



Lake Monticello Owners' Association

Financial Statements

Year Ended December 31, 2008



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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT

### TO THE BOARD OF DIRECTORS AND MEMBERS LAKE MONTICELLO OWNERS' ASSOCIATION

We have audited the accompanying balance sheet of Lake Monticello Owners' Association as of December 31, 2008, and the related statements of revenue and expenses, changes in Association equity, 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. The prior year comparative information has been derived from the Association's 2007 financial statements and, in our report dated April 1, 2008, we expressed an unqualified opinion on those financial statements.

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, based on our audit, the financial statements referred to above present fairly in all material respects, the financial position of Lake Monticello Owners' Association as of December 31, 2008, and the results of its operations and cash flows and changes in Association equity 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 supplemental schedules and supporting data as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information, except as stated below, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We have not audited the supporting data on future major repairs and replacements and, accordingly, express no opinion on it.

*Robinson, Farmer, Cox Associates*

Charlottesville, Virginia  
April 27, 2009

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## Financial Statements

**LAKE MONTICELLO OWNERS' ASSOCIATION**

Balance Sheet

At December 31, 2008  
(With Comparative Totals for 2007)

Assets	2008	2007
Cash, including interest bearing deposits	\$ 783,852	\$ 903,509
Investments available for resale, at fair market value	7,616,851	8,077,534
Assessments receivable, less allowance for uncollectibles of \$87,487 and \$101,062	222,840	181,741
Other receivables	44,571	43,350
Accrued interest receivable	59,824	87,946
Prepaid expenses	92,665	79,848
Inventories	33,707	47,260
Fixed assets, net of accumulated depreciation	5,560,640	4,369,788
Total assets	\$ 14,414,950	\$ 13,790,976
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 314,800	\$ 351,375
Refundable owners' building deposits	9,010	23,827
Bar code deposits	2,010	1,680
Notes payable	332,693	-
Capital lease obligation	24,050	-
Deferred revenues:		
Assessments and fees received in advance	900,096	486,931
Total liabilities	\$ 1,582,659	\$ 863,813
<b>Association Equity</b>		
Reserved:		
Swimming pool construction	\$ 299,326	\$ 656,835
Major repairs and replacements	229,277	279,405
Lake preservation	188,238	91,577
Roads/new home construction	38,480	1,265
Capital projects - property transfer fees	197,839	310,314
Restricted:		
Proceeds from sale of Lake Monticello Service Company	6,630,063	6,630,063
Undesignated reserves	92,389	88,960
Investment in net property and equipment	5,203,897	4,369,788
Unreserved/undesignated	197,820	392,341
Accumulated other comprehensive income	(245,038)	106,615
Total association equity	\$ 12,832,291	\$ 12,927,163
Total liabilities and association equity	\$ 14,414,950	\$ 13,790,976

The accompanying notes to financial statements are an integral part of this statement.

**LAKE MONTICELLO OWNERS' ASSOCIATION**

Statement of Revenues and Expenses

Year Ended December 31, 2008  
(With Comparative Totals for 2007)

	<b>2008</b>	<b>2007</b>
<b>Revenues</b>		
Owner dues, assessments and related charges	\$ 2,899,566	\$ 2,803,175
Property transfer fees	129,650	156,500
Environmental control committee fees	22,885	17,558
Recreation fees	250,656	236,489
Golf and related fees	674,189	686,652
Sales of merchandise and related items, less cost of sales of \$248,635 and \$263,030	126,978	163,841
Barcode income	86,571	94,865
Cable income	125,521	119,607
Interest/investment income, net	358,942	537,851
New home construction fee	29,762	31,781
Other	70,397	94,218
Total revenues	\$ 4,775,117	\$ 4,942,537
<b>Expenses</b>		
Administrative services	\$ 1,019,382	\$ 1,005,452
General maintenance	554,103	533,659
Recreation	224,888	207,877
Pool snack bar	20,501	16,130
Eagles Nest	143,523	153,559
Golf	841,354	794,423
Security	800,317	783,779
Other	914,268	1,342,678
Total expenses	\$ 4,518,336	\$ 4,837,557
<b>Excess of revenues over expenses</b>	\$ 256,781	\$ 104,980
<b>Net unrealized gains (losses) on investments</b>	(351,653)	92,122
<b>Net changes in equity</b>	\$ (94,872)	\$ 197,102

The accompanying notes to financial statements are an integral part of this statement.

**LAKE MONTICELLO OWNERS' ASSOCIATION**

Statement of Changes in Association Equity

Year Ended December 31, 2008  
(With Comparative Totals for 2007)

	Reserved					
	Swimming Pool Construc- tion	Major Repairs and Replace- ments	Roads- Dues	Roads- New Home Fees	Capital Projects Property Transfer Fee	Lake Preserv- ation
Association equity, January 1, 2007	\$ 645,830	\$ 376,997	\$ -	\$ -	\$ 363,187	\$ -
Excess (deficiency) of revenues over expenses	14,819	8,834	-	32,200	164,788	-
Net unrealized gains (losses) on investments	-	-	-	-	-	-
Transfers						
Depreciation recovery	-	277,535	-	-	-	-
Operating contribution	(3,814)	(1,875)	-	(193)	-	31,525
Roads	-	-	-	(30,742)	-	-
Road dues	-	-	-	-	-	-
Lake dues	-	-	-	-	-	60,052
Other	-	-	-	-	-	-
Property and equipment:						
Acquisitions	-	-	-	-	(217,661)	-
Dispositions	-	-	-	-	-	-
Special projects	-	(382,086)	-	-	-	-
Association equity, December 31, 2007	\$ 656,835	\$ 279,405	\$ -	\$ 1,265	\$ 310,314	\$ 91,577
Excess (deficiency) of revenues over expenses	10,702	6,511	1,458	752	4,734	4,973
Net unrealized gains (losses) on investments	-	-	-	-	-	-
Transfers						
Depreciation recovery	-	319,886	-	-	-	-
Road dues	-	-	115,900	-	-	-
Lake dues	-	-	-	-	-	222,528
New home fees	-	-	-	29,762	-	-
Property transfer fees	-	-	-	-	129,650	-
Property and equipment:						
Acquisitions	(328,989)	(358,301)	-	-	(232,301)	(39,879)
Outstanding balance of debt acquired to finance fixed assets	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-
Special projects	(39,222)	(18,224)	(110,657)	-	(14,558)	(90,961)
Association equity, December 31, 2008	\$ <u>299,326</u>	\$ <u>229,277</u>	\$ <u>6,701</u>	\$ <u>31,779</u>	\$ <u>197,839</u>	\$ <u>188,238</u>

<u>Restricted</u>						
<u>Sale of</u>					<u>Accumulated</u>	
<u>Lake</u>				<u>Un-</u>	<u>Other</u>	
<u>Monticello</u>	<u>Undesig-</u>	<u>Investment</u>		<u>reserved/</u>	<u>Compre-</u>	
<u>Service</u>	<u>nated</u>	<u>in Property</u>		<u>Un-</u>	<u>hensive</u>	
<u>Company</u>	<u>Reserves</u>	<u>and</u>		<u>designated</u>	<u>Income</u>	<u>Total</u>
		<u>Equipment</u>				
\$ 6,630,063	\$ 21,857	\$ 3,833,972	\$	\$ 843,662	\$ 14,493	\$ 12,730,061
-	67,937	(277,536)		93,938	-	104,980
-	-	-		-	92,122	92,122
-	-	-		(277,535)	-	-
-	(834)	-		(24,809)	-	-
-	-	-		30,742	-	-
-	-	-		-	-	-
-	-	-		(60,052)	-	-
-	-	-		-	-	-
-	-	813,352		(595,691)	-	-
-	-	-		-	-	-
-	-	-		382,086	-	-
\$ 6,630,063	\$ 88,960	\$ 4,369,788	\$	\$ 392,341	\$ 106,615	\$ 12,927,163
-	3,429	(319,886)		544,108	-	256,781
-	-	-		-	(351,653)	(351,653)
-	-	-		(319,886)	-	-
-	-	-		(115,900)	-	-
-	-	-		(222,528)	-	-
-	-	-		(29,762)	-	-
-	-	-		(129,650)	-	-
-	-	1,512,526		(553,056)	-	-
-	-	(356,743)		356,743	-	-
-	-	(1,788)		1,788	-	-
-	-	-		273,622	-	-
\$ <u>6,630,063</u>	\$ <u>92,389</u>	\$ <u>5,203,897</u>	\$	\$ <u>197,820</u>	\$ <u>(245,038)</u>	\$ <u>12,832,291</u>

**LAKE MONTICELLO OWNERS' ASSOCIATION**

Statement of Cash Flows

Year Ended December 31, 2008  
(With Comparative Totals for 2007)

	2008	2007
<b>Cash flows from operating activities:</b>		
Net change in equity	\$ (94,872)	\$ 197,102
Adjustments to reconcile net cash provided (used) by operating activities:		
Depreciation	319,886	277,536
Provision for uncollectibles	(7,745)	15,561
Unrealized (gains) losses on investments	351,653	(92,122)
Gain on disposal of assets	(2,512)	-
Changes in:		
Receivables, net of write-offs	(34,575)	(7,192)
Accrued interest receivable	28,122	(2,700)
Prepaid expenses	(12,817)	(1,598)
Inventories	13,553	(4,407)
Accounts payable and accrued expenses	(36,575)	39,748
Refundable owners' building deposits	(14,817)	(18,330)
Barcode deposits	330	60
Assessments and fees received in advance	413,165	214,504
Net cash provided (used) by operating activities	\$ 922,796	\$ 618,162
<b>Cash flows from investing activities:</b>		
Sale (purchase) of investments, net	\$ 109,030	\$ 574,142
Proceeds from sale of fixed assets	4,300	-
Purchase of fixed assets	(1,134,297)	(813,352)
Net cash provided (used) by investing activities	\$ (1,020,967)	\$ (239,210)
<b>Cash flows from financing activities:</b>		
Principal repayments on capital leases	\$ (21,486)	\$ -
Net cash provided (used) by financing activities	\$ (21,486)	\$ -
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ (119,657)	\$ 378,952
<b>Cash and cash equivalents, beginning of year</b>	903,509	524,557
<b>Cash and cash equivalents, end of year</b>	\$ 783,852	\$ 903,509
<b>Supplementary cash flow information:</b>		
Cash paid for interest during year	\$ 6,732	\$ -
Non-cash investing and financing activities:		
Notes payable proceeds	\$ 348,457	\$ -
Capital lease proceeds	29,772	-
Fixed assets purchased under capital lease	(378,229)	-
Total non-cash investing and financing activities	\$ -	\$ -

The accompanying notes to financial statements are an integral part of this statement.

**LAKE MONTICELLO OWNERS' ASSOCIATION**

Notes to Financial Statements  
As of December 31, 2008

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**NOTE 1—ORGANIZATION AND PURPOSE:**

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Lake Monticello Owners' Association (the "Association") is a non-stock corporation chartered on July 8, 1971 in the Commonwealth of Virginia. The purpose of the Association is to provide security to the Lake Monticello development, and operate and maintain the recreational facilities and common areas of the development. The development consists of approximately 4,600 residential lots covering approximately 3,500 acres in Fluvanna County, Virginia. Management of the Association is the responsibility of an elected Board of Directors and its contracted general manager.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting.

Property and Equipment - All fixed assets of the Association in excess of \$500 are valued at historical cost or estimated historical cost if actual cost is not available. Donated fixed assets are valued at fair market value as of the date received. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method as follows:

Equipment	2-8 years
Furniture & Fixtures	2-10 years
Vehicles	3-4 years
Buildings & Equipment	10-50 years

Inventories - Association inventories are stated at lower of cost or market using the first-in, first-out (FIFO) basis.

Accounts Receivable - Association members are subject to annual dues to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable at the balance sheet date represent balances due from property owners. The Association's policy is to place liens and retain legal counsel as necessary, within the time allowed by law, on properties of owners whose accounts are delinquent. Receivables are considered delinquent when amounts have not been received within 30 days of their due dates.

Investments - Investments are recorded at fair market value.

Accumulated Compensated Absences - The Association records compensated absences for vacation when earned. This amounted to \$83,185 at December 31, 2008 and \$82,369 at December 31, 2007. These amounts are reported in accounts payable and accrued expenses on the balance sheet.

Income Taxes - Pursuant to letters from the Internal Revenue dated December 21, 1972 and March 31, 1982 the Association is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501 (c) (4).

Dues and Assessments - Membership dues and assessments are assessed on an annual basis as more fully described in Note 6.

## LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

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### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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Franchise Fees - The Association recognizes television cable franchise revenue as it is earned. The revenue is based upon a percentage of revenue generated from subscribers residing within the Association boundaries.

New Home/Initial Home Construction Fees - Initial home construction fees represent amounts received by the Association for the review of applications associated with construction of new homes, and to partially offset the accelerated wear and tear on Association roads due to heavy construction vehicle traffic. The Association is required by Court Order to match these fees from any other source at a rate at least equal to \$30 for each \$70 received in New Home/Initial Home Construction Fees. Cash is collected for new home construction fees upon the commencement of lot clearing.

Property Transfer Fees - Property transfer fees are assessed against each new owner of property in the Association except in instances where the transfer of property is by gift among certain family members, transfers to a trust where the owner is the beneficiary, and transfers to Lake Monticello Owners' Association. The fee is due and payable when the property is sold or transferred to a new owner, pursuant to exceptions described above, and also except for property purchased for resale as an improved lot. When property is purchased for resale as an improved lot, the fee is due when the property is sold as an improved lot or within twelve months after the property is purchased. If the property transfer fee is not paid within such twelve month period as a result of the subsequent resale of the improved lot, the property transfer fee shall become due and payable immediately. The property transfer fee is reserved for capital projects expenditures.

Property transfer fees were charged at a rate of \$500 per lot through August 31, 2008. Effective September 1, 2008 the rate was increased to \$650 per lot. The rate increase was approved by the Owners by proxy on June 28, 2008.

Cash and Cash Equivalents - For financial reporting purposes the Association considers all highly liquid temporary cash investments with maturities generally of three months or less to be cash equivalents.

Common Property - The Association holds title to common property consisting of the following:

1. A golf course, clubhouse and pool facilities, pro-shop, marina and related recreational facilities, restrooms, tennis courts, and equipment storage and maintenance facilities. These properties and facilities are used to generate or, are related to the generation of, significant cash flows from members and non-members on the basis of usage.
2. Other common real property such as roads, greenbelts, a lake of approximately 350 acres, and other similar areas. This common property:
  - a. Is not used to generate significant cash flows from members and non-members on the basis of usage.
  - b. Cannot readily be sold.
3. Other property consisting of equipment, furniture and fixtures.

The Association is responsible for preserving and maintaining all common property.

## LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

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### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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Concentration of Credit Risk: Financial instruments which potentially subject the Association to concentration of credit risk consist primarily of investments. At December 31, 2008, the Association's investments consist of low credit-risk investments such as U.S. Treasury and Agency issues and AAA rated or insured corporate debt securities which are subject to market-risk due to changes in the general level of interest rates and in market conditions. Money market funds are generally invested in short term government securities with minimal credit or market risk. The Association investment accounts are not covered by federal or other insurance, but are insulated against the potential financial failure of the Association's broker/dealer by protection offered by Securities Investor Protection Corporation and similarly-structured supplemental protection provided by independent insurers. Bank balances at December 31, 2008 and 2007 exceeded federally insured limits imposed on financial institutions in the amount of \$399,861 and \$748,353 respectively. Bank accounts are maintained only with high credit quality financial institutions.

The Association utilizes three banks and has two accounts in each bank.

There are no significant concentrations of credit risk arising from receivables. See Note 6 for additional details.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and disclosure of contingent liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

Accumulated Other Comprehensive Income: Accumulated other comprehensive income consists of unrealized gains or losses on securities held for sale.

Comparative Totals: Comparative prior year totals are presented for information purposes only. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2007, from which the summarized information was derived. Improved property assessments and expenses for 2007 have been reclassified to revenues and operating expenses to be comparable to the 2008 financial statement presentation. These amounts were previously reported as net expenses in other expenses.

Reclassifications of prior year balances: Certain reclassifications were made to the beginning balances of association equity accounts for 2007 and 2008 to correctly state reserved amounts.

In 2007, a reclassification was made in the amount of \$267,556 to decrease the opening balance of unreserved/undesignated equity, and to increase the opening balance of reserved equity for major repairs and replacements for the balance of the depreciation escrow account, which is a component of the major repairs and replacement reserve.

In 2008, a reclassification was made in the amount of \$372,270 to decrease the opening balance of unreserved equity, to increase the opening balance of reserved equity for major repairs and replacements in the amount of \$280,693, and to increase the opening balance of reserved equity for lake preservation in the amount of \$91,577. The increase in the major repairs and replacements reserve was recorded to reflect the balance of the depreciation escrow account. The increase in the lake preservation reserve was recorded to reflect unexpended 2007 dues of \$60,052, and a 2007 board approved contribution of \$31,525.

Details of prior period adjustments are described in Note 21.

## LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

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### NOTE 3—CASH AND CASH EQUIVALENTS:

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Cash and cash equivalents consist of the following:

	<u>2008</u>	<u>2007</u>
Cash on hand	\$ 1,545	\$ 1,495
Cash in banks	<u>782,307</u>	<u>902,014</u>
Total	<u>\$ 783,852</u>	<u>\$ 903,509</u>

The Association utilized three banks for its deposit and check writing activities during the year. Included in cash in banks are repurchase agreements totaling \$298,840 and \$328,179 at December 31, 2008 and 2007, respectively. The Association does not have a policy for requiring the collateralization of repurchase agreements.

### NOTE 4—RESTRICTED AND RESERVED CASH AND INVESTMENTS:

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Cash and investments are restricted for the following purposes:

Proceeds from sale of Lake Monticello Service Company-only earnings may be used for Association operations	<u>\$ 6,630,063</u>
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Cash and investments are reserved for the following purposes:

	<u>2008</u>	<u>2007</u>
Major repairs and replacements (future years)	\$ 229,277	\$ 279,405
Swimming pool construction *	49,326	406,834
Roads - new home fees and dues	38,480	-
Lake preservation	188,238	91,577
Capital projects - property transfer fees	<u>188,720</u>	<u>302,045</u>
Total reserved cash and investments	<u>\$ 694,041</u>	<u>\$ 1,079,861</u>

\* \$250,000 of swimming pool funds were used for roads in 2004. No reimbursements have been made to the pool funds as of December 31, 2008.

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

NOTE 5—INVESTMENTS:

Investments are available for resale but are anticipated to be held to maturity, and are recorded at fair market value as of December 31, 2008. The Association contracts with investment management companies to invest its cash on a temporary basis. The Association Board of Directors also appoints an investment committee to oversee the investment of Association funds and assure compliance with Association investment policies. A summary of these investments at December 31, 2008 is as follows:

	Debt obligations -		Fair Market Value	
	Maturities at December 31, 2008	Cost Basis*	2008	2007
Investments with Smith Barney, Inc.				
Cash and money market funds	\$ -	\$ 1,682,490	\$ 1,682,490	\$ 447,355
Corporate debt	2009-2027	600,595	495,561	2,737,882
U.S. Government Securities	2009-2045	754,693	581,542	2,912,215
Exchange traded and closed funds	-	2,262,299	2,207,466	
Mutual funds	-	783,812	856,550	267,507
Certificates of deposit	2009-2013	1,778,000	1,793,242	1,712,575
Total		\$ 7,861,889	\$ 7,616,851	\$ 8,077,534

\* Amortized Cost

Premiums purchased and discounts received on the purchase of securities, when material in amount, are amortized over the period between the purchase date and maturity date of the security.

The following is a summary of investment activity for the respective years.

	2008	2007
Sales and redemptions of securities	\$ 2,571,952	\$ 1,633,745
Gross realized gains	\$ 7,170	\$ 17,894
Gross realized losses	(1,499)	(1,210)
Net realized gains	\$ 5,671	\$ 16,684
Net unrealized gains (losses) at December 31:		
Gains	\$ 99,161	\$ 132,616
Losses	(344,199)	(26,001)
Net unrealized gains (losses)	\$ (245,038)	\$ 106,615

The specific identification method was used in determining the cost of securities for the calculation of realized gains and losses. These net realized gains and losses are included in investment income in the Statement of Revenues and Expenses.

See Note 16 for additional details of investment income.

## LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

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### NOTE 6—ACCOUNTS RECEIVABLE/DUES AND ASSESSMENTS:

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Association dues are assessed on numbered residential lots and Marina Point Units as of January 1, and may be attached as enforceable liens on property as of January 31. Dues, assessments and fees are due in January of each year.

It is the practice of the Association to bill property owners for the entire annual billings in December of the year preceding the year for which they are assessed. The owners have the option of paying annual assessments in lump sum by January 31st of each year or in semi-annual or monthly installments. Dues, assessments and fees collected for the subsequent years are recorded as deferred revenue. Dues, assessments and accounts receivable are deemed delinquent when payment has not been received by contractual dates. Finance charges are assessed on delinquent amounts after they are past due at the rate of 1.5% per month on the unpaid dues balance.

The Association computes its allowance for uncollectible accounts receivable based on trend analysis and other considerations. The allowance for uncollectibles has been estimated at \$87,487 and \$101,062 at December 31, 2008 and 2007, respectively. Uncollectible accounts are charged off when management has exhausted all available legal collection procedures.

There are three substantially delinquent accounts which total \$61,543 or approximately 70% of the balance of dues receivable as of December 31, 2008.

Summary of accounts and dues receivable at December 31:

	<u>2008</u>	<u>2007</u>
Dues and finance charges	\$ 310,327	\$ 282,803
Allowance for uncollectible dues	<u>(87,487)</u>	<u>(101,062)</u>
Net dues receivable	<u>\$ 222,840</u>	<u>\$ 181,741</u>
Other receivables:		
Property transfer fees	\$ 3,900	\$ 1,500
Cable franchise fee	31,933	30,842
Virginia Department of Environmental Quality	6,654	6,654
Others	<u>2,084</u>	<u>4,354</u>
Total other receivables	<u>\$ 44,571</u>	<u>\$ 43,350</u>

**LAKE MONTICELLO OWNERS' ASSOCIATION**

Notes to Financial Statements  
As of December 31, 2008 (Continued)

**NOTE 7—INVENTORIES:**

Association inventories at December 31, consisted of the following:

	<u>2008</u>	<u>2007</u>
Food and beverages	\$ 7,371	\$ 4,548
Paper supplies	1,744	1,732
Gasoline for resale	6,596	9,449
Maintenance gasoline	5,974	4,891
Merchandise and supplies for resale	<u>12,022</u>	<u>26,640</u>
Total	<u>\$ 33,707</u>	<u>\$ 47,260</u>

**NOTE 8—FIXED ASSETS:**

Changes in fixed assets during the year are as follows:

	<u>Balance January 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2008</u>
Land	\$ 580,827	\$ -	\$ -	\$ 580,827
Golf course	865,000	-	-	865,000
Construction in progress	16,750	187,491		204,241
Buildings and facilities	1,146,770	400,750	-	1,547,520
Automobiles and trucks	386,785	105,982	35,354	457,413
Equipment	1,503,896	528,819	16,422	2,016,293
Furniture and fixtures	127,489	35,470	3,882	159,077
Improvements to buildings and recreational areas	<u>3,207,303</u>	<u>254,014</u>	<u>34,813</u>	<u>3,426,504</u>
Total	\$ 7,834,820	\$ 1,512,526	\$ 90,471	\$ 9,256,875
Accumulated depreciation	<u>\$ (3,465,032)</u>	<u>\$ (319,886)</u>	<u>\$ (88,683)</u>	<u>\$ (3,696,235)</u>
Net fixed assets	<u>\$ 4,369,788</u>	<u>\$ 1,192,640</u>	<u>\$ 1,788</u>	<u>\$ 5,560,640</u>

**LAKE MONTICELLO OWNERS' ASSOCIATION**

Notes to Financial Statements  
As of December 31, 2008 (Continued)

**NOTE 8—FIXED ASSETS: (Continued)**

Fixed assets were derived from the following sources:

	<u>2008</u>	<u>2007</u>
Association revenues	\$ 7,333,620	\$ 6,289,794
Notes payable and capital lease proceeds	378,229	-
Original developer contributions *	<u>1,545,026</u>	<u>1,545,026</u>
Total	<u>\$ 9,256,875</u>	<u>\$ 7,834,820</u>

\* This represents the value of fixed assets (primarily golf course, club and other recreational facilities and common areas) turned over to the Association by the developer. The values were determined by obtaining the approximate cost of the facilities from the developer.

**NOTE 9—DEFERRED REVENUES:**

Deferred revenues and deposits represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Association deferred revenues at December 31, 2008 and 2007 totaled \$900,096 and \$486,931, respectively, and are comprised of dues, assessments, fees and other receipts collected in the current year. These deferred revenues are applicable to the subsequent year.

**NOTE 10—NOTES PAYABLE:**

The Association executed three notes payable with commercial lenders during 2008 in order to finance the purchase of heavy equipment to be used for lake improvements and general maintenance. The following is a summary of transactions related to the notes payable for the year ended December 31, 2008.

	<u>Balance December 31, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2008</u>
Note payable for grapple truck	\$ -	\$ 127,521	\$ 5,227	\$ 122,294
Note payable for amphibious excavator and barge	-	161,000	4,224	156,776
Note payable for track loader	-	59,936	6,313	53,623
	<u>\$ -</u>	<u>\$ 348,457</u>	<u>\$ 15,764</u>	<u>\$ 332,693</u>

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

NOTE 10—NOTES PAYABLE: (Continued)

Annual requirements to amortize the notes payable and related interest are as follows:

Year Ending December 31,	Principal	Interest
2009	\$ 63,355	\$ 16,610
2010	66,893	13,073
2011	70,629	9,337
2012	74,574	5,418
2013	57,242	1,360
Total	<u>\$ 332,693</u>	<u>\$ 45,798</u>

Details of notes payable are as follows:

	<u>Amount Outstanding</u>	<u>Amount Due in One Year</u>
\$127,521 note payable issued August 28, 2008, secured by grapple truck and by minimum account balance required to be maintained (see Note 15). Due in monthly installments of principal and interest of \$2,443 through September 1, 2013, with an interest rate of 5.5% per annum.	\$ 122,294	\$ 23,166
\$161,000 note payable issued September 30, 2008, secured by amphibious excavator and barge and by minimum account balance required to be maintained (see Note 15). Due in monthly installments of principal and interest of \$3,102 through October 4, 2013, with an interest rate of 5.75% per annum.	\$ 156,776	\$ 28,970
\$59,936 note payable issued May 7, 2008, secured by track loader. Due in monthly installments of principal and interest of \$1,118 through May 7, 2013, with an interest rate of 4.54% per annum.	<u>53,623</u>	<u>11,219</u>
	<u>\$ 332,693</u>	<u>\$ 63,355</u>

## LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

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### NOTE 11—CAPITAL LEASE OBLIGATION:

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The Association entered into a noncancellable lease agreement for a sidewinder mower in March 2008. The present value of the minimum lease payments exceeded 90% of the fair value of the property at the inception of the lease. The asset recorded in connection with the capital lease and the associated depreciation is as follows at December 31, 2008:

Equipment	\$ 29,772
Less: accumulated depreciation	<u>(3,071)</u>
Net asset under capital lease	<u>\$ 26,701</u>

The capital lease obligation has an imputed interest rate of 5% and is payable in monthly installments of \$686 through February 2012. Future minimum payments on the capital lease obligation are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 8,232
2010	8,232
2011	8,232
2012	<u>1,372</u>
	\$ 26,068
Less amounts representing interest	<u>(2,018)</u>
Present value of future minimum capital lease payments	<u>\$ 24,050</u>

### NOTE 12—RETIREMENT PLANS:

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The Association has a 401(k) retirement plan which is available to all full-time employees. The Association contributes 2% of the employee's salary to the plan. Each employee may also elect to contribute up to the maximum allowed by law, which is \$15,500 for employees under age 50, and \$20,500 for those age 50 or older for 2007. The Association pays all trustee fees for the plan. The employer contributions to the plan totaled \$31,366 and \$29,071 for 2008 and 2007, respectively. Administrative fees were \$4,767 and \$3,787 for 2008 and 2007, respectively.

## LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

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### NOTE 13—OPERATING LEASES:

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The Association has entered into lease agreements for the leasing of 60 electric golf carts, one beverage cart and 2 greens mowers. The original golf cart lease term began April 1, 2003 and originally expired March 31, 2008 with monthly payments of \$3,660. However, in January, 2007, the lease agreement was renegotiated and extended through March 31, 2012 with monthly lease payments of \$4,242 to begin on April 1, 2007. The Association is also leasing two greens mowers beginning September 15, 2007 and ending September 15, 2010, with monthly payments of \$1,201. Total rental expense was \$66,217 for 2008 and \$54,165 for 2007. Future minimum lease payments under these noncancellable operating leases are as follows:

2009	\$	65,318
2010		60,514
2011		50,904
2012		<u>4,242</u>
Total	\$	<u><u>180,978</u></u>

### NOTE 14—FUTURE MAJOR REPAIRS AND REPLACEMENT RESERVES:

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The Association is required by law to have a reserve study performed at least once every five years, and to review reserve requirements annually.

In October 1992, the Association Board of Directors authorized a study of Association assets to estimate the remaining useful lives and the replacement costs of the components of common property and current estimates of major repairs and replacements that may be required in the future. This study was updated in 1997, in 2002, and again in 2005.

The Association Board of Directors reviews reserve requirements in conjunction with the annual budget process, during which it authorizes expenditures for reserve-related replacements for the subsequent year and considers funding requirements.

With respect to the reserve for major repairs and replacements, the 2005 reserve study recommended a beginning fund balance of \$29,825, annual funding consisting of \$730,000 in contributions and \$835 in interest income, and \$734,007 in expenditures for calendar 2008, resulting in a recommended ending balance of \$26,653 as of December 31, 2008. The actual beginning balance of the reserve was \$279,405, and the reserve was funded with \$6,511 of interest income and with a \$319,886 depreciation allocation. Actual expenditures of \$376,525 were made in 2008, resulting in an ending balance of \$229,277 as of December 31, 2008. Actual 2008 expenditures were less than those authorized by the Board for the year, which were \$485,450.

## LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

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### NOTE 14—FUTURE MAJOR REPAIRS AND REPLACEMENT RESERVES: (Continued)

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With respect to the road reserve, the 2005 reserve study recommended a beginning fund balance of \$25,395, annual funding consisting of \$40,900 in contributions and in \$626 of interest income, and \$49,981 in expenditures for calendar 2008, resulting in a recommended ending balance of \$16,940 as of December 31, 2008. The actual beginning balance of the reserve was \$1,265, and the reserve was funded with \$2,210 from interest income, \$115,900 from dues, and \$29,762 from new home fees. Expenditures charged to the reserve for 2008 included \$82,595 for repairs and maintenance, and \$28,062 for depreciation, and resulted in an ending balance of \$38,480 as of December 31, 2008. A minimum of \$25.00 of the annual dues per lot is set aside for the road program.

With respect to the lake reserve, the 2005 reserve study recommended a beginning fund balance of \$58,678, annual funding consisting of \$290,000 in contributions and \$1,095 in interest income, and \$334,374 in expenditures for calendar 2008, resulting in a recommended ending balance of \$15,399 as of December 31, 2008. The actual beginning balance of the reserve was \$91,577, and the reserve was funded with \$4,973 from interest income and \$222,528 from dues. Actual expenditures of \$130,840 were made in 2008, resulting in an ending balance of \$188,238 as of December 31, 2008. A minimum of \$48.00 of the annual dues per lot is set aside for the lake program.

### NOTE 15—COMMITMENTS AND CONTINGENCIES:

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In 1995, the Association removed a 500 gallon storage tank and five additional underground storage tanks. Three above-ground storage tanks were installed in place of the six underground storage tanks. The contracts for the removal and installation of these tanks did not provide for the removal of any contaminated soil which might be discovered during the removal process. Soil contaminated by those tanks has been removed. One underground tank site is still under inspection by the Virginia Department of Environmental Quality. The Association has implemented a corrective action plan and is currently monitoring the site. Other than ongoing monitoring costs, the Association believes it will have no liabilities arising from this matter.

In 2008, the Association obtained two loans from a local credit union. Under the terms of the loans the Association is required to maintain a minimum balance of \$33,000 in a deposit account with the credit union. The Association has granted the lender a security interest in the deposit account to the extent of the minimum balance required.

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

NOTE 16—INVESTMENT INCOME:

Investment income consists of the following:

	<u>2008</u>	<u>2007</u>
Interest	\$ 280,612	\$ 516,063
Dividends from mutual funds	72,659	5,104
Net realized gains (losses) on sales of securities	<u>5,671</u>	<u>16,684</u>
Total net investment income	<u>\$ 358,942</u>	<u>\$ 537,851</u>
Unrealized gains (losses) on securities consist of:		
Unrealized holding gains (losses) arising during period	\$ (351,820)	\$ 124,162
Less: reclassification adjustment for gains/(losses) included in net income	<u>(167)</u>	<u>32,040</u>
Total net unrealized gains (losses) on securities	<u>\$ (351,653)</u>	<u>\$ 92,122</u>
Investment activity has been allocated as follows:		
Reserved activity:		
Swimming pool construction	\$ 10,702	\$ 14,819
Major repairs and replacement	6,511	8,834
Lake preservation	4,973	-
Road dues	1,458	-
Roads - new home construction fee	752	419
Property transfer fees	4,734	8,288
Unreserved activities:		
Undesignated reserves	3,429	3,121
Operations	273,678	553,405
Board Discretionary Fund	(298,948)	19,845
Board Growth Fund	<u>-</u>	<u>21,242</u>
Total investment income	<u>\$ 7,289</u>	<u>\$ 629,973</u>
At December 31, cumulative net gains/(losses) on investments are allocated as follows:		
Operations	\$ (245,038)	\$ 55,581
Board Growth Fund	<u>-</u>	<u>51,034</u>
Total	<u>\$ (245,038)</u>	<u>\$ 106,615</u>

The cost of securities sold when computing realized gains and losses was determined on the specific identification basis.

## LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

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### NOTE 17—FAIR VALUE MEASUREMENTS:

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Effective January 1, 2008, the Association adopted SFAS No. 157, which defines fair value 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 at the measurement date. FSP FAS 157-2 delayed the effective date for all nonfinancial assets and liabilities until January 1, 2009, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

At December 31, 2008, the Association's financial assets measured at fair value on a recurring basis consisted of investments held for resale in the amount of \$7,616,851. The fair value of investments held for resale was established based on Level 1 inputs, as defined by SFAS No. 157.

The Association did not have any financial liabilities subject to fair value measurement at December 31, 2008.

### NOTE 18—SALE OF LAKE MONTICELLO SERVICE COMPANY:

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During 1999, the Association sold its ownership interest in the Lake Monticello Service Company. The sale was approved by a vote of the Association members in September 1998 and by the State Corporation Commission in 1999. The total proceeds from the sale of the company, or \$6,630,063, has been restricted by the Association membership.

## LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

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### NOTE 19—RESTRICTED FUNDS:

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At the Special Meeting of Members held September 12, 1998, the membership approved of the sale of the Lake Monticello Service Company to Aqua Source, Inc. with the provisions: "To approve the principal from this sale be invested and under the care of the Members requiring a vote of the Members for the principal to be used. The interest from this principal shall be available to the Board of Directors for use in maintenance, upkeep, general care of the amenities and assets of the corporation and capital needs." The beginning balance of the principal was \$6,620,274 as per the deposits to the investment account. Subsequent to the sale of the company, additional proceeds of \$9,789 were received as a result of the receipt of income tax refunds less accounting fees for filing the refund claims. The total of the net proceeds from the sale and subsequent income tax refunds resulted in total restricted funds of \$6,630,063 from the sale of the company. The invasion of this principal requires agreement of a majority of the members of the Association in person or by proxy present at a meeting at which a quorum exists [Buck & Tereskerz (legal counsel) Opinion September 28, 2000]. Any income earned by LMOA (including all interest income, dividends and capital gains), which is derived from, but which is not a part of, (a) the principal, or (b) the payment received by LMOA with respect to net working capital of LMSC as of the closing date of the Sale, is available to the Board of Directors of LMOA for use in maintenance, upkeep, general care of amenities and assets of the corporation and capital needs [May & Valentine (legal counsel) Opinion July 16, 1999]. The investment of these funds is governed by LMOA Policy 4.02Q approved February 25, 1999, and as subsequently amended and revised.

### NOTE 20—RESERVED EQUITY:

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Equity has been reserved for the following:

	<u>2008</u>	<u>2007</u>
Swimming Pool Construction	\$ 299,326	\$ 656,835
Major repairs and replacement (future years)	229,277	279,405
Roads/new home construction	38,480	1,265
Capital projects - property transfer fees	197,839	310,314
Lake preservation	188,238	91,577

At the Annual Meeting of Members held November 17, 1979, the property owners approved the acceptance of the Developer's offer to pay the Association \$128,000 of cash in lieu of the construction of a second swimming pool, and to allow the Association to invest the funds as it sees fit with all income earned on the investment of these funds also reserved for pool construction. This vote taken by the members was an advisory referendum. A resolution by the members to prohibit the use of the funds for any other purpose has not been made [Buck and Tereskerz (legal counsel) Opinion April 9, 1998].

These funds were accepted by the Association from the Developer as part of an indemnification agreement between the Association and the Developer to remove from the Developer liability for any claims made against it for not building a second swimming pool. The principal of these funds and earnings thereon have been held in escrow by the Association, although it is not legally required to do so. The Developer wanted the funds to be placed in escrow because of its concerns about the Association's financial ability to build a second pool when the need arose. Regardless of whether the funds are maintained in an escrow account, the Association does have a continuing obligation to indemnify and hold the Developer harmless even if it uses the funds for other purposes. [Buck and Tereskerz (legal counsel) Opinion April 9, 1998].

## LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements  
As of December 31, 2008 (Continued)

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### NOTE 20—RESERVED EQUITY: (Continued)

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In June, 2007 the Association membership authorized the Association to utilize funds in the "Swimming Pool Fund" for approved projects to add LMOA amenities and/or to enhance existing facilities.

The balance of this reserved equity is \$299,326 and \$656,835 at December 31, 2008 and 2007, respectively.

### NOTE 21—PRIOR PERIOD ADJUSTMENTS:

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Prior period adjustments have been recorded for deferred revenues associated with annual fees billed for golf course memberships. A twelve-month fee is billed in the first month of membership. Prior period adjustments have been recorded in 2008 and 2007 to reflect the portion of the membership fee relating to months subsequent the end of the fiscal year in which it is billed. The impact on unreserved/undesignated association equity and change in net assets is as follows:

	<u>2008</u>	<u>2007</u>
Unreserved, undesignated owners' equity as of January 1, before restatement	\$ 836,931	\$ 1,192,425
Reclassifications discussed in Note 2	(372,270)	(267,556)
Portion of annual golf memberships billed in the current year relating to the subsequent year	<u>(72,320)</u>	<u>(81,207)</u>
Unreserved, undesignated owners' equity as of January 1, restated	<u>\$ 392,341</u>	<u>\$ 843,662</u>
Increase/(decrease) in change in net assets for deferred revenue adjustments		<u>\$ 8,887</u>

### NOTE 22—SUBSEQUENT EVENT:

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In January 2009, the Association purchased an unimproved residential lot in the Lake Monticello development for \$64,800. The Association intends to use the lot as a site for an additional gate into the community.

In January 2009, the Board of Directors authorized a contract in the amount of \$89,389 for certain lake improvements.

## Supplemental Information

**LAKE MONTICELLO OWNERS' ASSOCIATION**

Departmental Revenues and Expenses

Year Ended December 31, 2008  
(With Comparative Totals for 2007)

	<u>Administration</u>	<u>General Maintenance</u>	<u>Recreation</u>
<b>Revenues</b>			
Dues, assessments and related charges	\$ -	\$ -	\$ -
Property transfer fees	-	-	-
Environmental Control Committee fees	-	-	-
Recreation fees	-	-	250,656
Golf and related fees	-	-	-
Sales of merchandise and related items	-	-	135,414
Cost of sales	-	-	(125,154)
Barcode income	-	-	-
Cable income	125,521	-	-
Interest/investment income, net	321,898	-	-
New home construction fee	-	-	-
Other	28,555	8,317	-
Total revenues	<u>\$ 475,974</u>	<u>\$ 8,317</u>	<u>\$ 260,916</u>
<b>Operating expenses</b>			
Compensation/benefits	\$ 617,307	\$ 349,381	\$ 119,206
Administrative	85,731	7,547	4,639
Transportation	3,298	30,063	-
Utilities	36,490	5,382	24,418
Buildings/grounds repairs and maintenance	7,408	81,004	17,087
Equipment repairs and maintenance	60,725	20,636	-
Irrigation	-	-	-
Non-capital purchases	2,813	4,357	2,506
Professional services/insurance	162,456	-	3,589
Equipment leases	-	-	-
Road maintenance	-	-	-
Other	8,059	2,702	6,318
Total operating expenses	<u>\$ 984,287</u>	<u>\$ 501,072</u>	<u>\$ 177,763</u>
<b>Operating profit (loss)</b>	<u>\$ (508,313)</u>	<u>\$ (492,755)</u>	<u>\$ 83,153</u>
<b>Other expenses (income)</b>			
Depreciation	\$ 35,095	\$ 53,031	\$ 47,125
Provision for uncollectible dues	-	-	-
Projects from MR & R	-	-	-
Lake expenses	-	-	-
Interest expense	-	-	-
Road project fund	-	-	-
(Gain) loss on disposition of assets	-	-	-
Total other (income) expenses	<u>\$ 35,095</u>	<u>\$ 53,031</u>	<u>\$ 47,125</u>
<b>Net departmental income (loss)</b>	<u>\$ (543,408)</u>	<u>\$ (545,786)</u>	<u>\$ 36,028</u>
<b>Unrealized gains (losses) on investments</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net changes in equity</b>	<u><u>\$ (543,408)</u></u>	<u><u>\$ (545,786)</u></u>	<u><u>\$ 36,028</u></u>

<u>Pool Snack Bar</u>	<u>Eagles Nest</u>	<u>Golf</u>	<u>Security</u>	<u>Not Allocated</u>	<u>Total</u>	<u>Prior Year Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,899,566	\$ 2,899,566	\$ 2,803,175
-	-	-	-	129,650	129,650	156,500
-	-	-	22,885	-	22,885	17,558
-	-	-	-	-	250,656	236,489
-	-	674,189	-	-	674,189	686,652
40,276	150,674	49,249	-	-	375,613	426,871
(20,691)	(64,609)	(38,181)	-	-	(248,635)	(263,030)
-	-	-	86,571	-	86,571	94,865
-	-	-	-	-	125,521	119,607
-	-	-	-	37,044	358,942	537,851
-	-	-	-	29,762	29,762	31,781
-	-	-	28,660	4,865	70,397	94,218
<u>\$ 19,585</u>	<u>\$ 86,065</u>	<u>\$ 685,257</u>	<u>\$ 138,116</u>	<u>\$ 3,100,887</u>	<u>\$ 4,775,117</u>	<u>\$ 4,942,537</u>
\$ 16,419	\$ 103,800	\$ 427,355	\$ 628,001	\$ -	\$ 2,261,469	\$ 2,226,932
52	2,063	45,242	42,005	-	187,279	218,150
745	-	10,933	39,596	-	84,635	77,248
-	11,742	17,898	6,895	-	102,825	105,302
222	8,251	86,780	1,201	688,779	890,732	755,490
-	-	63,413	27,594	-	172,368	149,786
-	-	19,627	-	-	19,627	20,861
461	808	3,047	2,028	-	16,020	18,098
-	-	-	-	-	166,045	152,035
-	-	66,217	-	-	66,217	49,360
-	-	-	-	82,595	82,595	138,000
1,219	8,105	11,973	5,318	-	43,694	57,849
<u>\$ 19,118</u>	<u>\$ 134,769</u>	<u>\$ 752,485</u>	<u>\$ 752,638</u>	<u>\$ 771,374</u>	<u>\$ 4,093,506</u>	<u>\$ 3,969,111</u>
<u>\$ 467</u>	<u>\$ (48,704)</u>	<u>\$ (67,228)</u>	<u>\$ (614,522)</u>	<u>\$ 2,329,513</u>	<u>\$ 681,611</u>	<u>\$ 973,426</u>
\$ 1,383	\$ 8,754	\$ 88,869	\$ 47,679	\$ 37,950	\$ 319,886	\$ 277,536
-	-	-	-	(7,745)	(7,745)	15,561
-	-	-	-	46,223	46,223	41,000
-	-	-	-	62,246	62,246	277,849
-	-	-	-	6,732	6,732	-
-	-	-	-	-	-	256,500
-	-	-	-	(2,512)	(2,512)	-
<u>\$ 1,383</u>	<u>\$ 8,754</u>	<u>\$ 88,869</u>	<u>\$ 47,679</u>	<u>\$ 142,894</u>	<u>\$ 424,830</u>	<u>\$ 868,446</u>
\$ (916)	\$ (57,458)	\$ (156,097)	\$ (662,201)	\$ 2,186,619	\$ 256,781	\$ 104,980
-	-	-	-	(351,653)	(351,653)	92,122
<u>\$ (916)</u>	<u>\$ (57,458)</u>	<u>\$ (156,097)</u>	<u>\$ (662,201)</u>	<u>\$ 1,834,966</u>	<u>\$ (94,872)</u>	<u>\$ 197,102</u>

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## Supporting Data

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**LAKE MONTICELLO OWNERS' ASSOCIATION**

Supplemental Data on Future Major Repairs and Replacements  
December 31, 2008

A comprehensive reserve study update was completed in 2005.

The Board of Directors employed Reserve Advisors, Inc. to conduct a reserve study in 2005 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs which are based on construction range estimates and insurance replacement costs. Funding recommendations consider an annual inflation rate of 3.0% and interest of 3.0% on amounts funded for future major repairs and replacements.

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

Components	Remaining Estimated Useful Lives (Years)	Estimated Future Replacement Costs	2009 Reserve Study Replacement Recommendations
<b>Major repairs and replacements:</b>			
<b>Main Clubhouse:</b>			
Exterior	2 to 7	\$ 429,406	\$ -
Interior	1 to 17	422,584	11,396
Furnishings	1 to 17	276,277	3,658
Building systems/equipment	1 to 12	1,302,251	8,441
Miscellaneous	N/A	-	-
<b>Site elements</b>	4 to 20	501,674	106,662
<b>Recreation</b>			
Beaches	2 to 19	836,990	-
Marina	1 to 20	614,870	60,688
Playgrounds	1 to 15	461,761	-
Swimming Pool/SB	1 to 21	2,295,878	-
Tennis/Basketball Courts	2 to 8	779,750	-
<b>Maintenance</b>			
Equipment	1 to 20	2,324,737	66,630
Buildings	8 to 17	197,932	-
<b>Security</b>			
Equipment	1 to 15	2,553,285	29,263
<b>Golf</b>			
Golf Course	1 to 19	4,436,741	263,369
Pro Shop, Barn, and Maintenance Buildings	1 to 15	1,367,539	47,384
Equipment	1 to 15	3,561,988	160,834
Total major repairs and replacements		\$ 22,363,663	\$ 758,325
<b>Roads</b>	1 to 14	\$ 12,220,491	\$ 67,592
<b>Lake</b>	1 to 29	\$ 7,813,367	\$ 299,385
<b>Total</b>		\$ 42,397,521	\$ 1,125,302

## LAKE MONTICELLO OWNERS' ASSOCIATION

### Supplemental Data on Future Major Repairs and Replacements December 31, 2008 (Continued)

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#### Major repairs and replacements

In 2008, the opening balance of the reserve was \$279,405, and the reserve was funded with \$6,511 of interest income and with a \$319,886 depreciation allocation. Expenditures for major repairs and replacements were \$376,525, resulting in a reserve balance of \$229,277 at December 31, 2008. The Association Board of Directors has not allocated the reserve by component.

The Association Board of Directors has authorized major repairs and replacements reserve expenditures in the amount of \$191,285 for 2009.

#### Roads

In 2008, the opening balance of the reserve was \$1,265 and the reserve was funded with \$2,210 from interest income, \$115,900 from dues, and \$29,762 from new home fees. Expenditures charged to the road reserve for 2008 were \$110,657 and included \$82,595 for repairs and maintenance and \$28,062 for depreciation. The balance in the road reserve at December 31, 2008 was \$38,480.

A minimum of \$25 of the annual dues per lot is set aside for the roads program.

The Association Board of Directors has authorized road reserve expenditures in the amount of \$50,000 for 2009.

#### Lake

In 2008, the opening balance of the reserve was \$91,577, and the reserve was funded with \$4,973 from interest income, and \$222,528 from dues. Expenditures charged to the lake reserve were \$130,840, resulting in a lake reserve balance of \$188,238 at December 31, 2008. A minimum of \$48 of the annual dues per lot is set aside for the lake program.

The Association Board of Directors has authorized lake reserve expenditures in the amount of \$426,226 for 2009.