

**WATERFORD LAKES
COMMUNITY ASSOCIATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2008

**JOSEPH R.
MICHALAK, LLC**
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Waterford Lakes Community Association, Inc.

We have audited the accompanying balance sheet of Waterford Lakes Community Association, Inc. as of December 31, 2008, 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, 2008, 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.

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. The Association has not presented this supplementary information.

J. Michalak, LLC

Joseph R. Michalak, LLC
Certified Public Accountant

Maitland, Florida
April 16, 2009

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

BALANCE SHEET

December 31, 2008

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
ASSETS:			
Cash, including interest-bearing deposits	\$ 264,480	\$ 343,300	\$ 607,780
Assessments receivable net of allowance (Note 3)	248,550	-	248,550
Prepaid expenses	6,260	-	6,260
Deposit	17,640	-	17,640
TOTAL ASSETS	<u>\$ 536,930</u>	<u>\$ 343,300</u>	<u>\$ 880,230</u>
LIABILITIES:			
Accounts payable and accrued expenses	\$ 120,180	\$ -	\$ 120,180
Assessments received in advance	224,440	-	224,440
TOTAL LIABILITIES	<u>344,620</u>	<u>-</u>	<u>344,620</u>
FUND BALANCE:	<u>192,310</u>	<u>343,300</u>	<u>535,610</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 536,930</u>	<u>\$ 343,300</u>	<u>\$ 880,230</u>

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

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

STATEMENT OF REVENUE AND EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended December 31, 2008

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTALS</u>
REVENUE:			
Assessments	\$ 1,429,780	\$ 68,900	\$ 1,498,680
Interest	6,140	10,780	16,920
Other	79,540	-	79,540
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TOTAL REVENUE	1,515,460	79,680	1,595,140
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EXPENDITURES:			
Lawn spraying	65,660	-	65,660
Site improvements	236,470	-	236,470
Utilities	97,780	-	97,780
Trash removal	2,450	-	2,450
Contract grounds maintenance	328,300	-	328,300
Irrigation repair	76,320	-	76,320
Other grounds maintenance	115,000	-	115,000
Lakes and waterways	22,390	-	22,390
Pool maintenance	15,730	-	15,730
Other pool and clubhouse costs	17,120	-	17,120
Janitorial	30,450	-	30,450
Contract management fee	182,880	-	182,880
Security	105,130	-	105,130
Office and other	34,990	-	34,990
Legal and accounting	85,810	-	85,810
Insurance	38,160	-	38,160
License and fees	360	-	360
Bad debt	132,570	-	132,570
Replacement expenditures	-	146,560	146,560
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TOTAL EXPENDITURES	1,587,570	146,560	1,734,130
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EXPENDITURES IN EXCESS OF REVENUE	< 72,110 >	< 66,880 >	< 138,990 >
	<hr/>	<hr/>	<hr/>
FUND BALANCE – Beginning of year	264,420	410,180	674,600
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FUND BALANCE – End of year	\$ 192,310	\$ 343,300	\$ 535,610
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The accompanying notes are an integral part of the financial statements.

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2008

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Expenditures in excess of revenue	\$ < 72,110 >	\$ < 66,880 >
Adjustment to reconcile excess of revenue over expenditures to net cash provided by operating activities:		
(Increase) decrease in:		
Assessments receivable	< 145,070 >	-
Prepaid expenses	< 1,030 >	-
Deposit	< 17,100 >	-
Increase (decrease) in:		
Accounts payable and accrued expenses	37,990	-
Assessments received in advance	34,810	-
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NET CASH PROVIDED (USED) BY OPERATIONS	< 162,510 >	< 66,880 >
CASH AT BEGINNING OF YEAR	<u>426,990</u>	<u>410,180</u>
CASH AT END OF YEAR	<u><u>\$ 264,480</u></u>	<u><u>\$ 343,300</u></u>

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

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Waterford Lakes Community Association, Inc. 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.

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.

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

Real and common area property owned by the Association is not recorded in the Association's financial statements as it was acquired in a nonmonetary transaction from the developer and the fair value of the assets cannot be reasonably determined. As a result, improvements made to the real property and common areas are not capitalized.

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 revenue and expenditures during the reporting period. Actual results could differ from those estimates.

WATERFORD LAKES COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 2: RESERVE FOR MAJOR REPAIRS AND REPLACEMENTS

The Association is funding for major repairs and replacements based on estimated current replacement costs. 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, the Association has the right to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

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

<u>COMPONENT</u>	<u>BALANCE 1/1/2008</u>	<u>FUNDING DURING YEAR</u>	<u>INTEREST INCOME</u>	<u>EXPENSES DURING YEAR</u>	<u>BALANCE 12/31/2008</u>
General	<u>\$ 410,180</u>	<u>\$ 68,900</u>	<u>\$ 10,780</u>	<u>\$ 146,560</u>	<u>\$ 343,300</u>

NOTE 3: MEMBER ASSESSMENTS

Association members are subject to assessments to provide funds for the Association's operating expenditures, 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 which have been deemed to be uncollectible as of the report date have been charged to bad debts.

NOTE 4: INCOME TAXES

Homeowners' 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.