

**Bear Island Homeowners'  
Association, Inc.**

**Financial Statements**

**December 31, 2010**

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors  
Bear Island Homeowners' Association, Inc.  
West Palm Beach, Florida

We have reviewed the accompanying Balance Sheet of Bear Island Homeowners' Association, Inc. as of December 31, 2010, and the related Statements of Revenues, Expenses and Fund Balances and Cash Flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Board of Directors of Bear Island Homeowners' Association, Inc.

A review consists principally of inquiries of the Association personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

As discussed in Note 4, the Association has not conducted a study to estimate the remaining lives and future major repairs and replacement costs of the components of common property and therefore has not presented estimates of future costs of major repairs and replacements which the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be part of, the basic financial statements.

PATRICK E. DARLING  
Certified Public Accountant

February 4, 2011

**Bear Island Homeowners' Association, Inc.**  
**Balance Sheet**  
**December 31, 2010**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 362,283	\$ 171,667	\$ 533,950
Assessments receivable (net of bad debt reserve of \$40,000)	14,970	-0-	14,970
Prepaid expenses	2,704	-0-	2,704
Utility deposits	7,671	-0-	7,671
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<u>\$ 387,628</u>	<u>\$ 171,667</u>	<u>\$ 559,295</u>
<b>Liabilities</b>			
Accounts payable	\$ 50,950	\$ -0-	\$ 50,950
Income tax payable	1,438	-0-	1,438
Assessments received in advance	94,826	-0-	94,826
Refundable deposits	12,600	-0-	12,600
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Liabilities</b>	159,814	-0-	159,814
<b>Fund Balances</b>	<u>227,814</u>	<u>171,667</u>	<u>399,481</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 387,628</u>	<u>\$ 171,667</u>	<u>\$ 559,295</u>

*Please read the accompanying notes and independent accountant's review report.*

**Bear Island Homeowners' Association, Inc.**  
**Statement of Revenues, Expenses and Fund Balances**  
**For the year ended December 31, 2010**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Revenues</b>			
Maintenance assessments	\$ 858,460	\$ 45,000	\$ 903,460
Interest	10,093	461	10,554
Other income	14,845	-0-	14,845
	<hr/>	<hr/>	<hr/>
<b>Total Revenues</b>	883,398	45,461	928,859
<b>Expenses</b>			
Management fees	24,600	-0-	24,600
Professional fees	10,591	-0-	10,591
Insurance	15,362	-0-	15,362
Master association	53,372	-0-	53,372
Electricity	19,841	-0-	19,841
Telephone	3,180	-0-	3,180
Water & sewer	241,592	-0-	241,592
Pest control	7,726	-0-	7,726
Grounds maintenance	158,704	-0-	158,704
Repairs & maintenance	7,099	2,250	9,349
Sprinkler supplies / repairs	29,227	-0-	29,227
Landscape replacement	8,415	-0-	8,415
Gatehouse service	147,206	-0-	147,206
Tree trimming	22,225	-0-	22,225
Storage rent	960	-0-	960
Gate security & expenses	7,857	-0-	7,857
Spraying & fertilization	18,711	-0-	18,711
Alarm monitoring	25,403	-0-	25,403
Printing & postage	6,364	-0-	6,364
Contingencies	6,933	-0-	6,933
Bad debts	2,999	-0-	2,999
Pressure cleaning	15,015	-0-	15,015
Income tax	1,438	-0-	1,438
	<hr/>	<hr/>	<hr/>
<b>Total Expenses</b>	834,820	2,250	837,070

*Please read the accompanying notes and independent accountant's review report*  
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**Bear Island Homeowners' Association, Inc.**  
**Statement of Revenues, Expenses and Fund Balances (continued)**  
**For the year ended December 31, 2010**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Excess of revenues over expenditures</b>	48,578	43,211	91,789
Fund Balance - January 1, 2010	<u>219,036</u>	<u>88,656</u>	<u>307,692</u>
Transfers between funds	<u>(39,800)</u>	<u>39,800</u>	<u>-0-</u>
<b>Fund Balances - December 31, 2010</b>	<u><u>\$ 227,814</u></u>	<u><u>\$ 171,667</u></u>	<u><u>\$ 399,481</u></u>

*Please read the accompanying notes and independent accountant's review report  
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**Bear Island Homeowners' Association, Inc.**  
**Statement of Cash Flows**  
**For the year ended December 31, 2010**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Operating Activities</b>			
Maintenance assessments collected	\$ 872,450	\$ 45,000	\$ 917,450
Interest received	10,093	461	10,554
Other income collected	14,845	-0-	14,845
Cash (paid) to suppliers of goods and services	<u>(822,180)</u>	<u>(2,250)</u>	<u>(824,430)</u>
<b>Net Cash provided by Operating Activities</b>	<u>75,208</u>	<u>43,211</u>	<u>118,419</u>
<b>Financing Activities</b>			
Transfers between funds	<u>(39,800)</u>	<u>39,800</u>	<u>-0-</u>
<b>Net Cash provided (used) by Financing Activities</b>	<u>(39,800)</u>	<u>39,800</u>	<u>-0-</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<u>35,408</u>	<u>83,011</u>	<u>118,419</u>
Cash and cash equivalents-January 1, 2010	<u>326,875</u>	<u>88,656</u>	<u>415,531</u>
<b>Cash and cash equivalents-December 31, 2010</b>	<u><u>\$ 362,283</u></u>	<u><u>\$ 171,667</u></u>	<u><u>\$ 533,950</u></u>
Income tax paid	<u><u>\$ -0-</u></u>		

*Please read the accompanying notes and independent accountant's review report.*

**Bear Island Homeowners' Association, Inc.**  
**State of Cash Flows (continued)**  
**For the year ended December 31, 2010**

**Reconciliation of excess of revenues over  
expenditures to net cash  
provided by operating activities:**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Excess of revenues over expenditures</b>	\$ 48,578	\$ 43,211	\$ 91,789
<b>Adjustments to reconcile excess of revenues over expenditures to net cash provided by operating activities:</b>			
<b>(Increase) decrease in:</b>			
Assessments receivable	(754)	-0-	(754)
Prepaid expenses	1,150	-0-	1,150
<b>Increase (decrease) in:</b>			
Accounts payable	11,052	-0-	11,052
Assessments received in advance	14,744	-0-	14,744
Income taxes payable	1,438	-0-	1,438
Refundable deposits	(1,000)	-0-	(1,000)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net Cash provided by Operating Activities</b>	<u>\$ 75,208</u>	<u>\$ 43,211</u>	<u>\$ 118,419</u>

**Bear Island Homeowners' Association, Inc.**  
**Notes to Financial Statements**  
**As of and for the year ended December 31, 2010**

**Nature of Operations**

Bear Island Homeowners' Association, Inc. (the "Association") was incorporated in 1988, as a not-for-profit corporation under Chapter 617 of the Florida Statutes, to manage, maintain, and operate the common areas within the development. The membership consists of the 227 unit owners with the Association located in West Palm Beach, Florida.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

This summary of significant accounting policies of Association, Inc. is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Association's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been applied on a consistent basis.

**Method of Accounting**

The Association prepares its financial statements on the accrual basis of accounting and presents them as separate funds based on its different funding policies for operations and capital replacements.

The Operating Fund reflects the operating assessments paid by unit owners to meet the regular, recurring costs of operation. Expenditures of this fund are limited to those connected with the day-to-day operations.

The Replacement Fund is composed of all capital assessments paid by unit owners to fund future replacements, major repairs and purchases of additional commonly owned assets. Expenditures from this fund are restricted to those items for which assessments were levied.

**Property and Equipment**

Real property (i.e., roads, parking lots, roofs, fences, exterior walls, building lights, mansards, etc.) and other related common areas acquired from the Developer and the related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. Accordingly, these Expenditures are included in the appropriate fund expense in the year of acquisition. The disposition of any common real property must be approved by the unit owners of the Association.

**Bear Island Homeowners' Association, Inc.**  
**Notes to Financial Statements**  
**As of and for the year ended December 31, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):**

Acquisitions of furnishings, improvements, and equipment used for maintenance and operation of the common elements of the Association are capitalized at cost and depreciated over the useful lives using the straight-line method.

**Member Assessments**

Association members are subject to monthly assessments to provide funds for the Association's operating expenditures, future capital acquisitions, and major repairs and replacements. Maintenance assessments receivable at the balance sheet date represent fees due from unit owners. Any excess assessments at year-end are retained by the Association for use in future years. Unearned maintenance assessments represent fees paid by members in anticipation of the due date. These assessments will be recognized as revenue in 2011.

**Income Taxes**

Homeowners Associations are taxed as regular corporations or elect to be taxed as a Homeowners Association. The Association was taxed as a regular corporation for the year ended December 31, 2010. The Association is generally taxed only on non membership income, such as interest earnings, at regular federal and state corporate tax rates.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Association considers all liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**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.

**Bear Island Homeowners' Association, Inc.**  
**Notes to Financial Statements**  
**As of and for the year ended December 31, 2010**

**2. FINANCIAL INSTRUMENTS WITH CREDIT RISK:**

The Association maintains its cash balances at one financial institution located in Palm Beach County, Florida. Accounts at this institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. The Association's uninsured balance was \$283,950 at December 31, 2010.

**3. INCOME TAXES:**

For the period ended December 31, 2010, the Association received \$10,554 in interest income which resulted in a federal and state income tax provision of \$1,438.

**4. FUTURE MAJOR REPAIRS AND REPLACEMENTS:**

The Association's governing documents require that funds be accumulated for future major repairs and replacements. The Association's Board of Directors has not conducted a study to estimate the remaining useful lives and the replacement costs of the common property components. Amounts designated for future major repairs and replacements may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

The activity in the Replacement Fund for the year ended December 31, 2010 is as follows:

	Balance January 1, 2010	Additions to Funds	(Expenditures)	Balance December 31, 2010
General	\$ 88,012	\$ 84,800	\$ (2,250)	\$ 170,562
Interest	644	461	-0-	1,105
<b>Total</b>	<b>\$ 88,656</b>	<b>\$ 85,261</b>	<b>\$ (2,250)</b>	<b>\$ 171,667</b>