

**WATERFORD LAKES  
COMMUNITY ASSOCIATION, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2009**

**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, 2009, 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, 2009, 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 supplementary information on future major repairs and replacements on page 9 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have compiled the supplementary information from information that is the representation of management of Waterford Lakes Community Association, Inc., without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

*J. Michalak, LLC*

Joseph R. Michalak, LLC  
Certified Public Accountant

Maitland, Florida  
February 24, 2010

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**

**BALANCE SHEET**

**December 31, 2009**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>ASSETS:</b>			
Cash, including interest-bearing deposits	\$ 243,940	\$ 468,820	\$ 712,760
Assessments receivable net of allowance ( Note 3 )	342,480	-	342,480
Prepaid expenses	7,700	-	7,700
Deposit	18,040	-	18,040
<b>TOTAL ASSETS</b>	<u>\$ 612,160</u>	<u>\$ 468,820</u>	<u>\$ 1,080,980</u>
<b>LIABILITIES:</b>			
Accounts payable and accrued expenses	\$ 56,710	\$ -	\$ 56,710
Assessments received in advance	180,190	-	180,190
<b>TOTAL LIABILITIES</b>	<u>236,900</u>	<u>-</u>	<u>236,900</u>
<b>FUND BALANCE:</b>	<u>375,260</u>	<u>468,820</u>	<u>844,080</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 612,160</u>	<u>\$ 468,820</u>	<u>\$ 1,080,980</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, 2009**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTALS</u>
<b>REVENUE:</b>			
Assessments	\$ 1,640,440	\$ 82,680	\$ 1,723,120
Interest	760	8,060	8,820
Other	105,860	1,700	107,560
	<hr/>	<hr/>	<hr/>
<b>TOTAL REVENUE</b>	<b>1,747,060</b>	<b>92,440</b>	<b>1,839,500</b>
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b>			
Repair and maintenance	9,830	-	9,830
Lawn spraying	64,950	-	64,950
Site improvements	36,570	-	36,570
Utilities	108,430	-	108,430
Trash removal	2,170	-	2,170
Contract grounds maintenance	339,610	-	339,610
Irrigation repair	47,960	-	47,960
Other grounds maintenance	101,180	-	101,180
Lakes and waterways	22,390	-	22,390
Pool maintenance	14,240	-	14,240
Other pool and clubhouse costs	16,270	-	16,270
Janitorial	33,920	-	33,920
Contract management fee	188,360	-	188,360
Security	108,420	-	108,420
Office and other	41,420	-	41,420
Legal and accounting	56,310	-	56,310
Insurance	38,080	-	38,080
License and fees	480	-	480
Bad debt	227,760	-	227,760
Replacement expenditures	-	72,680	72,680
	<hr/>	<hr/>	<hr/>
<b>TOTAL EXPENDITURES</b>	<b>1,458,350</b>	<b>72,680</b>	<b>1,531,030</b>
	<hr/>	<hr/>	<hr/>
<b>REVENUE IN EXCESS OF EXPENDITURES</b>	<b>288,710</b>	<b>19,760</b>	<b>308,470</b>
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCE – Beginning of year</b>	<b>192,310</b>	<b>343,300</b>	<b>535,610</b>
	<hr/>	<hr/>	<hr/>
<b>FUND TRANSFER</b>	<b>&lt; 105,760 &gt;</b>	<b>105,760</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCE – End of year</b>	<b>\$ 375,260</b>	<b>\$ 468,820</b>	<b>\$ 844,080</b>
	<hr/>	<hr/>	<hr/>

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

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**

**STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2009**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Revenue in excess of expenditures	\$ 288,710	\$ 19,760
Adjustment to reconcile excess of revenue over expenditures to net cash provided by operating activities:		
(Increase) decrease in:		
Assessments receivable	< 93,930 >	-
Prepaid expenses	< 1,440 >	-
Deposit	< 400 >	-
Increase (decrease) in:		
Accounts payable and accrued expenses	< 63,470 >	-
Assessments received in advance	< 44,250 >	-
<b>NET CASH PROVIDED (USED) BY OPERATIONS</b>	<b>85,220</b>	<b>19,760</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>264,480</b>	<b>343,300</b>
<b>FUND TRANSFER</b>	<b>&lt; 105,760 &gt;</b>	<b>105,760</b>
<b>CASH AT END OF YEAR</b>	<b><u>\$ 243,940</u></b>	<b><u>\$ 468,820</u></b>

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

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

**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, 2009**

**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 1/1/2009</u>	<u>FUNDING DURING YEAR</u>	<u>INTEREST AND OTHER INCOME</u>	<u>FUND TRANSFER</u>	<u>EXPENSES DURING YEAR</u>	<u>BALANCE 12/31/2009</u>
General	<u>\$ 343,300</u>	<u>\$ 82,680</u>	<u>\$ 9,760</u>	<u>\$ 105,760</u>	<u>\$ 72,680</u>	<u>\$ 468,820</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.

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2009**

**NOTE 5: COMMITMENTS AND CONTINGENCIES**

The Association has entered into various short-term contractual agreements with outside vendors and service providers to maintain its common property and to administer the Association. These contracts have different expiration dates and renewal terms.

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date that the financial statements were issued.

**NOTE 6: CONCENTRATIONS OF RISK**

The Association maintains its cash balances at several financial institutions. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2009, the uninsured portion of cash balances was \$63,120.



## SUPPLEMENTARY INFORMATION

**WATERFORD LAKES COMMUNITY ASSOCIATION, INC.**

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS  
(UNAUDITED)**

**December 31, 2009**

The Association's Board has estimated the remaining useful lives and the replacement costs of components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components. Estimated current replacement costs have not been revised and do not take into account the effects of inflation between the date of the estimate and the date that the components will require repair or replacement.

The following is based on the estimate and presents significant information about the components of common property:

<b>COMPONENT</b>	<b>ESTIMATED REMAINING USEFUL LIFE (YEARS)</b>	<b>ESTIMATED CURRENT REPLACEMENT COST</b>	<b>REPAIRS/REPLACEMENTS DECEMBER 31, 2009</b>
Painting	2-6	\$ 12,300	\$ 2,900
Roofing	2-18	13,900	800
Paving	2-5	70,000	67,300
Mechanical and electrical	1-13	6,500	2,500
Miscellaneous building	1-29	56,000	39,400
Site improvements	1-26	930,700	182,400
Furniture, fixtures and equipment	2-9	30,200	6,200
Irrigation	1-13	129,000	96,900
Entry features and signage	1-11	95,100	27,600
General	-	-	42,820
<b>TOTALS</b>		<b>\$ 1,343,700</b>	<b>\$ 468,820</b>