

Waterford Lakes Community Association, Inc.

Financial Statements

December 31, 2006

Cole & Associates, LLC

Certified Public Accountants

Waterford Lakes Community Association, Inc.

Financial Statements

December 31, 2006

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Cole & Associates, LLC

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Waterford Lakes Community Association, Inc.

To the Board of Directors:

We have audited the accompanying balance sheet of Waterford Lakes Community Association, Inc. as of December 31, 2006 and the related statements of revenue, expenditures and changes in fund balance 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 Waterford Lakes Community Association, Inc. as of December 31, 2006, and the related statements of revenue and expenditures and changes in fund balance and cash flows for the year ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

The American Institute of Certified Public Accountants has determined that supplementary information about future major repairs and replacements of common property is required to supplement, but not required to be a part of, the basic financial statements. Waterford Lakes Community Association, Inc. has not presented this supplementary information.



Cole & Associates, LLC
Certified Public Accountants

Orlando, FL
February 29, 2008

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2006

	Operating Fund	Replacement Fund	Total
ASSETS:			
Cash	\$ 208,349	\$ 30,306	\$ 238,655
Assessments receivable (Note 3)	161,443	-	161,443
Other receivables	2,400	-	2,400
Prepaid expenses	4,591	-	4,591
Investments in CD's	-	297,541	297,541
Other assets	543	-	543
TOTAL ASSETS	<u>\$ 377,326</u>	<u>\$ 327,847</u>	<u>\$ 705,173</u>
LIABILITIES:			
Accounts payable and accrued expenses	\$ 26,655	\$ -	\$ 26,655
Prepaid assessments	156,801	-	156,801
TOTAL LIABILITIES	183,456	-	183,456
FUND BALANCE	<u>193,870</u>	<u>327,847</u>	<u>521,717</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 377,326</u>	<u>\$ 327,847</u>	<u>\$ 705,173</u>

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

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUE:			
Assessment income	\$ 1,303,324	\$ 55,302	\$ 1,358,626
Interest income	295	13,010	13,305
Other income	<u>52,642</u>	<u>-</u>	<u>52,642</u>
TOTAL REVENUE	<u>1,356,261</u>	<u>68,312</u>	<u>1,424,573</u>
EXPENDITURES:			
Accounting & legal	80,788	-	80,788
Building repairs & maintenance	2,979	-	2,979
Contract grounds maintenance	355,776	-	355,776
Clubhouse maintenance	11,541	-	11,541
Consulting	6,220	-	6,220
Safety & security	69,595	-	69,595
Insurance	24,589	-	24,589
Irrigation repair	31,799	-	31,799
Income tax expense	360	-	360
Janitorial	23,166	-	23,166
Licenses, permits & taxes	196	-	196
Management fees	172,359	-	172,359
Office & other expenses	45,580	-	45,580
Other grounds maintenance	201,568	-	201,568
Other pool maintenance	14,809	-	14,809
Pest control	3,348	-	3,348
Pool maintenance	13,027	-	13,027
Payroll expense	2,109	-	2,109
Recreation repairs & maintenance	2,332	-	2,332
Trash removal	1,832	-	1,832
Utilities	98,418	-	98,418
Reserve expenditures	<u>-</u>	<u>123,949</u>	<u>123,949</u>
TOTAL EXPENDITURES	<u>1,162,391</u>	<u>123,949</u>	<u>1,286,340</u>
REVENUE IN EXCESS OF EXPENDITURES	193,870	(55,637)	138,233
BEGINNING FUND BALANCE	<u>-</u>	<u>383,484</u>	<u>383,484</u>
ENDING FUND BALANCE	<u>\$ 193,870</u>	<u>\$ 327,847</u>	<u>\$ 521,717</u>

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

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Operating Fund</u>	<u>Replacement Fund</u>
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENDITURES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Excess of revenue over expenditures	\$ 193,870	\$ (55,637)
Adjustment to reconcile excess of revenue over expenditures to net cash provided by operating activities:		
(Increase) decrease in:		
Assessments receivable	(127,069)	-
Other receivables	(2,400)	-
Prepaid expenses	(956)	-
Due from operating fund	-	192,612
Due to replacement fund	(192,612)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(3,371)	-
Prepaid assessments	(20,394)	-
Net cash provided (used) by operating activities:	<u>(152,932)</u>	<u>136,975</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase/sale of CD's	-	(203,796)
Reinvested interest/dividends	-	(3,717)
Net cash provided (used) by investing activities	<u>-</u>	<u>(207,513)</u>
NET CHANGE IN CASH	<u>(152,932)</u>	<u>(70,538)</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>361,281</u>	<u>100,844</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 208,349</u>	<u>\$ 30,306</u>

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

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Waterford Lakes Community Association, Inc. ("The Association") is incorporated in the State of Florida. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 3,380 residential units located in Orange County, Florida.

Financial Statements

The accompanying financial statements were prepared pursuant to the requirements of Florida Statutes and the American Institute of Certified Public Accountants.

Fund Accounting

The Association presents its financial statements on the accrual basis using fund accounting. The financial statements are therefore segregated into funds based upon different funding policies established for operating and capital expenditures.

The Operating Fund reflects the maintenance assessments paid by unit owners to meet the regular, recurring costs of operations. Expenditures from this fund are limited to those connected with daily operations.

The Replacement Fund is composed of capital assessments paid by unit owners to fund future replacements and major repairs. Expenditures from this fund are restricted to those items for which assessments were specifically collected. Interest earned on replacement funds remains in the Replacement Fund and is allocated to the components based on their respective balances.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

Real and Common Area Property

The Association capitalizes all property and equipment to which it holds title or has other evidence of ownership. Real and common area property acquired from the developer is not capitalized in the Association's financial statements, as it is owned by the individual unit owners in common and not by the Association. As a result, improvements made to the real property and common areas are expensed as incurred.

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principals 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 expenditures during the reporting period. Actual results could differ from those estimates.

Concentrations of Risk

The Association maintains cash balances at several banks. Deposits at banks are insured by the Federal Deposit Insurance Corporation up to \$100,000. As of December 31, 2006, the uninsured portion of cash balances is \$232,041.

NOTE 2: RESERVE FOR MAJOR REPAIRS AND REPLACEMENTS

The Association accumulates funds for future major repairs and replacements. The funds are segregated and are not generally available for normal operational expenditures.

The Association's Board of Directors and Property Manager have estimated the remaining useful lives and current replacement costs of common property components. Estimates were based on professional judgment, which may include contractor estimates for major components. The Association is funding for major repairs and replacements over the remaining useful lives, 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.

Interest earned on replacement funds is allocated to individual replacement funds based upon their relative value to the total.

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 2: RESERVE FOR MAJOR REPAIRS AND REPLACEMENTS (Continued)

The following table presents significant information about the components of common property:

COMPONENT	BALANCE 12/31/05	FUNDING DURING YEAR	INTEREST & OTHER INCOME	CHARGES TO FUND/ TRANSFERS	BALANCE 12/31/06
General	\$ 378,676	\$ 55,302	\$ 8,257	\$ (117,160)	\$ 325,075
Unalloc. Interest	4,808	-	4,753	(6,789)	2,772
TOTAL	\$ 383,484	\$ 55,302	\$ 13,010	\$ (123,949)	\$ 327,847

NOTE 3: 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. Assessments receivable at the balance sheet date represent fees due from unit owners. It is the Association's policy to retain legal counsel and place liens on the property of delinquent homeowners. Assessments that have been deemed to be uncollectible as of the report date has been charged to bad debts. The allowance for uncollectible accounts is \$0 on December 31, 2006.

NOTE 4: INCOME TAXES

Homeowner associations may elect to be taxed as regular corporations or as homeowners' associations. With either election, the association is generally taxed only on its non-membership income, such as interest earnings.