

HARBOR BEND
HOMEOWNERS' ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2004



February 19, 2005

To the Board of Directors and Members
Harbor Bend Homeowners' Association, Inc.

We have compiled the accompanying Balance Sheet of Harbor Bend Homeowners' Association, Inc. as of December 31, 2004 and the related Statement of Revenue, Expenses and Changes in Fund Balance and Statement of Cash Flows for the year then ended, in accordance with Statements of Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any form of assurance on them.

The Association has not presented the supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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Arrington & Company, P.A.
Certified Public Accountants

HARBOR BEND HOMEOWNERS' ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2004

ASSETS	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash, including interest-bearing deposits	\$ 17,033	\$ 2,004	\$ 19,037
Member assessments receivable	1,149	-0-	1,149
Prepaid expenses	721	-0-	721
Deposits	<u>307</u>	<u>-0-</u>	<u>307</u>
	<u>\$ 19,210</u>	<u>\$ 2,004</u>	<u>\$ 21,214</u>
LIABILITIES AND FUND BALANCE			
Unspent insurance proceeds - hurricane	\$ 13,957	\$ -0-	\$ 13,957
Prepaid member assessments	<u>1,410</u>	<u>-0-</u>	<u>1,410</u>
Total liabilities	15,367	-0-	15,367
Fund balance	<u>3,843</u>	<u>2,004</u>	<u>5,847</u>
	<u>\$ 19,210</u>	<u>\$ 2,004</u>	<u>\$ 21,214</u>

See accompanying notes and accountant's compilation report.

HARBOR BEND HOMEOWNERS' ASSOCIATION, INC.

**STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND BALANCE**

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 27,808	\$ 2,000	\$ 29,808
Other income	2,209	-0-	2,209
Interest income	-0-	4	4
	<u>30,017</u>	<u>2,004</u>	<u>32,021</u>
Expenses:			
Bad debt expense	224	-0-	224
Grounds maintenance	10,673	-0-	10,673
Insurance	2,891	-0-	2,891
Management fees	10,206	-0-	10,206
Other general and administrative	273	-0-	273
Postage and printing	1,342	-0-	1,342
Professional services	966	-0-	966
Utilities	658	-0-	658
	<u>27,233</u>	<u>-0-</u>	<u>27,233</u>
Excess of revenues over expenses	2,784	2,004	4,788
Fund balance, December 31, 2003	<u>1,059</u>	<u>-0-</u>	<u>1,059</u>
Fund balance, December 31, 2004	<u>\$ 3,843</u>	<u>\$ 2,004</u>	<u>\$ 5,847</u>

See accompanying notes and accountant's compilation report.

HARBOR BEND HOMEOWNERS' ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	<u>Total</u>
Excess of revenues over expenses	<u>\$ 2,784</u>	<u>\$ 2,004</u>	<u>\$ 4,788</u>
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Decrease in member assessments receivable	348	-0-	348
Decrease in prepaid expenses	162	-0-	162
Decrease in accounts payable and accrued expenses	(478)	-0-	(478)
Increase in unspent insurance proceeds - hurricane	13,957	-0-	13,957
Decrease in prepaid member assessments	<u>(7,437)</u>	<u>-0-</u>	<u>(7,437)</u>
Total adjustments	<u>6,552</u>	<u>-0-</u>	<u>6,552</u>
Net increase in cash	9,336	2,004	11,340
Cash at beginning of year	<u>7,697</u>	<u>-0-</u>	<u>7,697</u>
Cash at end of year	<u>\$ 17,033</u>	<u>\$ 2,004</u>	<u>\$ 19,037</u>

See accompanying notes and accountant's compilation report.

HARBOR BEND HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

A. ORGANIZATION

Harbor Bend Homeowners' Association, Inc. was incorporated as a not-for-profit corporation in the State of Florida. The Association is responsible for the operation and maintenance of the common property within the development. The development is located in Orange County, Florida and consists of 162 residential units.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Fund Accounting

The Association's documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using the principles of fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - The operating fund is used to account for the day-to-day activities of the Association, including the general management and upkeep of the common property.

Replacement Fund - The replacement fund is used to account for monies accumulated to fund capital expenditures and maintenance, repair and replacement of property.

2. Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Member assessments receivable at the balance sheet date represents fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years.

3. Income Taxes

The Association may be taxed either as a homeowners' association or as a regular corporation. In 2004, the Association elected to be taxed as a homeowners' association. Under this election, the Association is generally exempt from taxation on membership income and is taxed only on nonmembership income items, such as interest earnings.

HARBOR BEND HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Real and Common Area Property

Real and common area property acquired by the original homeowners from the developer is not capitalized on the Association's financial statements as it is owned by the individual owners in common and not by the Association. As a result, improvements to the real property and common areas are expensed as incurred.

5. 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 contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. The funds are segregated and held primarily in interest-bearing accounts. It is the Association's policy to allocate interest earned on such funds to the replacement fund components, based upon the weighted average amount outstanding of each component.

The Association's Board of Directors has estimated the remaining useful lives and replacement costs of common property components. The Association is funding for major repairs and replacements over the remaining useful lives of the components based on current estimates of replacement costs and considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Member's equity designated for future major repairs and replacements has been allocated by the Board of Directors to the components of common property as follows:

<u>Components</u>	<u>Balance 1/1/04</u>	<u>Fund Additions</u>	<u>Major Repairs/ Replacements</u>	<u>Balance 12/31/04</u>
Contingency	<u>\$ -0-</u>	<u>\$ 2,004</u>	<u>\$ -0-</u>	<u>\$ 2,004</u>