



Member:
American Institute
of Certified Public
Accountants

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Board of Directors
Bixby Village Community Association

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of Bixby Village Community Association as of August 31, 2011, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the year 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bixby Village Community Association as of August 31, 2011, 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.

As discussed in Note 4 to the financial statements, the Board of Directors has elected to fund only a portion of the amount recommended by a study conducted to determine current estimates of major repairs and replacements that may be required in the future. Because actual expenditures may vary from estimated future expenditures, it is not presently determinable whether amounts accumulated in the replacement fund will be adequate to meet all future needs for major repairs and replacements.

Board of Directors
Bixby Village Community Association

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 9 be presented to supplement the basic financial statements. Such information, although not 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 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 any other form of assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or any other form of assurance.

Inouye, Shively & Longtin

Inouye, Shively & Longtin

Laguna Hills, California
December 13, 2011

**BIXBY VILLAGE COMMUNITY ASSOCIATION
BALANCE SHEET
AS OF AUGUST 31, 2011**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 46,428	\$ 404,847	\$ 451,275
Short-term investments	-	1,093,151	1,093,151
Assessments receivable	65,576	-	65,576
Allowance for doubtful accounts	(50,000)	-	(50,000)
Interest receivable	-	2,857	2,857
Prepaid expenses	37,551	3,468	41,019
Interfund account	9,719	(9,719)	-
Furniture and equipment	19,488	-	19,488
Accumulated depreciation	(13,568)	-	(13,568)
Total assets	<u>115,194</u>	<u>1,494,604</u>	<u>1,609,798</u>
Liabilities			
Accounts payable	109,824	47,037	156,861
Accrued payroll	1,705	-	1,705
Prepaid assessments	9,045	-	9,045
	<u>120,574</u>	<u>47,037</u>	<u>167,611</u>
Commitments and contingencies	-	-	-
Fund balances	<u>(5,380)</u>	<u>1,447,567</u>	<u>1,442,187</u>
Total liabilities and fund balances	<u>\$ 115,194</u>	<u>\$ 1,494,604</u>	<u>\$ 1,609,798</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

**BIXBY VILLAGE COMMUNITY ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED AUGUST 31, 2011**

	Operating Fund	Replacement Fund	Total
Revenues			
Member assessments	\$ 835,667	\$ 928,117	\$ 1,763,784
Interest income	-	18,081	18,081
Termite assessment	-	17,209	17,209
Other income	12,153	10,227	22,380
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Total revenues	847,820	973,634	1,821,454
Expenses			
Property protection	6,552	-	6,552
Landscape	252,514	-	252,514
Custodial	5,476	-	5,476
Pool maintenance	22,070	-	22,070
General maintenance and repairs	66,729	-	66,729
Electricity	34,474	-	34,474
Water	78,628	-	78,628
Gas	17,347	-	17,347
Management fees	77,416	-	77,416
Accounting	850	-	850
Legal and collection	11,851	-	11,851
Insurance	194,240	-	194,240
Salaries and related	52,566	-	52,566
Pest control	3,882	-	3,882
Reserve analysis	885	-	885
Provision for uncollectible assessments	16,283	-	16,283
Depreciation	1,308	-	1,308
General and administrative	8,210	-	8,210
Telephone	1,919	-	1,919
Dry rot repair	-	245,569	245,569
Irrigation	-	10,373	10,373
Roofing	-	940,637	940,637
Fencing	-	106,964	106,964
Recreation	-	10,779	10,779
Lighting	-	51,379	51,379
Street and sidewalk	-	3,027	3,027
Painting	-	239,750	239,750
Income taxes	-	6,162	6,162
	<hr/>	<hr/>	<hr/>
Total expenses	853,200	1,614,640	2,467,840
Excess (deficiency) of revenues over expenses	(5,380)	(641,006)	(646,386)
Beginning fund balances	22,889	2,065,684	2,088,573
Interfund transfer	(22,889)	22,889	-
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Ending fund balances	\$ (5,380)	\$ 1,447,567	\$ 1,442,187

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

**BIXBY VILLAGE COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2011**

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities			
Excess (deficiency) of revenues over expenses	\$ (5,380)	\$ (641,006)	\$ (646,386)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash used in operating activities			
Provision for losses on assessments receivable	16,000	-	16,000
Depreciation	1,308	-	1,308
Increase in assessments receivable	(11,429)	-	(11,429)
Decrease in accrued interest receivable	-	3,890	3,890
Decrease (increase) in prepaid expenses	2,752	(3,468)	(716)
Decrease in accounts payable	(21,228)	(14,332)	(35,560)
Decrease in accrued payroll	(1,691)	-	(1,691)
Increase in prepaid assessments	1,247	-	1,247
Decrease in income tax payable	-	(2,564)	(2,564)
Total adjustments	(13,041)	(16,474)	(29,515)
Net cash used in operating activities	(18,421)	(657,480)	(675,901)
Cash flows from investing activities			
Proceeds from disposition of short-term investments	-	866,987	866,987
Net cash provided by investing activities	-	866,987	866,987
Cash flows from financing activities			
Change in interfund payable balances	40,281	(40,281)	-
Interfund transfers	(22,889)	22,889	-
Net cash provided by (used in) financing activities	17,392	(17,392)	-
Net increase (decrease) in cash and cash equivalents	(1,029)	192,115	191,086
Cash and cash equivalents at beginning of year	47,457	212,732	260,189
Cash and cash equivalents at end of year	\$ 46,428	\$ 404,847	\$ 451,275
Income taxes paid	\$ -	\$ 12,184	\$ 12,184

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

BIXBY VILLAGE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2011

NOTE 1 - ORGANIZATION

Bixby Village Community Association ("Association") is a nonprofit mutual benefit corporation organized for the purposes of maintaining and preserving common property of the Bixby Village community. The Association consists of 374 residential units occupying a site in Long Beach, CA. The Association was incorporated in 1982.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) Principles of Accounting: The books and records for the Association are maintained on a modified accrual basis of accounting. For these audited financial statements, adjustments have been made at the year end to convert the Association's records to the full accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.
- (b) Funds: The Association uses fund accounting which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors and property manager. Disbursements from the replacement fund generally may be made only for their designated purposes.
- (c) Recognition of assets and depreciation policy: Real property contributed to the Association by the developer has not been recorded for financial statement purposes since the Association's governing documents impose severe limitations on its disposition. The Association recognizes personal property assets at cost. The property is depreciated over its estimated useful life using the straight line method of depreciation.
- (d) Cash equivalents and short-term investments: Cash equivalents consist primarily of certificates of deposit and other securities with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments. Cash equivalents and short-term investments are stated at cost.
- (e) Interest earned: The Board's policy is to allocate to the replacement fund interest earned on all replacement fund cash accounts and short term investments.
- (f) Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 - OWNERS' ASSESSMENTS

During fiscal 2011, assessments to owners were \$1,763,784 of which \$928,117 was designated to the replacement fund. The annual budget and owners' assessments are determined by the Board of Directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

BIXBY VILLAGE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AUGUST 31, 2011

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Substantially all accumulated funds are held in separate savings or short-term investment accounts and are generally not available for expenditures for normal operations.

A study was conducted on July 18, 2011 by Foresight Financial Services, Inc. to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 3%, scheduled annual funding increase of 3%, and interest at 1% net of taxes, on amounts funded for future major repairs and replacements.

The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The amount of the ideal cash replacement fund balance recommended by the study at July 18, 2011 was \$4,042,254. As of August 31, 2011, the actual available replacement fund cash balance was \$1,497,998. The Board of Directors has decided to fund in 2012 only 75% of the amount recommended by the study. Accordingly, \$971,760 has been included in the 2012 budget. For that reason, or because actual expenditures may vary from estimated future expenditures and the variations may be material, 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.

As of August 31, 2011, the replacement fund owed the operating fund \$9,719.

NOTE 5 - FEDERAL AND STATE TAXES

The Association qualifies as a tax-exempt homeowners association under Internal Revenue Code Section 528 for the year ended August 31, 2011. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and at 8.84% by the State of California.

The Association has not recorded deferred tax assets or liabilities due to the fact that there is no material difference between the financial accounting and tax basis of the Association's assets and liabilities. If there were differences in the basis, a liability or benefit would be recognized based on the expected tax rate in the years in which the differences would be reversed.

The Association's federal income tax return for fiscal year end 2008, 2009, 2010, and 2011 may be subject to examination by the Internal Revenue Service, generally for three years after they were filed.

BIXBY VILLAGE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AUGUST 31, 2011

NOTE 6 - ASSESSMENTS RECEIVABLE

As of August 31, 2011, the Association had delinquent assessments receivable of \$65,576. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner. Delinquent assessments may be secured by a lien on the property against which assessments are made and the Association has the power to foreclose the property of any owner who fails to pay assessments.

It is the opinion of the Association that the allowance for doubtful accounts of \$50,000 is adequate to cover any accounts that may eventually be uncollectible. The allowance was computed by adding all receivable balances with balances greater than \$1,000.

The Association writes off receivable balances once all collection alternatives have been exhausted.

NOTE 7 – INVESTMENTS

The Association's investments consist of certificates of deposit with original maturities over 90 days. The investments are considered to be held to maturity which range from January 2012 to February 2013. Investment income is recorded as it is earned. The investments are carried at cost.

NOTE 8 – TERMITE ASSESSMENTS

During the roof repair project, certain homeowners elected to have the termite repair work completed by the Association's vendor. Because this expense is the homeowner's responsibility, they were assessed the cost that was incurred for the specific repairs.

NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 13, 2011, the date the financial statements were available to be issued.

**BIXBY VILLAGE COMMUNITY ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
 REPAIRS AND REPLACEMENTS
 AS OF AUGUST 31, 2011
 (UNAUDITED)**

A study was conducted on July 18, 2011 by Foresight Financial Services, Inc. to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Replacement costs and useful lives can be found in published manuals such as construction estimators, appraisal handbooks, and valuation guides. Remaining lives are calculated from the useful lives and ages of assets, and adjusted according to conditions such as design, manufacture quality, usage, exposure to the elements and maintenance history. Funding requirements consider an annual inflation rate of 3%, scheduled annual funding increase of 3%, and interest at 1% net of taxes, on amounts funded for future major repairs and replacements. The study recommends an annual funding amount of \$1,284,990 of which \$971,760 has been included in the 2012 budget. The ideal cash replacement fund balance was \$4,042,254, per the reserve study. As of August 31, 2011, the actual available replacement fund cash balance was \$1,497,998.

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

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs
Building elements	1 - 40	\$ 6,650,389
Paved surfaces	1 - 18	544,300
Fences and gates	10 - 40	571,500
Paint / repair	1 - 20	1,239,723
Lighting	1 - 10	433,000
Irrigation	2 - 8	164,700
Pool / spa	1 - 20	253,565
Recreation rooms	5 - 25	73,920
Other	1 - 20	119,222
Total		<u>\$ 10,050,319</u>