BELL CANYON ASSOCIATION

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

February 26, 2018

Dear Owners,

Attached is the Bell Canyon Association's independent audited financial statements for the fiscal year, ending June 30, 2017. We are excited to report that Bell Canyon Association is in excellent financial condition.

QUICK OVERVIEW

- We have $6.6 million in cash and equivalents compared with $4.7 million in 2012.
- This growth came with no increase to owners' monthly assessments – which have remained $259 since 2010.
- There is a $735,000 deficit for the last fiscal year.
- Reserves are funded at 130%.

The $735,000 deficit is the result of expenditures of $844,000 from the replacement fund for renovation of the asphalt roads. Asphalt road renovations are now complete.

$515,000 was spent on legal fees, of which we are expecting to recoup a majority through reimbursement by our insurance company. Most of the legal fees were spent defending one lawsuit brought by a developer.

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

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BELL CANYON ASSOCIATION AND SUBSIDIARIES

Audit Report
Financial Statements
and
Supplemental Information
June 30, 2017

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Certified Public Accountants

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

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of Bell Canyon Association and Subsidiaries, a non-profit corporation, which comprise the balance sheet as of June 30, 2017, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to 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.

Auditors' 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 of 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 Bell Canyon Association and Subsidiaries as of June 30, 2017, 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

We have previously audited Bell Canyon Association and Subsidiaries' June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 21, 2017. The June 30, 2017 financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2016, from which the summarized information was 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.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Schedule of Operating Expenses 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.

Hinricher, Douglas & Porter, LLP

February 8, 2018

Bell Canyon Association and Subsidiaries

Consolidated Balance Sheet

As of June 30, 2017

	Operating Fund	Capital Improvements Fund	Replacement Fund	2017 Total Funds	2016 Total Funds
ASSETS					
Cash, Unrestricted (see Note 1)	$ 1,900,306	$ 901,645	$ 2,209,648	$ 5,011,599	$ 4,347,304
Investments (See Note 1)	-	250,000	840,000	1,090,000	2,247,885
Assessments Receivable, Net of Allowance for Doubtful Accounts of $73,492 (See Note 1)	67,449	-	-	67,449	29,194
Other Receivables	2,265	83	2,958	5,306	5,227
Prepaid Insurance	68,783	-	-	68,783	79,817
Other Prepaid Expenses	21,232	-	-	21,232	23,300
Property and Equipment, Net of Accumulated Depreciation of $2,104,289 (See Note 1)	1,162,875	-	-	1,162,875	1,245,879
Due to/From Other Fund	83,333	567	(83,900)	-	-
Total Assets	$ 3,306,243	$ 1,152,295	$ 2,968,706	$ 7,427,244	$ 7,978,606
LIABILITIES and FUND BALANCES					
Accounts Payable	$ 86,632	$ -	$ -	$ 86,632	$ 46,467
Accrued Payroll and Related Items	52,761	-	-	52,761	46,546
Prepaid Assessments	80,989	-	-	80,989	52,387
Deposits - Construction	446,307	-	-	446,307	326,913
Deposits - Other	33,367	-	-	33,367	36,925
Income Taxes Payable	800	-	-	800	-
Loan Payable	13,863	-	-	13,863	21,995
Total Liabilities	714,719	-	-	714,719	531,233
Contributed Capital	1,498,507	-	-	1,498,507	1,498,507
Fund Balances	1,093,017	1,152,295	2,968,706	5,214,018	5,948,866
Total Fund Balances	2,591,524	1,152,295	2,968,706	6,712,525	7,447,373
Total Liabilities and Fund Balances	$ 3,306,243	$ 1,152,295	$ 2,968,706	$ 7,427,244	$ 7,978,606

Bell Canyon Association and Subsidiaries

Consolidated Statement of Revenues, Expenses and Changes in Fund Balances

For the Year Ended June 30, 2017

	Operating Fund	Capital Improvements Fund	Replacement Fund	2017 Total Funds	2016 Total Funds
REVENUES					
Assessments	$ 1,844,048	$ 3,400	$ 601,658	$ 2,449,106	$ 2,451,176
Boarding Fees, Bell Canyon Equestrian Center (Note 8)	399,032	-	-	399,032	352,929
Rental Income, Bell Canyon Community Center (Note 8)	33,282	-	-	33,282	56,874
Interest Income	66	8,480	10,708	19,254	25,466
Miscellaneous Income					
Plan Check/Refund Fees	26,990	-	-	26,990	34,038
Late Charges	14,778	-	-	14,778	13,807
Holiday Bonus Fund	18,896	-	-	18,896	18,305
Equestrian Related Income	55,486	-	-	55,486	10,280
Decal, Lien, Handling and Other Miscellaneous Income	121,813	-	-	121,813	117,005
Total Revenues	2,514,391	11,880	612,366	3,138,637	3,079,880
EXPENSES					
Security Services *(Schedule II)*	464,593	-	-	464,593	421,726
Maintenance *(Schedule II)*	561,402	-	-	561,402	500,176
Administrative *(Schedule II)*	1,112,568	-	-	1,112,568	608,460
Major Repairs and Replacements	-	-	844,218	844,218	530,666
Capital Improvements	-	53,300	-	53,300	279,814
Depreciation	17,685	-	-	17,685	28,043
Tennis Courts	2,994	-	-	2,994	3,454
Committees *(Schedule II)*	166,301	-	-	166,301	127,609
EXPENSES RELATED to COMMUNITY CENTER / EQUESTRIAN INCOME (See NOTE 8)					
Operating Expense	487,378	-	-	487,378	429,391
Repairs and Replacements	84,281	-	-	84,281	40,826
Depreciation	76,541	-	-	76,541	80,572
Income Taxes	1,600	-	-	1,600	1,600
Total Expenses	2,975,343	53,300	844,218	3,872,861	3,052,337
(Deficiency) of Revenues Over Expenses	(460,952)	(41,420)	(231,852)	(734,224)	27,543
OTHER COMPREHENSIVE INCOME					
Unrealized gain/(loss) on Investments	-	-	(624)	(624)	-
Total Comprehensive Income	(460,952)	(41,420)	(232,476)	(734,848)	27,543
Fund Balances, Beginning of Year	3,043,169	953,217	3,450,987	7,447,373	7,419,830
Transfers Between Funds	9,307	240,498	(249,805)	-	-
Fund Balances, End of Year	$ 2,591,524	$ 1,152,295	$ 2,968,706	$ 6,712,525	$ 7,447,373

Bell Canyon Association and Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended June 30, 2017

	Operating Fund	Capital Improvements Fund	Replacement Fund	Total Funds	2016 Total Funds
Cash Flows From Operating Activities:					
(Deficiency) of Revenues Over Expenses	$ (460,952)	$ (41,420)	$ (232,476)	$ (734,848)	$ 27,543
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:					
Depreciation	94,226	-	-	94,226	108,615
Bad Debts	6,710	-	-	6,710	18,410
Change in Assets and Liabilities:					
(Increase) in Assessments Receivable	(38,255)	-	-	(38,255)	(1,911)
(Increase) in Equestrian Boarder Receivables	-	-	-	-	(6,032)
Decrease (Increase) in Other Receivables	(2,207)	(83)	2,269	(21)	29,413
Decrease (Increase) in Prepaid Insurance	11,034	-	-	11,034	(6,359)
Decrease in Prepaid Income Taxes	20	-	-	20	10
Decrease (Increase) in Prepaid Expense	2,048	-	-	2,048	(8,884)
(Decrease) Increase in Accounts Payable	40,165	-	-	40,165	(9,129)
(Decrease) Increase in Accrued Payroll	6,215	-	-	6,215	(11,455)
(Decrease) Increase) in Prepaid Assessments	28,602	-	-	28,602	(3,020)
Increase in Deposits	115,836	-	-	115,836	57,280
Increase in Income Taxes Payable	800	-	-	800	-
Total Adjustments	265,194	(83)	2,269	267,380	166,938
Net Cash (Used By) Operations	(195,758)	(41,503)	(230,207)	(467,468)	194,481
Cash Flows from Financing Activities:					
Payments on Note Payable	(8,132)	-	-	(8,132)	(8,394)
Transfers Between Funds	55,286	12,056	(85,956)	(18,614)	-
Net Cash Provided (Used) By Financing Activities	47,154	12,056	(85,956)	(26,746)	(8,394)
Cash Flows from Investing Activities					
Change in Investments	624	723,299	434,586	1,158,509	(1,822,593)
Purchases of Fixed Assets	-	-	-	-	(23,766)
Net Cash Provided By Investing Activities	624	723,299	434,586	1,158,509	(1,846,359)
Net Increase (Decrease) in Cash	(147,980)	693,852	118,423	664,295	(1,660,272)
Cash, Beginning of Year	2,048,286	207,793	2,091,225	4,347,304	6,007,576
Cash, End of Year	$ 1,900,306	$ 901,645	$ 2,209,648	$ 5,011,599	$ 4,347,304
Supplemental Information:					
Cash Paid for Income Taxes	$ 800	$ -	$ -	$ 800	

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.

Cash and Cash Equivalents

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, 2017 was $1,090,000. Accumulated unrealized loss was insignificant as of June 30, 2017. Maturity dates of the certificates of deposit range from March 2018 to September 2018.

Available-for-sale securities are recorded at fair value as investments in the capital improvements and replacement fund, with the change in fair value during the period excluded from earnings and recorded as a component of other comprehensive income.

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, 2017 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

***Assessments Receivable, Bad Debt Expense, and Allowance for Doubtful Accounts** (continued)*

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, 2017 is as follows:

Land	$ 392,025
Buildings and Improvements	827,784
Leasehold Improvements	123,719
Land Improvements	198,207
Vehicles	280,881
Furniture and Equipment	1,444,548
Total Assets	3,267,164
Less: Accumulated Depreciation	(2,104,289)
Net Book Value	$ 1,162,875

Depreciation expense totaled $94,226 for the year ended June 30, 2017.

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 assessment revenues received during 2017 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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

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. However, replacement funds are not accumulated for the Association's subsidiaries, Bell Canyon Community Center and Bell Canyon Equestrian Center.

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 2015 to estimate these future funding requirements. The study used a pooled funding method that included an inflation factor of 3.00% 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, 2017 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 2015, 2016, and 2017.

NOTE 4 - SIGNIFICANT GROUP CONCENTRATIONS of CREDIT RISK:

The Association maintains cash in demand accounts at various banks. The Association maintains $856,934 in cash at Union Bank, $250,000 of which is covered by the FDIC and the remaining $626,773 is covered by the Bank's private insurance policy. The Association maintains $4,119,360 at Wells Fargo Bank, $250,000 of which is covered by the FDIC and the $2,200,345 is covered by the Bank's private insurance policy. At June 30, 2017, the remaining aggregate balance of the cash accounts exceeds the federally insured limits by $764,134.

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

NOTE 5 – FAIR VALUE of FINANCIAL INSTRUMENTS:

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, 2017 are as follows:

	Fair Value	Level 1	Level 2	Level 3
Certificates of Deposit	1,088,982	1,088,982	-	-
	$ 1,088,982	$ 1,088,982	$ -	$ -

NOTE 6 – 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 7 – LOAN PAYABLE:

Bell Canyon Equestrian Center, Inc. on April 30, 2012 purchased equipment that was financed for $14,238. The loan is payable with monthly payments of $237.30 beginning June 2012 and ending May 2017. No interest is accrued for this loan. The loan was paid in full as of June 30, 2017.

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, 2017 was $13,863. The debt maturities for the next five years for the loan is as follows:

Year	Principal
2018	$ 5,546
2019	5,545
2020	2,772
Total	$ 13,863

NOTE 9 – 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.

NOTE 8 – INVESTMENT IN SUBSIDIARIES (continued):

Condensed financial information for the subsidiaries, Bell Canyon Community and Bell Canyon Equestrian Centers follows:

Bell Canyon Community Center
Balance Sheet
As of June 30, 2017

Assets		
Cash	$	122,702
Investment in BCEC		149,905
Accounts Receivable		12,530
Prepaid Expense		3,459
Property and Equipment, Net		698,633
Total Assets	$	987,229
Liabilities and Equity		
Accounts Payable	$	19,002
Deposits		2,844
Income Taxes Payable		800
Total Liabilities		22,646
Common Stock		150,000
Paid in Capital		1,481,129
Retained Earnings		(591,686)
Net Income		(74,860)
Total Equity		964,583
Total Liabilities and Equity	$	987,229

Bell Canyon Community Center
Statement of Income
For the Year Ended June 30, 2017

Revenues		
Rental Income	$	98,391
Interest Income		1
Other Income		11,951
(Loss) in BCEC		(57,419)
Total Revenues		52,924
Expenses		
Operating Expenses		92,774
Depreciation Expense		34,210
Total Expenses		126,984
(Loss) Before Taxes		(74,060)
Income Taxes		800
Net (Loss)	$	(74,860)

Bell Canyon Equestrian Center
Balance Sheet
As of June 30, 2017

Assets		
Cash	$	140,877
Accounts Receivable, Net		32,037
Other Receivables, Net		4,859
Prepaid Expense		5,308
Property and Equipment, Net		168,268
Total Assets	$	351,349
Liabilities and Equity		
Accounts Payable and Accrued Liabilities	$	8,147
Deposits		30,523
Payable to BCA		139,270
Payable to BCCC		1,815
Prepaid Rents		7,826
Loan Payable-Equipment		13,863
Total Liabilities		201,444
Common Stock		25,000
Additional Paid in Capital		886,276
Retained Earnings		(703,952)
Net (Loss)		(57,419)
Total Equity		149,905
Total Liabilities and Equity	$	351,349

Bell Canyon Equestrian Center
Statement of Income
For the Year Ended June 30, 2017

Revenues		
Rental Income	$	9,050
Boarding Income		438,223
Interest Income		5
Other Income		17,319
Total Revenues		464,597
Expenses		
Operating Expenses		478,885
Depreciation Expense		42,331
Total Expenses		521,216
(Loss) Before Taxes		(56,619)
Income Taxes		800
Net (Loss)	$	(57,419)

NOTE 9 – 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.

The Association was named in a lawsuit along with three past and/or present members of the board of directors by two Association members. The claim against the Association alleged wrongdoing by the board members and that the Association was vicariously liable for their conduct as well as breach of various fiduciary duties allegedly owed to the members. The lawsuit was settled in February 2017 and any costs incurred and payments made as a result of the settlement have been covered by the Association's liability insurance policy.

In June 2016, a claim was filed against the Association and various individuals alleging defamation as a result of a posting in the Association entry station. The lawsuit was settled in June 2017, and any costs incurred and payments made as a result of the settlement have been covered by the Association's liability insurance policy.

In June 2016 a claim was filed against the Association and another homeowner. The claim against the Association alleged the homeowner's breach of the member responsibilities and duties and that the Association was liable for the owner's breach. In January 2018, both parties agreed to settle the matter and the final agreement is in process.

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 has built homes in the community. The Association has submitted the lawsuit to its insurance carrier for defense. This case is still in the preliminary stages and the outcome cannot be determined at this time.

NOTE 10 – SUBSEQUENT EVENTS:

The financial statements were issued on and subsequent events were evaluated through February 8, 2018.

Bell Canyon Association and Subsidiaries
Supplemental Information on Replacement Fund Balances
For the Year Ended June 30, 2017
(unaudited)

The Board of Directors commissioned a study in 2015, 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 3.00%, 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 Lives	Estimated Current Replacement Cost	
Asphalt/Roadway	0-24 years	$ 5,013,300	
Storm Drains	0-2 years	36,650	
Fences	8-10 years	231,750	
Gates	9-29 years	39,500	
Irrigation	6 years	50,000	
Tennis Courts	4-20 years	57,000	
Radio System	11 years	11,500	
Guard House	9 years	5,000	
Park Equipment	10 years	30,000	
Vehicles	0-9 years	183,000	
Maintenance Equipment	0-10 years	115,000	
Golf Carts	5 years	9,500	
Totals		$ 5,782,200	
Balance at June, 30, 2017		$ 2,968,706	*

* 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, 2017
(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 3.00%, interest earnings of 0.50%, 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 Lives	Estimated Current Replacement Cost	
Exterior	0-23 years	236,500	
Interior	0-29 years	193,050	
Mechanical/Equipment	0-18 years	137,800	
Totals		$ 567,350	
Balance at June 30, 2017		$ 964,583	*

* 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, 2017
(unaudited)

The Board of Directors commissioned a study in 2016, 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 3.00%, interest earnings of 0.9%, 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 Lives	Estimated Current Replacement Cost
Equipment	1.7 to 10.7	$ 67,516
Roof	16.7 to 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 to 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, 2017		$ 149,905

* Funding calculated on aggregate cash flow basis only

Bell Canyon Association and Subsidiaries

Supplemental Information

Consolidated Schedule of Budget vs. Actual Variance Report

For the Year Ended June 30, 2017

(Schedule II)

	6/30/17 Budget	6/30/17 Actual	Budget Variance
OPERATING			
REVENUES			
Assessments - Operating	$ 1,891,706	$ 1,844,048	$ (47,658)
Interest Income - Operating (see Note 1)	70	66	(4)
Miscellaneous Income	76,500	172,403	95,903
Net Income (Loss) Bell Canyon Equestrian Center	-	(57,419)	(57,419)
Net Income (Loss) of Bell Canyon Community Center	-	(94,507)	(94,507)
Sub-total, Operating Revenues	1,968,276	1,864,591	(103,685)
EXPENSES			
Security Services			
Salaries and Related Benefits	420,147	416,472	3,675
Utilities	14,200	16,999	(2,799)
Equipment and Supplies	11,750	31,122	(19,372)
Maintenance			
Salaries and Related Benefits	370,030	390,360	(20,330)
Repairs and Maintenance-Common Areas	119,910	116,068	3,842
Supplies and Truck	35,900	54,974	(19,074)
Contingency	19,454	-	19,454
Administrative			
Office Services	434,843	448,828	(13,985)
Administrative-General	141,500	144,384	(2,884)
Professional Fees	189,230	515,319	(326,089)
Shareholder Functions	4,200	2,757	1,443
Depreciation	45,000	17,685	27,315
Tennis Courts	4,800	2,994	1,806
Committees			
Garden Club	1,500	4,114	(2,614)
Emergency Preparedness	5,000	1,280	3,720
Architectural	85,967	97,129	(11,162)
Welcoming	3,000	4,138	(1,138)
Kids	26,770	23,262	3,508
Community Planning	1,800	6,942	(5,142)
Community Events	24,000	19,945	4,055
Broadway	-	10,771	(10,771)
Sub-total, Operating Expenses	$ 1,959,001	$ 2,325,543	$ (366,542)

Bell Canyon Association and Subsidiaries

Supplemental Information

Consolidated Schedule of Budget vs. Actual Variance Report

For the Year Ended June 30, 2017

(Schedule II)

(continued)

	6/30/17 Budget	6/30/17 Actual	Budget Variance
CAPITAL IMPROVEMENT			
REVENUES			
Assessments - Capital Improvements	$ 3,400	$ 3,400	$ -
Interest Income - Capital Improvements (see Note 1)	900	8,480	7,580
Sub-total, Capital Improvements Revenues	4,300	11,880	7,580
EXPENSES			
Capital Improvements and Expenditures	898,400	53,300	845,100
Sub-total, Capital Improvements Expenses	$ 898,400	$ 53,300	$ 845,100
RESERVES			
REVENUES			
Assessments - Reserves	$ 557,400	$ 601,658	$ 44,258
Interest Income - Reserves (see Note 1)	22,300	10,708	(11,592)
Realized Losses on Investments (see Note 1)	-	(624)	(624)
Sub-total, Reserve Revenues	579,700	611,742	32,042
EXPENSES			
Major Repairs and Replacements	988,700	844,218	144,482
Sub-total, Reserves Expenses	$ 988,700	$ 844,218	$ 144,482
Total Association Revenues	$ 2,552,276	$ 2,488,213	$ (64,063)
Total Association Expenses	3,846,101	3,223,061	623,040
Total Association, (Deficiency) of Revenues Over Expenses	$ (1,293,825)	$ (734,848)	$ 558,977

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February 8, 2018

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

In planning and performing our audit of the financial statements of Bell Canyon Association and Subsidiaries as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Bell Canyon Association and Subsidiaries's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Association's internal control to be significant deficiencies.

During our audit, it was noted that the general ledger contained carry forward balances from the prior management company, for accounts receivable, refundable deposits, and payables for Equestrian Center, Community Center, for which there was no support for those balance. We recommend that these carry forward balances be investigated, reconciled, and adjusted, if necessary.

During our audit, we noted that there were discrepancies related to how certain Equestrian Center expenses, including payroll and insurance, were paid – whether paid from Equestrian bank accounts, or from Association bank accounts, as well as the related intercompany amounts due between the organizations. We recommend that these discrepancies be investigated and adjusted, if necessary, and implement policies and procedures to consistently monitor and track these types of costs between the Association and Equestrian Center.

During our audit, it was noted that the balance of the bank account which holds the refundable deposits for the Equestrian Center did not tie to the schedule showing the Equestrian Center's liability for the refundable deposits. We recommend that Management review the security deposits ledger in conjunction with the financial statements for accuracy, and to investigate and reconcile the schedule of for which renters the Center should still have refundable deposits. In addition, we recommend that Management implement procedures to restrict the use of security deposit monies for operations.

Any immaterial items noted during the course of our audit are attached to this letter as "Current Findings and Recommendations."

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Association, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Hinricher, Douglas & Porter, LLP

Hinricher, Douglas & Porter, LLP

Current Findings and Recommendations

Our engagement disclosed the following areas in which we believe more effective internal control or increased efficiency may be achieved. The items noted below were not of such magnitude that they would significantly affect the fair presentation of the financial statements taken as a whole.

During our audit procedures, it was noted that the bank statement cut-off dates do not coincide with the end of the month. We recommend that management change the cut-off dates of the bank statements to coincide with the end of the month, allowing for easier monthly bank reconciliations.

During our audit procedures, it was noted that the reserve fund and capital improvements fund cash accounts were not properly reconciled to the general ledger. The unreconciled amount was immaterial for both accounts and the reconciliations were prepared by the Association's outside accounting services firm. We recommend that management review the monthly bank reconciliations produced by the outside accounting services firm on a monthly basis to ensure all cash amounts are properly reported in the financial statements.

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February 8, 2018

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

We have audited the financial statements of Bell Canyon Association and Subsidiaries as of and for the year ended June 30, 2017, and have issued our report thereon dated February 8, 2018**.** Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated April 25, 2017. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Bell Canyon Association and Subsidiaries are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

During our audit procedures, we noticed that the supporting documents and records, requested for the Equestrian Center portion of the audit, were difficult for management to locate. This caused a delay in the audit process. It is our understanding that this difficulty was the result of turnover in management of the Center during the year. Management was eventually able to produce all of the requested information for the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management are material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management Letter of Representations dated February 8, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information Accompanying the Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Required Supplementary Information

With respect to the supplementary information on replacement fund balances required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

This information is intended solely for the use of the Board of Directors and management of Bell Canyon Association and Subsidiaries and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Hinricher, Douglas & Porter, LLP

Hinricher, Douglas & Porter