

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.

NAVARRE, FLORIDA

FINANCIAL STATEMENTS

DECEMBER 31, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Members
Holley by the Sea Improvement Association, Inc.
Navarre, Florida

We have audited the accompanying balance sheet of Holley by the Sea Improvement Association, Inc. (the "Association") as of December 31, 2010, 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 over all 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 the Association as of December 31, 2010, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Changes in Repair and Replacement and Capital Improvement Fund Balances on page 15 is presented for purposes of additional analysis and is not a required part of the basic 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 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.

Saltmarsh Cleaveland & Gund

Pensacola, Florida
February 7, 2011

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HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2010

	ASSETS			
	Operating Fund	Capital Improvement Fund	Repair & Replacement Fund	Total
Current Assets:				
Cash	\$ 1,928,328	\$ 141,833	\$ 219,311	\$ 2,289,472
Certificates of deposit	-	-	253,764	253,764
Income tax receivable	3,987	-	-	3,987
Prepaid expenses	10,965	-	-	10,965
Interfund receivables (payables)	8,899	-	(8,899)	-
Total current assets	<u>1,952,179</u>	<u>141,833</u>	<u>464,176</u>	<u>2,558,188</u>
Property and Equipment, net	<u>278,740</u>	<u>-</u>	<u>-</u>	<u>278,740</u>
Other Assets:				
Assessments and fees receivable, net	98,684	-	-	98,684
Lots available for sale	19,000	-	-	19,000
Deposit	500	-	-	500
	<u>118,184</u>	<u>-</u>	<u>-</u>	<u>118,184</u>
Total Assets	<u>\$ 2,349,103</u>	<u>\$ 141,833</u>	<u>\$ 464,176</u>	<u>\$ 2,955,112</u>
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Accounts payable	\$ 19,264	\$ -	\$ -	\$ 19,264
Accrued expenses	37,005	-	-	37,005
Income tax payable	666	-	-	666
Prepaid assessments	836,397	-	-	836,397
Current portion of obligations under capital lease	2,610	-	-	2,610
Construction and other deposits	77,979	-	-	77,979
Total current liabilities	<u>973,921</u>	<u>-</u>	<u>-</u>	<u>973,921</u>
Long-term Liabilities:				
Obligations under capital lease, less current maturities	<u>1,968</u>	<u>-</u>	<u>-</u>	<u>1,968</u>
Total Liabilities	<u>975,889</u>	<u>-</u>	<u>-</u>	<u>975,889</u>
Fund Balances:				
Undesignated	1,373,214	-	-	1,373,214
Designated	-	141,833	464,176	606,009
Total fund balances	<u>1,373,214</u>	<u>141,833</u>	<u>464,176</u>	<u>1,979,223</u>
Total Liabilities and Fund Balances	<u>\$ 2,349,103</u>	<u>\$ 141,833</u>	<u>\$ 464,176</u>	<u>\$ 2,955,112</u>

The accompanying notes are an integral
part of these financial statements.

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2010

	Operating Fund	Capital Improvement Fund	Repair & Replacement Fund	Total
Revenues:				
Regular assessments	\$ 1,723,165	\$ -	\$ -	\$ 1,723,165
Late fees, interest, and legal fees	112,618	-	-	112,618
Investment income	17,402	71	3,064	20,537
Program activities	245,529	-	-	245,529
Total revenues	<u>2,098,714</u>	<u>71</u>	<u>3,064</u>	<u>2,101,849</u>
Expenses:				
Salaries and wages	773,843	-	-	773,843
Administration	280,480	-	-	280,480
Depreciation	57,824	-	-	57,824
Insurance	108,770	-	-	108,770
Property taxes	4,010	-	-	4,010
Income taxes	3,132	-	-	3,132
Maintenance and repairs	175,175	-	399,164	574,339
Professional services	98,537	-	-	98,537
Utilities	222,516	-	-	222,516
Other expense	229	-	-	229
Total expenses	<u>1,724,516</u>	<u>-</u>	<u>399,164</u>	<u>2,123,680</u>
Excess (Deficiency) of Revenues Over Expenses	374,198	71	(396,100)	(21,831)
Fund Balances:				
Beginning of year	1,210,151	141,762	649,141	2,001,054
Transfers between funds	<u>(211,135)</u>	<u>-</u>	<u>211,135</u>	<u>-</u>
End of year	<u>\$ 1,373,214</u>	<u>\$ 141,833</u>	<u>\$ 464,176</u>	<u>\$ 1,979,223</u>

The accompanying notes are an integral
part of these financial statements.

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010

	Operating Fund	Capital Improvement Fund	Repair & Replacement Fund	Total
Cash Flows From Operating Activities:				
Cash received from:				
Assessments collected	\$ 1,900,020	\$ -	\$ -	\$ 1,900,020
Program activities	245,529	-	-	245,529
Investments	17,402	71	3,064	20,537
Other	7,117	-	-	7,117
Cash paid for:				
Salaries and wages	(754,010)	-	-	(754,010)
Other expenses	(750,883)	-	(399,164)	(1,150,047)
Income taxes	3,586	-	-	3,586
Net cash provided by (used in) operating activities	<u>668,761</u>	<u>71</u>	<u>(396,100)</u>	<u>272,732</u>
Cash Flows From Investing Activities:				
Purchase of certificates of deposit	-	-	(2,901)	(2,901)
Purchase of property and equipment	(48,749)	-	-	(48,749)
Proceeds from disposal of assets	600	-	-	600
Net cash used in investing activities	<u>(48,149)</u>	<u>-</u>	<u>(2,901)</u>	<u>(51,050)</u>
Cash Flows From Financing Activities:				
Transfers between funds	(220,034)	-	220,034	-
Principal payments on capital lease	(2,993)	-	-	(2,993)
Net cash provided by (used in) financing activities	<u>(223,027)</u>	<u>-</u>	<u>220,034</u>	<u>(2,993)</u>
Net Increase (Decrease) in Cash	397,585	71	(178,967)	218,689
Cash at Beginning of Year	<u>1,530,743</u>	<u>141,762</u>	<u>398,278</u>	<u>2,070,783</u>
Cash at End of Year	<u>\$ 1,928,328</u>	<u>\$ 141,833</u>	<u>\$ 219,311</u>	<u>\$ 2,289,472</u>

The accompanying notes are an integral
part of these financial statements.

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010
(Continued)

	Operating Fund	Capital Improvement Fund	Repair & Replacement Fund	Total
Reconciliation of Excess (Deficiency)				
of Revenues Over Expenses to				
Net Cash Provided by (Used in)				
Operating Activities:				
Excess (deficiency) of revenues over expenses	\$ 374,198	\$ 71	\$ (396,100)	\$ (21,831)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities-				
Depreciation	57,824	-	-	57,824
Bad debt	139,813	-	-	139,813
Loss on disposal of property and equipment	404	-	-	404
Changes in operating assets and liabilities-				
Prepaid expenses	(1,413)	-	-	(1,413)
Income tax receivable	6,052	-	-	6,052
Assessments and fees receivable	(76,113)	-	-	(76,113)
Accounts payable	205	-	-	205
Accrued expenses	19,833	-	-	19,833
Income tax payable	666	-	-	666
Construction and other deposits	6,942	-	-	6,942
Prepaid assessments	140,350	-	-	140,350
Total adjustments	294,563	-	-	294,563
Net Cash Provided by (Used in)				
Operating Activities	<u>\$ 668,761</u>	<u>\$ 71</u>	<u>\$ (396,100)</u>	<u>\$ 272,732</u>

The accompanying notes are an integral
part of these financial statements.

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 - NATURE OF ORGANIZATION

Holley by the Sea Improvement Association, Inc., (the "Association") a Florida Not-for-profit Corporation, began financial activity January 1, 1985. The complex consists of 4,724 residential lots on 4,255 acres in Navarre, Santa Rosa County, Florida.

The Association was organized for the purpose of operating, managing, maintaining and controlling the common area elements of the Association.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Association's significant accounting policies applied in the preparation of the accompanying financial statements is as follows.

Fund Accounting:

The Association is a not-for-profit organization which employs the fund method of accounting in order to properly account for restrictions on the expenditures resulting from actions of the Board of Directors, the Association voting membership, or Florida Statutes. The financial statements segregate the accounting for such funds as either operating or reserve funds. At the end of the year, excess funds are retained by the fund generating such excess during the year.

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association. Disbursements from the operating fund are generally at the discretion of the Board of Directors and the Association's Manager.

Repair & Replacement Fund – These funds are used to accumulate financial resources restricted for future major repairs and replacements of designated common elements that require replacement less frequently than annually. Disbursements from the repair & replacement fund may only be utilized in accordance with Florida Statutes and the purposes established by the Board of Directors and the Association membership.

Capital Improvements Fund – This fund is used to account for the proceeds and expenses associated with the real property improvements of the Association.

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

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents:

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

Assessments Receivable from Owners and Allowance for Doubtful Accounts:

Assessment receivables at the balance sheet date represent fees due from owners. Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments are due on the first day of the year and are considered past due if not received by the first day of the year. The Association retains the right to accelerate the balance of the annual assessment for the year if payment is not received within 30 days of written notice of delinquency. The Association charges a late fee of \$25 on past due amounts and interest of 18% per annum. The Association's policy is to place liens on the properties of homeowners whose assessments are 30 days or more delinquent and retain legal counsel.

At December 31, 2010, the Association had delinquent operating assessments and fees of \$257,684. Based on limitations in collecting delinquent assessments and fees under Florida Statutes, the Association has established an allowance for uncollectible assessments of \$159,000 and recognized bad debt expense of \$139,813, which is included in administration expenses for the year ended December 31, 2010. It is the opinion of management that the Association will ultimately prevail against remaining homeowners with delinquent assessments and, accordingly, no additional allowance for uncollectible amounts is deemed necessary.

Property and Equipment:

Real property acquired by the Association is capitalized when it (a) is used to generate significant cash flows from members on the basis of usage or (b) can be disposed of for cash with the Association retaining the proceeds. Property and equipment acquisitions valued at \$500 or more are recorded at cost or, if donated, at the approximate fair value at the date of donation, net of accumulated depreciation and amortization. Real property acquired by the Association that does not meet these guidelines is not capitalized and, accordingly, replacements, major repairs, and improvements to this property are not capitalized. Instead, they are reported as expenses in the fund making the expenditure. Real property that has not been capitalized includes a campground septic tank, clubhouse, fencing, irrigation systems, basketball, shuffle board, racquetball and tennis courts, security gates, vehicles, pavilion, pier house, pier, playground, swimming pools, and sewer drain field system.

Personal property acquired by the Association is capitalized at cost. It is depreciated over its estimated useful life, generally five years, using the straight-line method of depreciation.

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate - Foreclosed Lots:

The Association acquires property on occasion due to foreclosure proceedings. This property is held for sale and is not considered part of the long-term operating assets. The lots are carried at fair market value not to exceed the original cost. If fair market value declines below original cost, an impairment loss is realized.

Revenue Recognition:

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as prepaid assessments on the balance sheet.

Construction Deposits:

The Association collects a refundable deposit of \$2,000 from builders prior to construction of homes on lots or the remodeling of existing homes. Once construction is complete according to pre-approved plans, the deposit is refunded to the builder.

Subsequent Events:

Management has evaluated subsequent events through February 7, 2011 which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

As of December 31, 2010, the Association held five certificates of deposit totaling \$253,764.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Computer and office equipment	\$ 17,928
Furniture and fixtures	76,399
Machinery and equipment	222,281
Recreation equipment	333,815
Vehicles	<u>39,157</u>
Total	689,580
Accumulated depreciation	<u>(410,840)</u>
Property and equipment, net	<u>\$ 278,740</u>

Depreciation expense for 2010 was \$57,824.

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 5 - ASSESSMENTS RECEIVABLE

It is the Association's policy to turn over significantly past due accounts for collection and to file liens against the individual home sites. Should the collection of any such liens be enforced by the sale of the home site, the collectability of the receivable is dependent on the quick sale market value of the home site, and the amount of any such other liens that may have priority. Market value may be influenced by the real estate market in Santa Rosa County, Florida. As of December 31, 2010, delinquent assessments receivable are summarized as follows.

2005 assessments	\$ 380
2006 assessments	975
2007 assessments	9,891
2008 assessments	21,076
2009 assessments	40,020
2010 assessments	68,197
Interest, late charges and other	<u>117,145</u>
Total	257,684
Allowance for doubtful accounts	<u>(159,000)</u>
Assessments receivable, net	<u>\$ 98,684</u>

Bad debt expense for 2010 of \$139,813 was included in administration expenses.

NOTE 6 - OWNER'S ASSESSMENTS

Revenues and expenses are allocated to the owners equally and, accordingly, assessment rates are established using this formula. Annual property assessments to owners were \$365 in 2010, and regular assessments for the year ended December 31, 2010 totaled \$1,723,165.

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 7 - PROGRAM ACTIVITIES

The Association has the following additional revenue sources which are recorded on the accompanying statement of revenue, expenses and changes in fund balances as program activities:

Aerobics	\$ 7,147
Architectural	41,319
Campsite rental	6,840
Beach house rental	4,780
Miscellaneous income	51,331
Swimming lessons/team	23,805
Taekwondo	10,171
Tennis	10,463
Youth activities	<u>89,673</u>
 Total program activities	 <u><u>\$ 245,529</u></u>

NOTE 8 - INCOME TAXES

Homeowner's associations may elect to be taxed under Internal Revenue Code ("IRC") Section 277, which applies to certain membership organizations, or under IRC Section 528, which applies specifically to homeowner associations as that term is defined for tax purposes. For the year ended December 31, 2010, the Association was taxed under the provisions of IRC Section 277. Under IRC Section 277, the Association is required to separate membership income and expenses from non-membership income and expenses. Each component is taxed separately; however, net membership income is exempt from taxation if certain elections are made. For the year ended, December 31, 2010, the Association's net non-membership income was \$17,104, which resulted in federal and state income taxes of \$3,132.

The Association follows accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board [FASB] ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-than-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2010, the Association has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The federal income tax returns of the Association for years after 2006 are subject to examination by the IRS, generally for three years after they were filed.

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 9 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents and Florida Statutes require funds to be accumulated for future major repairs and replacements. As of December 31, 2010, the accumulated fund balances totaled \$464,176 for major repairs and replacements and \$141,833 for capital improvements. The funds are held in separate accounts and are not used for operating purposes. It is the Association's policy to allocate interest earned on such funds as separate line items in the repair and replacement and capital improvement funds. The Association engaged an independent engineer to conduct a study to estimate the remaining useful lives and the replacement costs for the common property components. The most recent study was dated October 4, 2010. The Association has been funding for such major repairs and replacements and capital improvements using a 30-year cash flow method based on the independent engineer's study. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the reserve funds may or may not be adequate to meet future needs. However, if additional funds are needed the Association has the right to increase regular assessments (subject to board approval) or levy special assessments (subject to membership approval), or it may delay major repairs and replacements until funds are available.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Uninsured Cash Balances:

The Company's cash and short-term investment balances held at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. In order to fully invest excess funds, the Company uses sweep accounts which are not insured by FDIC but are backed by government securities. At December 31, 2010, sweep balances totaled \$1,273,159. The Company's remaining cash and short-term investment balances at December 31, 2009 were fully insured.

Commitments under Operating Leases:

The Association has an operating lease for equipment used in the office. The expense incurred relating to this agreement as of December 31, 2010 was \$8,750. Future minimum lease payments are as follows:

2011	\$ 4,440
2012	4,440
2013	4,440
2014	4,440
Thereafter	<u>4,810</u>
	<u>\$ 22,570</u>

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

Commitments under Capital Leases:

The Association has a capital lease for two elliptical machines. The gross amount of assets in the balance sheet recorded under capital leases is \$8,200 and the accumulated amortization is \$1,846. Annual minimum future lease payments under non-cancelable capital leases having remaining terms in excess of one year as of December 31, 2010, are as follows:

2011		\$ 2,994
2012		<u>2,245</u>
Total minimum future lease payments		5,239
Amount representing interest		<u>661</u>
Present value of minimum lease payments		4,578
Less current portion of obligations under capital leases		<u>2,610</u>
Long-term portion of obligations under capital leases		<u>\$ 1,968</u>

Amortization of assets held under capital leases is included with depreciation expense.

NOTE 11 - FAIR VALUE MEASUREMENT

U.S. generally accepted accounting principles guidance requires the use of fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value.

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 11 - FAIR VALUE MEASUREMENT (Continued)

Following is a description of the valuation methodologies used for financial instruments measured at fair value:

Lots available for sale: Lots available for sale are classified as Level 3 as their values are estimates determined by the best information available provided by the Santa Rosa County Property Appraiser, and are derived principally from or corroborated by unobservable inputs that reflect the Association's own assumptions about the assumptions that market participants would use in pricing the land.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table present the financial instruments carried at fair value as of December 31, 2010 reported on the balance sheet and by the valuation hierarchy (as described above).

Assets measured at fair value on a nonrecurring basis as of December 31, 2010 consisted of:

	Level 1	Level 2	Level 3	Total
Lots available for sale	-	-	\$ 19,000	\$ 19,000

REQUIRED SUPPLEMENTARY INFORMATION

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)

The board of directors had a study conducted in October 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from a consulting firm specializing in reserve studies.

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

Component	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	2011 Funding Requirement	Components of Fund Balance at December 31, 2010
Asphalt	20	13	\$ 156,504	\$ 14,195	\$ 16,381
Carpeting	10	1	5,623	568	838
Exercise equipment	3	1	9,338	-	28,138
Fencing	25	21	170,629	6,241	10,964
Flooring	25	24	112,364	11,503	10,860
Furnishings	20	16	66,329	4,854	14,281
Hurricane	10	2	25,000	2,496	4,232
Air conditioner	20.5	1	70,755	14,841	60,829
Interior paint	10	4	13,980	4,520	2,885
Irrigation system	25	23	167,700	2,408	3,363
Kitchen equipment	25	6	62,400	6,241	10,420
Landscaping	10	6	75,000	3,948	5,284
Dock restoration	20	1	12,648	3,188	11,354
Lift station	23	21	25,000	1,436	5,884
Lighting	25	20	99,500	2,553	5,203
Exterior paint	8.5	6	11,655	1,815	1,646
Pavilions and piers	20	20	201,125	8,153	14,373
Playground equipment	15	1	25,000	2,742	2,136
Plumbing	20	19	32,500	3,241	6,313
Pool decking	25	6	125,714	12,574	21,352
Pool dome	12	11	289,710	43,820	189,313
Pool equipment	12	12	47,239	4,359	6,562
Pool interior	10	3	80,030	7,741	10,528
Retaining wall	25	20	127,140	3,346	6,849
Roofing	25	25	325,587	7,935	8,111
Campgrounds and fields	10	6	80,000	11,511	34,209
Security equipment	12.5	8	21,700	962	2,020
Signage	25	17	82,500	2,400	4,376
Clubhouse equipment	25	13	35,156	2,808	5,614
Tennis courts	25	11	75,000	13,510	10,000
Vehicles	17.5	11	49,600	2,584	12,011
Beach house	N/A	N/A	91,186	12,700	(62,153)
			<u>\$ 2,773,612</u>	<u>\$ 221,193</u>	<u>\$ 464,176</u>

SUPPLEMENTARY INFORMATION

HOLLEY BY THE SEA IMPROVEMENT ASSOCIATION, INC.
SCHEDULE OF CHANGES IN REPAIR AND REPLACEMENT AND
CAPITAL IMPROVEMENT FUND BALANCES
YEAR ENDED DECEMBER 31, 2010

Component	Beginning Balance	Revenues and Transfers	Expenses	Ending Balance
Asphalt	\$ 37,448	\$ 500	\$ 21,567	\$ 16,381
Carpeting	338	500	-	838
Exercise equipment	27,638	500	-	28,138
Fencing	10,464	500	-	10,964
Flooring	12,565	500	2,205	10,860
Furnishings	13,781	500	-	14,281
Hurricane	(45,768)	50,000	-	4,232
Air conditioner	25,329	35,500	-	60,829
Interior paint	885	2,000	-	2,885
Irrigation system	2,863	500	-	3,363
Kitchen equipment	9,920	500	-	10,420
Landscaping	4,784	500	-	5,284
Dock restoration	10,854	500	-	11,354
Lift station	5,384	500	-	5,884
Lighting	4,703	500	-	5,203
Exterior paint	1,146	500	-	1,646
Pavilions and piers	13,873	500	-	14,373
Playground equipment	1,636	500	-	2,136
Plumbing	5,513	800	-	6,313
Pool decking	21,017	335	-	21,352
Pool dome	113,813	75,500	-	189,313
Pool equipment	5,499	5,000	3,937	6,562
Pool interior	10,028	500	-	10,528
Retaining wall	6,349	500	-	6,849
Roofing	16,584	23,564	32,037	8,111
Campgrounds and fields	33,709	500	-	34,209
Security equipment	1,520	500	-	2,020
Signage	3,876	500	-	4,376
Clubhouse equipment	5,114	500	-	5,614
Tennis courts	-	10,000	-	10,000
Vehicles	11,511	500	-	12,011
Beach House	276,765	500	339,418	(62,153)
	<u>649,141</u>	<u>214,199</u>	<u>399,164</u>	<u>464,176</u>
Capital Improvement Fund	<u>141,762</u>	<u>71</u>	<u>-</u>	<u>141,833</u>
	<u>\$ 790,903</u>	<u>\$ 214,270</u>	<u>\$ 399,164</u>	<u>\$ 606,009</u>