amount Eliminated in Consolidation</i>	(97,433)	-	(97,433)
<i>Sub-Total, Operating Revenues</i>	<u>2,332,401</u>	<u>2,555,366</u>	<u>(222,965)</u>
<u>EXPENSES</u>			
Access Control Services			
Salaries and Related Benefits	421,665	395,389	26,276
Utilities	19,192	17,180	2,012
Equipment and Supplies	12,151	17,290	(5,139)
Truck and Related Costs/Repairs	6,242	5,400	842
Maintenance			
Salaries and Related Benefits	391,071	407,228	(16,157)
Utilities	23,037	27,040	(4,003)
Equipment and Supplies	16,470	32,100	(15,630)
Repairs and Maintenance - Common Areas	97,686	119,700	(22,014)
Truck and Related Costs/Repairs	35,578	16,900	18,678
Contingency	1,212	21,865	(20,653)
Administrative			
Office Services	310,327	348,654	(38,327)
Administrative - General	82,155	85,090	(2,935)
Professional Fees	986,632	353,000	633,632
Insurance	123,863	111,015	12,848
Patrol Service	28,707	-	28,707
Vehicle	2,224	2,400	(176)
Shareholders Functions	2,322	4,200	(1,878)
Depreciation	21,827	45,000	(23,173)
Tennis Courts	2,026	4,500	(2,474)
Committees			
Garden Club	637	1,500	(863)
Emergency Preparedness	1,763	2,000	(237)
Architectural	103,356	94,826	8,530
Welcoming	4,664	5,000	(336)
Kids	27,931	33,350	(5,419)
Community Planning	3,255	3,000	255
Community Events	27,261	33,500	(6,239)
Bell Canyon Broadway	3,188	-	3,188
<i>Sub-total, Operating Expenses</i>	<u>2,756,442</u>	<u>2,187,127</u>	<u>569,315</u>

Bell Canyon Association and Subsidiaries
Supplemental Information
Bell Canyon Association Schedule of Budget Vs. Actual-Variance Report
For the Year Ended June 30, 2018
(Schedule II)
(continued)

	June 30, 2018 Actual	June 30, 2018 Budget (Unaudited)	Variance
Capital Improvements			
<u>REVENUES</u>			
Assessments - Capital Improvements	3,793	3,800	(7)
Interest Income	6,005	2,000	4,005
<i>Sub-Total, Capital Improvements Revenues</i>	<u>9,798</u>	<u>5,800</u>	<u>3,998</u>
Capital Improvements and Expenditures	<u>29,665</u>	<u>847,300</u>	<u>(817,635)</u>
<i>Sub-total, Capital Improvements Expenditures</i>	<u>29,665</u>	<u>847,300</u>	<u>(817,635)</u>
<u>Reserves</u>			
<u>REVENUES</u>			
Assessments - Reserves	298,393	298,400	(7)
Interest Income - Reserves	11,227	20,000	(8,773)
<i>Sub-Total, Reserve Revenues</i>	<u>309,620</u>	<u>318,400</u>	<u>(8,780)</u>
<u>EXPENSES</u>			
Major Repairs and Replacements	231,060	544,350	(313,290)
<i>Sub-total, Reserve Expenses</i>	<u>231,060</u>	<u>544,350</u>	<u>(313,290)</u>
Total Association Revenues	<u>2,651,819</u>	<u>2,879,566</u>	<u>(227,747)</u>
Total Association Expenses	<u>3,017,167</u>	<u>3,578,777</u>	<u>(561,610)</u>
Total Association, (Deficiency) of Revenues Over Expenses	<u>\$ (365,348)</u>	<u>\$ (699,211)</u>	<u>\$ 333,863</u>