

**BIXBY VILLAGE  
COMMUNITY ASSOCIATION  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
AUGUST 31, 2009 AND 2008**

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Karen A. Hillman Partner

### **Independent Auditor's Report**

Board of Directors  
 Bixby Village Community Association:

We have audited the accompanying balance sheets of Bixby Village Community Association as of August 31, 2009 and 2008, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 audits provide 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 Bixby Village Community Association as of August 31, 2009 and 2008 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.

The supplementary information on future major repairs and replacements on page 8 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Murphy, Murphy & Murphy, Inc.*

December 2, 2009

Cypress, California

**BIXBY VILLAGE COMMUNITY ASSOCIATION**

**BALANCE SHEETS**

**August 31, 2009 and 2008**

**ASSETS**

	2009			2008
	Operating Fund	Replace- ment Fund	Total	Total
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 130,910	\$ 441,730	\$ 572,640	\$ 418,638
Investments		1,800,000	1,800,000	1,590,792
Assessments receivable	27,481		27,481	19,673
Allowance for bad debts	(8,072)		(8,072)	(12,770)
Accounts receivable other	658		658	40,281
Interest receivable		4,162	4,162	28
Prepaid income taxes		6,294	6,294	9,641
Prepaid expenses	43,470		43,470	57,468
Furniture & fixtures	19,488		19,488	10,329
Accum. Depreciation on furn. & fixtures	(10,952)		(10,952)	(10,329)
Due from replacement fund	15,637		15,637	2,075
Due from operating fund		19,296	19,296	90,724
Total assets	<u>\$ 218,620</u>	<u>\$ 2,271,482</u>	<u>\$ 2,490,102</u>	<u>\$ 2,216,550</u>

**LIABILITIES AND FUND BALANCES**

<b><u>Liabilities</u></b>				
Accounts payable	\$ 41,446	\$ 189,534	\$ 230,980	\$ 33,241
Prepaid assessments	35,586		35,586	6,323
Accrued payroll	1,229		1,229	2,903
Payable to operating fund		15,637	15,637	2,075
Payable to replacement fund	19,296		19,296	90,724
Total liabilities	<u>97,557</u>	<u>205,171</u>	<u>302,728</u>	<u>135,266</u>
<b><u>Fund balances</u></b>	<u>121,063</u>	<u>2,066,311</u>	<u>2,187,374</u>	<u>2,081,284</u>
Total liabilities and fund balances	<u>\$ 218,620</u>	<u>\$ 2,271,482</u>	<u>\$ 2,490,102</u>	<u>\$ 2,216,550</u>

**BIXBY VILLAGE COMMUNITY ASSOCIATION**  
**STATEMENTS OF REVENUES AND EXPENSES AND**  
**CHANGES IN FUND BALANCES**

**Years ended August 31, 2009 and 2008**

	2009			2008
	Operating Fund	Replace- ment Fund	Total	Total
<b>Revenues</b>				
Member assessments	\$ 877,002	\$ 886,782	\$ 1,763,784	\$ 1,772,760
Interest		22,136	22,136	59,385
Late charges and lien fees	1,993		1,993	2,062
Other	5,545		5,545	3,400
Total revenues	<u>884,540</u>	<u>908,918</u>	<u>1,793,458</u>	<u>1,837,607</u>
<b>Expenses</b>				
Utilities	125,068		125,068	123,447
Landscape maintenance	246,427		246,427	245,465
Recreation	25,495	10,447	35,942	37,465
Property protection	7,367		7,367	8,178
Common areas	40,632	805,053	845,685	655,135
Management fees	67,692		67,692	67,156
Insurance	246,976		246,976	235,535
Legal and professional	25,075		25,075	17,362
Income taxes	-	3,883	3,883	10,349
Payroll	50,029		50,029	48,161
Bad debt expense	9,286		9,286	12,770
Depreciation	623		623	-
Other	23,315		23,315	18,531
Total expenses	<u>867,985</u>	<u>819,383</u>	<u>1,687,368</u>	<u>1,479,554</u>
Excess of revenues / (expenses) over expenses / (revenues)	16,555	89,535	106,090	358,053
Transfer for purchase of furniture and fixtures	9,159	(9,159)		
Beginning fund balances	95,349	1,985,935	2,081,284	1,723,231
ENDING FUND BALANCES	<u>\$ 121,063</u>	<u>\$ 2,066,311</u>	<u>\$ 2,187,374</u>	<u>\$ 2,081,284</u>

**BIXBY VILLAGE COMMUNITY ASSOCIATION**

**STATEMENTS OF CASH FLOWS**

**Years ended August 31, 2009 and 2008**

	2009		2008	
	Operating Fund	Replace-ment Fund	Total	Total
Excess (deficiency) of revenues over expenses	\$ 16,555	\$ 89,535	\$ 106,090	\$ 358,053
Adjustments to reconcile excess/ (deficiency) of revenues over expenses to net cash provided/ (used) by operating activities:				
Depreciation	623		623	-
(Increase)/Decrease in:				
Assessments receivable (net)	(12,506)		(12,506)	10,773
Accounts receivable - other	4,441	35,182	39,623	(39,886)
Interest receivable		(4,134)	(4,134)	(28)
Prepaid income taxes		3,347	3,347	(9,641)
Prepaid expenses	13,998		13,998	(12,797)
Increase/(Decrease) in:				
Accounts payable	8,205	189,534	197,739	(290,370)
Income taxes payable			-	(4,449)
Accrued payroll	(1,674)		(1,674)	1,953
Prepaid assessments	29,263		29,263	(8,008)
Total adjustments	<u>42,350</u>	<u>223,929</u>	<u>266,279</u>	<u>(352,453)</u>
<b>Net cash provided (used) by operating activities</b>	58,905	313,464	372,369	5,600
Cash flows from investing activities:				
Purchase of furniture & fixtures	(9,159)		(9,159)	-
Maturity/(purchase) of investments - net		(209,208)	(209,208)	(294,303)
Interfund transfers	<u>(75,831)</u>	<u>75,831</u>	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	(26,085)	180,087	154,002	(288,703)
Cash and cash equivalents at beginning of year	<u>156,995</u>	<u>261,643</u>	<u>418,638</u>	<u>707,341</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 130,910</u>	<u>\$ 441,730</u>	<u>\$ 572,640</u>	<u>\$ 418,638</u>

# **BIXBY VILLAGE COMMUNITY ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

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### 1. Organization and Summary of Significant Accounting Policies

#### a) Organization

Bixby Village Community Association (the Association) was organized as a nonprofit corporation in 1982. Its purpose is to provide management, maintenance, preservation and architectural control of the common areas within the development consisting of 374 homes located in Long Beach, California.

#### b) Fund Accounting

The Association's operations are segregated between operating funds and replacement funds. The operating fund is used to account for normal maintenance and service operations related to the common area. Disbursements from the operating fund are generally at the discretion of the Board of Directors. The replacement fund is utilized to account for the long-term major repair and replacement requirements of the Association. Disbursements from the replacement fund are generally not available for normal operations.

#### c) Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-line method.

#### d) Interest Earned

The Association's policy is to allocate to the replacement fund interest earned on all replacement fund cash and investment accounts.

#### e) Cash and Cash Equivalents

Certificates of deposit with a maturity of three months or less at the time of purchase are considered to be cash equivalents. Those with a maturity over three months at the time of purchase are classified as investments.

#### f) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### g) Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to place liens on the properties of homeowners whose assessments are 75 days or more delinquent. If not paid within 30 days of recordation of the lien it may be turned over to an attorney for legal action. Also see Note 4 following.

**BIXBY VILLAGE COMMUNITY ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS**

2. Summary of Cash and Cash Equivalents at August 31, 2009

Bank/Financial Institution	Interest Rate	Maturity Date	Operating Fund	Replace- ment Fund	Total
Cash and cash equivalents consist of:					
Union Bank of California:					
-- Checking			\$ 130,910	\$ -	\$ 130,910
-- Money market	1.98%			441,315	441,315
Wells Fargo Advisors	0.02%			415	415
Total cash and equivalents			<u>\$ 130,910</u>	<u>\$ 441,730</u>	<u>\$ 572,640</u>

Investments consist of Certificates of Deposit acquired through Wells Fargo Advisors:

Beal Bank	0.40%	10/28/2009		\$ 100,000	\$ 100,000
Community Bank	0.40%	10/29/2009		100,000	100,000
National Bank	0.40%	10/29/2009		100,000	100,000
First American Bank	0.45%	12/4/2009		100,000	100,000
Midfirst Bank	0.65%	1/29/2010		100,000	100,000
First National Bank	1.30%	3/5/2010		100,000	100,000
Sovereign Bank	1.50%	3/11/2010		100,000	100,000
Bank India	1.00%	4/14/2010		100,000	100,000
Sterling Savings Bank	1.50%	6/11/2010		100,000	100,000
Coastal Bank & Trust	1.00%	7/8/2010		100,000	100,000
World Financial National	1.10%	7/8/2010		100,000	100,000
Proficio Bank	1.05%	8/23/2010		100,000	100,000
Key Bank	1.75%	9/13/2010		100,000	100,000
Proficio Bank	1.05%	9/16/2010		100,000	100,000
Branch Bank & Trust	1.15%	10/15/2010		100,000	100,000
American Exp Bank	1.50%	10/29/2010		100,000	100,000
Carolina First Bank	1.60%	10/29/2010		100,000	100,000
Center Bank	1.35%	1/10/2011		100,000	100,000
Total investments				<u>\$ 1,800,000</u>	<u>\$ 1,800,000</u>

3. Insured Cash Balance

The Association maintains a majority of their cash in money market accounts that may exceed federally insured limits of \$250,000. Union Bank has obtained additional private insurance to cover balances in excess of \$250,000. Deposits in the brokerage account are insured by the SIPC, which is similar to that provided by the FDIC for banks, however, the SIPC is not a federal agency. The Association has not experienced any losses in such accounts. Management believes the Association is not exposed to any significant credit risk related to cash.

**BIXBY VILLAGE COMMUNITY ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS**

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4. Members' Assessments

Monthly assessment to members during the 2008/2009 fiscal year was \$393.00 and during the 2007/2008 fiscal year was \$395.00. Of these amounts, \$197.59 and \$190.91 were allocated to the replacement fund, respectively.

An Allowance had been established for those accounts where collection of past due assessments appears unlikely. Following is an analysis of the allowance for uncollectible accounts each year:

	2009	2008
Balance, beginning of year	\$ 12,770	\$ -
Increase (decrease) in allowance	2,236	12,770
Accounts written off during the year	(6,934)	-
Balance, end of year	<u>\$ 8,072</u>	<u>\$ 12,770</u>

The annual budget and members' assessments were determined by the Board of Directors.

5. Future Major Repairs and Replacements

The Association has established a policy of assessing members monthly and accumulating funds based on current estimated replacement costs. Accumulated funds are held in separate savings accounts and investment accounts and are generally not available for expenditures for normal operations.

In June 2009 the Association retained an independent company, which specializes in conducting reserve studies, to estimate the remaining useful lives and the replacement costs of the components of common property. The study concluded that the Association's funds available for reserves at August 31, 2009 were funded to approximately 43% of the ideal recommended amount.

The table included in the unaudited supplementary information of Future Major Repairs and Replacements is based on the study. The Board of Directors has included \$884,764 which includes interest income earned during the year, in the 2009/2010 fiscal year budget for reserves. The amount recommended by the study, \$886,776 excluding interest earned, is based on the "minimum cash flow calculation" method. This method takes into consideration the underfunded amount as well as future anticipated replacement costs, useful lives, anticipated expenditures and current cash balances and, if followed in the future, anticipates that the Association's reserves will not be less than 46% of the ideal funded amount in any future year and should be fully funded by the year 2021/2022. By way of comparison, the prior year's study indicated that reserves would not be less than 36% of the ideal funded amount in any future year and should be fully funded by the year 2024/2025.

Funds are being accumulated in the replacement fund based on estimates of future needs for major repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

# BIXBY VILLAGE COMMUNITY ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

6. Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates. Under the homeowners' association election, the Association is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30% for federal and the regular corporate rate for state. Exempt function income, which consists primarily of member assessments, is not taxable. For the fiscal years ended August 31, 2009 and 2008 the Association filed as a regular corporation.

Income taxes consist of:

	2009			2008
	Federal	State	Total	Total
Income taxes	\$ 3,106	\$ 777	\$ 3,883	\$ 10,349
Payments made	(9,304)	(873)	(10,177)	(19,990)
Balance due (prepaid)	\$ (6,198)	\$ (96)	\$ (6,294)	\$ (9,641)

7. Fixed Assets

Purchases of furniture and equipment are either charged against an appropriate reserve account or capitalized in the operating fund. Equipment capitalized is recorded at cost and is depreciated using the straight line method over seven or ten years.

Major classification of equipment capitalized and accumulated depreciation is summarized below:

	2009	2008
Pool and Patio Equipment	\$ 8,516	\$ 8,516
Emergency generator	1,813	1,813
Clubhouse tables	3,567	-
Clubhouse chairs	5,592	-
less accumulated depreciation	(10,952)	(10,329)
Net equipment	\$ 8,536	\$ -

8. Commitments

At August 31, 2009, the Association had ongoing commitments in connection with contracts for roofing and exterior maintenance.

9. Subsequent Events

Generally accepted accounting principles require the evaluation and disclosure of events occurring subsequent to the date of the balance sheet. This pertains to events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued.

There were no events occurring after August 31, 2009 that required recognition in the financial statements or that were significant to require disclosure even though not required to be recognized. This evaluation was made through November 16, 2009 which is the date the financial statements were available to be issued.

**BIXBY VILLAGE COMMUNITY ASSOCIATION**  
**SUPPLEMENTARY INFORMATION ON**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS**

**August 31, 2009**  
**(Unaudited)**

In June 2009, the Association retained an independent company, who specializes in conducting reserve studies, to estimate the remaining useful lives and the replacement costs of the components of common property. Funding requirements consider an annual inflation rate of 3.5 percent and interest earned at 1.25 percent on amounts funded for future major repairs and replacements. The study concluded that the Association's funds available for future major repairs and replacements at August 31, 2009 were funded at approximately 43% of the ideal recommended amount. Growth of the Association's reserves is projected to achieve full funding by the year 2021/2022.

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

Components	Remaining Useful Lives (yr)	Estimated Current Replacement Costs
Streets	0-18	\$ 716,876
Roofs	0-30	6,528,852
Painting	0-6	787,959
Lighting	0-19	274,730
Fencing	3-6	433,450
Pool Areas	0-9	197,318
Grounds	0-9	104,225
Buildings	0	73,000
		\$ 9,116,410

The study recommended a fully funded balance at August 31, 2009 of \$4,853,755. The Association's balance in reserves at August 31, 2009 is \$2,066,311. The study recommended a reserve allocation, based on the minimum cash flow calculation for 2009/2010, of \$886,776 excluding interest earned during the year and the Board of Directors has included \$884,764, including interest earned during the year, in the 2009/2010 fiscal year budget.