

DEVONWOOD COMMUNITY ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 2010

**JOSEPH V. MARULLO, SR. LLC**

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Certified Public Accountant

DEVONWOOD COMMUNITY ASSOCIATION, INC.

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TABLE OF CONTENTS  
December 31, 2010

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>FINANCIAL STATEMENTS:</b>	
Balance Sheet	2
Statement of Revenues, Expenses, and Changes in Fund Balances	3
Statement of Cash Flows	4
Notes to Financial Statements	5

# JOSEPH V. MARULLO, SR. LLC

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Certified Public Accountant

## INDEPENDENT AUDITOR'S REPORT


Board of Directors  
Devonwood Community Association, Inc.  
Orlando, Florida

I have audited the accompanying balance sheet of Devonwood Community Association, Inc. 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Devonwood Community Association, Inc. 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.

Management has omitted the required supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic statements. Such missing 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. My opinion on the basic financial statements is not affected by the missing information.

  
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Joseph V. Marullo, Sr., CPA LLC

Orlando, Florida  
March 4, 2011

DEVONWOOD COMMUNITY ASSOCIATION, INC.  
BALANCE SHEET  
December 31, 2010

	Operating Fund	Replacement Fund	Total
<b>ASSETS</b>			
Cash	\$ 5,490	\$ 1,447	\$ 6,937
Investment	-	19,243	19,243
Assessments receivable, net of allowance for doubtful accounts of \$2,062	20,609	-	20,609
Due from Operating Fund	-	13	13
Deposits	1,317	-	1,317
	<u>\$ 27,416</u>	<u>\$ 20,703</u>	<u>\$ 48,119</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Prepaid assessments	\$ 5,100	\$ -	\$ 5,100
Due to Replacement Fund	13	-	13
	<u>5,113</u>	<u>-</u>	<u>5,113</u>
<b>TOTAL LIABILITIES</b>	<u>5,113</u>	<u>-</u>	<u>5,113</u>
<b>FUND BALANCES</b>	<u>22,303</u>	<u>20,703</u>	<u>43,006</u>
	<u>\$ 27,416</u>	<u>\$ 20,703</u>	<u>\$ 48,119</u>

The accompanying notes are an integral part of this statement.

DEVONWOOD COMMUNITY ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES  
For the Year Ended December 31, 2010

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Assessments	\$ 73,360	\$ 2,000	\$ 75,360
Interest income	-	330	330
Other	755	-	755
	<u>\$ 74,115</u>	<u>\$ 2,330</u>	<u>\$ 76,445</u>
<b>EXPENSES</b>			
Building maintenance	\$ 3,767	\$ -	\$ 3,767
Grounds maintenance	32,339	-	32,339
Pool/recreation	14,727	-	14,727
Professional fees	6,772	-	6,772
Licenses, fees, and taxes	435	-	435
Insurance	2,936	-	2,936
Management fees	9,696	-	9,696
Postage and printing	1,643	-	1,643
Office expenses	119	-	119
Security service	18,858	-	18,858
Miscellaneous	1,708	-	1,708
Bad debt expense	365	-	365
Major repairs and replacements	-	175	175
	<u>93,365</u>	<u>175</u>	<u>93,540</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	(19,250)	2,155	(17,095)
<b>FUND BALANCES - (DEFICIT) - BEGINNING</b>	(10,006)	70,107	60,101
<b>TRANSFER BETWEEN FUNDS</b>	<u>51,559</u>	<u>(51,559)</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 22,303</u>	<u>\$ 20,703</u>	<u>\$ 43,006</u>

The accompanying notes are an integral part of this statement.

DEVONWOOD COMMUNITY ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2010

	Operating Fund	Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from assessments	\$ 69,994	\$ 1,870	\$ 71,864
Interest received	-	330	330
Other income	745	-	745
Deposits	(749)	-	(749)
Operating expenses paid	(92,990)	-	(92,990)
Replacement expenses paid	-	(175)	(175)
Net change in fund balances	<u>17,175</u>	<u>(17,175)</u>	<u>-</u>
CASH (USED) BY OPERATING ACTIVITIES	<u>(5,825)</u>	<u>(15,150)</u>	<u>(20,975)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of investments	<u>-</u>	<u>15,982</u>	<u>15,982</u>
NET INCREASE (DECREASE) IN CASH	(5,825)	832	(4,993)
CASH - BEGINNING OF YEAR	<u>11,315</u>	<u>615</u>	<u>11,930</u>
CASH - END OF YEAR	<u>\$ 5,490</u>	<u>\$ 1,447</u>	<u>\$ 6,937</u>
 <b>RECONCILIATION OF EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES TO CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Excess (deficiency) of revenues over expenses	\$ (19,250)	\$ 2,155	\$ (17,095)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable (net)	(6,894)	-	(6,894)
Due from Operating Fund	-	(17,305)	(17,305)
Deposits	(749)	-	(749)
Increase (decrease) in:			
Due to Replacement Fund	17,305	-	17,305
Prepaid assessments	<u>3,763</u>	<u>-</u>	<u>3,763</u>
CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (5,825)</u>	<u>\$ (15,150)</u>	<u>\$ (20,975)</u>

The accompanying notes are an integral part of this statement.

DEVONWOOD COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ORGANIZATION

Devonwood Community Association, Inc. (the Association), is incorporated under the laws of the State of Florida as a not-for-profit corporation for the purpose of the operation and maintenance of the common property of the development located in Orlando, Florida. Membership in the Association consists of 157 residential units. The Association is managed by the Board of Directors (the Board).

The Board has contracted with Property First, Inc. (the Property Manager) to manage the property.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Association, the Association maintains its accounts in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. The financial activities of the Association are reported in funds as follows:

Operating Fund - 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 manager.

Replacement Fund - used to account for assessments made for major repairs and replacement of common property, and related expenses. Disbursements from the Replacement Fund may only be utilized in accordance with the purposes established by the Board of Directors and the Association membership.

Property and Equipment

Real property owned by individual unit owners in common and improvements to such property are not capitalized in the financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

DEVONWOOD COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Date of Management's Review

In preparing the financial statements, the Association's management has evaluated events and transactions for potential recognition or disclosure through March 4, 2011, which is the date the financial statements were available.

Member Assessments

Association members are subject to quarterly 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. 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. The Association provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting the receivable. At December 31, 2010, the Association had assessments receivable of \$20,609, net of allowance of doubtful accounts of \$2,062.

Quarterly assessments to members were \$120 during the year ended December 31, 2010. \$12.74 per unit during the year was designated for the replacement fund.

Investment

The Association invests in a certificate of deposit that is valued at cost plus accrued interest, which approximates market. The investment matures in 2011.

Statement of Cash Flows

The Association considers all investments with an original maturity of three months or less to be cash equivalents.

NOTE C - INCOME TAXES

Homeowners' associations may elect to be taxed as regular corporations or as homeowner's associations. The Association elected to be taxed as a homeowner's association for the year ended December 31, 2010 and filed Form 1120-H. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. There were no income taxes due for the year ended December 31, 2010.

DEVONWOOD COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE C - INCOME TAXES - Continued

Under federal and state income tax laws, the Association's income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected by a taxing authority for examination is generally three years from the due date of the tax return including extensions. At December 31, 2010 the Association's tax years that remain subject to examination are 2007-2010. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances. The Association continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

NOTE D - FUTURE MAJOR REPAIRS AND REPLACEMENTS

Florida Statutes allow homeowners' associations to budget reserve accounts for capital expenditures and deferred maintenance for which the association is responsible. An association shall be deemed to have provided for reserve accounts when reserve accounts have been initially established by the developer or when the membership of the association affirmatively elects to provide for reserves. Once an association provides for reserve accounts in the budget, the association shall thereafter determine, maintain, and waive reserves in compliance with the Florida Statutes. Accumulated funds, which aggregate \$20,690 at December 31, 2010, are held in separate bank accounts and are not generally available for operating purposes. The Board has not conducted a study to estimate the remaining useful lives and the replacement costs of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or 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:

COMMON AREA COMPONENT	Balance January 1, 2010	Additions to Fund	Charges to Fund	Transfers	Balance December 31, 2010
Tennis courts	\$ 37,104	\$ -	\$ -	\$ (37,104)	\$ -
Signs & walls	(19,763)	-	-	19,763	-
Pool resurface & deck	50,630	1,000	-	(37,108)	14,522
Cabana	6,065	1,000	-	(6,733)	332
Fence	(22,144)	-	-	22,144	-
General	16,608	-	-	(10,760)	5,848
Interest	1,607	330	175	(1,761)	1
	<u>\$ 70,107</u>	<u>\$ 2,330</u>	<u>\$ 175</u>	<u>\$ (51,559)</u>	<u>\$ 20,703</u>

DEVONWOOD COMMUNITY ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE D - FUTURE MAJOR REPAIRS AND REPLACEMENTS - Continued

**LIMITED RESERVES INCLUDED IN BUDGET**

THE BUDGET FOR THE ASSOCIATION PROVIDES FOR LIMITED VOLUNTARY DEFERRED EXPENDITURES ACCOUNTS, INCLUDING CAPITAL EXPENDITURES AND DEFERRED MAINTENANCE...BECAUSE THE OWNERS HAVE NOT ELECTED TO PROVIDE FOR RESERVE ACCOUNTS PURSUANT TO SECTION 720.303(6) FLORIDA STATUTES, THESE FUNDS ARE NOT SUBJECT TO THE RESTRICTIONS ON USE OF SUCH FUNDS SET FORTH IN THAT STATUTE NOR ARE RESERVES CALCULATED IN ACCORDANCE WITH THAT STATUTE.

NOTE E - SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes paid	<u>\$0</u>
Interest paid	<u>\$0</u>