

**LEXINGTON LAKES
CONDOMINIUM ASSOCIATION, INC.**

Financial Statements

***For the year ended
December 31, 2013***

Hafer & Company

Certified Public Accountants and Consultants

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Lexington Lakes Condominium Association, Inc.

We have audited the accompanying financial statements of Lexington Lakes Condominium Association, Inc. ("the Association"), which comprise the balance sheet as of December 31, 2013, and the related statement of revenues and expenses and changes in fund balances and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

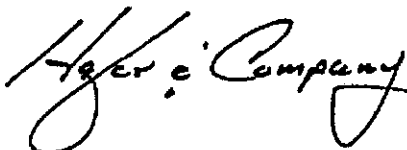
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lexington Lakes Condominium Association, Inc. as of December 31, 2013, 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.



Palm Beach, Florida
May 13, 2014

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
BALANCE SHEET
December 31, 2013

	<u>Operating Fund</u>	<u>Working Capital Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Assets				
Cash and cash equivalents	\$ 239,489	\$ 81,932	\$ 819,132	\$ 1,140,553
Certificates of deposits (Note 2)	200,092	-	-	200,092
Assessments receivable, net (Note 4)	22,801	-	-	22,801
Prepaid expenses	118,695	-	-	118,695
Investment in foreclosed units (Note 2)	10,800	-	-	10,800
Utility deposits	15,727	-	-	15,727
Due from (to) funds	33,274	(33,518)	244	-
Total assets	<u>\$ 640,878</u>	<u>\$ 48,414</u>	<u>\$ 819,376</u>	<u>\$ 1,508,668</u>
Liabilities and fund balances				
Accounts payable	\$ 34,453	\$ -	\$ -	\$ 34,453
Accrued expenses	4,350	-	-	4,350
Insurance payable (Note 10)	90,375	-	-	90,375
Prepaid assessments	29,293	-	-	29,293
Refundable deposits	7,835	-	-	7,835
Deferred settlement proceeds (Note 12)	144,670	-	-	144,670
Other liabilities	75	-	-	75
Total liabilities	311,051	-	-	311,051
Fund balances	<u>329,827</u>	<u>48,414</u>	<u>819,376</u>	<u>1,197,617</u>
Total liabilities and fund balances	<u>\$ 640,878</u>	<u>\$ 48,414</u>	<u>\$ 819,376</u>	<u>\$ 1,508,668</u>

See notes to financial statements.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
For the year ended December 31, 2013

	Operating Fund	Working Capital Fund	Replacement Fund	Total Funds
Revenues				
Maintenance assessments	\$ 715,893	\$ -	\$ 221,233	\$ 937,126
Settlement proceeds (Note 12)	50,330	-	-	50,330
Rental income	33,350	-	-	33,350
Interest income	297	238	1,127	1,662
Other income	33,675	-	-	33,675
	<u>833,545</u>	<u>238</u>	<u>222,360</u>	<u>1,056,143</u>
Total revenues	833,545	238	222,360	1,056,143
Expenses				
Administration	225,647	-	-	225,647
Building maintenance and repairs	293,478	-	-	293,478
Utilities	291,582	-	-	291,582
Major repairs and replacements	-	33,794	90,895	124,689
	<u>810,707</u>	<u>33,794</u>	<u>90,895</u>	<u>935,396</u>
Total expenses	810,707	33,794	90,895	935,396
Excess (deficit) of revenues over expenses	22,838	(33,556)	131,465	120,747
Fund balances, beginning of year	<u>306,989</u>	<u>81,970</u>	<u>687,911</u>	<u>1,076,870</u>
Fund balances, end of year	<u>\$ 329,827</u>	<u>\$ 48,414</u>	<u>\$ 819,376</u>	<u>\$ 1,197,617</u>

See notes to financial statements.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2013

	<u>Operating Fund</u>	<u>Working Capital Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Cash flows from operating activities				
Excess (deficit) of revenues over expenses	\$ 22,838	\$ (33,556)	\$ 131,465	\$ 120,747
<u>Adjustments to reconcile excess (deficit) of revenues over expenses to net cash (used) provided by operating activities</u>				
Provision for bad debts	(31,000)	-	-	(31,000)
<u>Changes in assets and liabilities:</u>				
Assessments receivable	57,317	-	-	57,317
Prepaid expenses	(11,343)	-	-	(11,343)
Accounts payable	16,258	-	-	16,258
Accrued expenses	(5,158)	-	-	(5,158)
Prepaid assessments	(4,951)	-	-	(4,951)
Refundable deposits	50	-	-	50
Deferred settlement proceeds	(50,330)	-	-	(50,330)
Total changes in account balances	<u>1,843</u>	<u>-</u>	<u>-</u>	<u>1,843</u>
Net cash (used) provided by operating activities	(6,319)	(33,556)	131,465	91,590
Cash flows (to) investing activities				
Purchases of certificate of deposits	(4,878)	-	-	(4,878)
Cash flows from financing activities				
Proceeds from insurance payable, net	20,461	-	-	20,461
Interfund borrowings	1,086	(842)	(244)	-
Net cash provided (used) by financing activities	<u>21,547</u>	<u>(842)</u>	<u>(244)</u>	<u>20,461</u>
Net increase (decrease) in cash and cash equivalents	10,350	(34,398)	131,221	107,173
Cash and cash equivalents, beginning of year	<u>229,139</u>	<u>116,330</u>	<u>687,911</u>	<u>1,033,380</u>
Cash and cash equivalents, end of year	<u>\$ 239,489</u>	<u>\$ 81,932</u>	<u>\$ 819,132</u>	<u>\$1,140,553</u>

Supplemental disclosures of cash flow information (Note 11)

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1: Organization

Lexington Lakes Condominium Association, Inc. was incorporated under the condominium statutes of the State of Florida on January 24, 2005. The Association is responsible for maintaining and preserving the common property of the Association. Lexington Lakes Condominium Association, Inc. consists of 264 residential units and is located in Stuart, Florida.

NOTE 2: Summary of significant accounting policies

Fund accounting

The Association prepares its financial statements on the accrual basis of accounting and presents them using fund accounting, using separate funds for operations, working capital, and future major repairs and replacements. Disbursements from the operating fund are generally for the day-to-day operations and non-recurring unanticipated expenditures of the Association and are made at the discretion of the Board of Directors. Disbursements from the working capital fund are made at the discretion of the Board of Directors. Disbursements from the replacement fund generally are made only for designated purposes.

Interest earned

Interest earned by each fund is allocated to the appropriate fund. Income taxes on the interest earned are paid from the operating fund.

Property and depreciation

The Association capitalizes all personal and real property which it purchases. Real property and common area acquired from the developer and related improvements to such property are not reflected on the Association financial statements because those properties are owned by the individual unit owners in common, and not by the Association. Property and equipment are depreciated over the estimated useful lives of the assets using the straight-line method of depreciation.

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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all monies in banks including certificates of deposits and money market funds. Cash equivalents include highly liquid securities with maturity of 90 days or less.

Short-term financial instruments

The carrying amount of the Association's financial instruments, which include cash and cash equivalents, assessments receivable, accounts payable, accrued expenses and other assets and liabilities, approximate their fair values due to their short-term maturities.

Certificates of deposit

Certificates of deposit consist of those certificates with original maturities of more than 90 days. The certificates are carried at cost plus any interest earned and reinvested. The Association, at least annually, assesses for any other-than-temporary impairment, and as of the date of these financial statements, the Association does not believe any impairment exists. The certificates have varying maturity dates and varying interest rates. At December 31, 2013, certificates of deposit totaled \$200,092.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2013

NOTE 2: Summary of significant accounting policies (continued)

Investments in foreclosed units

The Association records as its cost basis in foreclosed units the amounts due from former owners for maintenance assessments, interest, legal fees and other costs, net of the associated bad debt allowance. At December 31, 2013, investment in foreclosure units totaled \$10,800, which consists of three units.

Compensated absences

Employees of the Association are entitled to paid vacations, sick days, and other time off depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Association's policy is to recognize the costs of compensated absences when paid to employees.

Utility pass-through

In accordance with FASB ASC 605-45, the Association recognizes utility pass-through assessments using principal agent considerations. The Association is primarily involved in the determination of a specific service, it has the discretion in selecting the suppliers of such services, and it bears the credit risk for the amounts billed for the service; accordingly the management has determined that the Association is the principal, and, accordingly, recognizes all utility pass-through activities using gross reporting.

Subsequent events

Subsequent events have been evaluated through May 13, 2014 the date the financial statements were available to be issued in accordance with FASB ASC 855.

NOTE 3: Concentration of credit risk

The Association maintains its cash in bank at various financial institutions whereby deposits are insured up to \$250,000 by the Federal Deposit Insurance Corporation. Additionally, the Association has entered into a sweep agreement with its financial institution whereby each banking day excess funds are transferred into investment funds, in which the Association holds a perfected security interest. Accordingly, at December 31, 2013, the Association does not have any uninsured deposits.

NOTE 4: Owners assessments

Monthly assessments to unit owners are based upon a share of the budgeted operating expenses and future major repairs and replacements. The Association retains excess operating funds at the end of the year for use in future operating periods. Assessments receivable at the balance sheet date represent fees due from unit owners. Assessments paid in advance are included on the balance sheet as prepaid maintenance fees. The Association's policy is to retain legal counsel and place liens or foreclose on units of members whose assessments are delinquent. At December 31, 2013 assessments receivable totaled \$40,227, less an allowance for uncollectible accounts in the amount of \$17,426, for a net receivable of \$22,801.

NOTE 5: Income taxes

The Association may elect to be taxed as a regular corporation or as a homeowners' association under Internal Revenue Code Section 528. The Association elected to be taxed under Section 528 for 2013. Under that election, the Association is generally taxed only on non-membership income, such as interest earnings, at the appropriate rates. Additionally, from time to time, certain temporary differences may arise between financial and taxable income, the overall effects of which are not material to the financial statements taken as whole. As such, the Association has not recorded deferred income taxes at December 31, 2013.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2013

NOTE 5: Income taxes (continued)

The Association has adopted FASB ASC 740 which clarifies the accounting for uncertainty in income taxes by defining the attributes a tax position must meet for any part of the benefit of the tax position to be recognized in financial statements prepared in conformity with generally accepted accounting principles. In accordance with the disclosure requirements, the Association's policy on income statement classification of interest and penalties related to income tax obligations is to include such items as part of income tax expense. At December 31, 2013, the Association did not have any uncertain tax positions. The Association's federal income tax returns for 2011 – 2013 remain subject to examination by the Internal Revenue Service.

NOTE 6: Litigation

The Association is a party to various legal actions normally associated with condominium associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

NOTE 7: Insurance contingencies

In the event of a loss due to a hurricane the Association would be responsible for a deductible of approximately 3% of the total insured value of the property under the provisions of the hurricane loss insurance contract.

NOTE 8: Other commitments and contingencies

The Association has contracted with various vendors for various services to maintain the common property related to certain administration and building operations and maintenance expenses. These contracts are approved, as necessary, by the Board of Directors and have varying expiration dates and renewal terms.

NOTE 9: Related party transaction

The Association receives cleaning services from a company whose principal is a unit owner in the condominium association. For the year ended December 31, 2013, amounts paid for these services were \$39,755. At December 31, 2013, the Association is not indebted to this party. All transactions appear to have been made in the ordinary course of business on commercially reasonable terms.

NOTE 10: Insurance payable

During 2013, the Association financed its insurance premiums with Premium Assignment Corporation. The total amount financed was \$89,258 and is payable in monthly installments of approximately \$9,037 including interest at 2.72% through October 2014. The loan is secured by any unearned premiums or other sums which may become collectible under the terms of the agreement. At December 31, 2013, the outstanding balance was \$90,375.

NOTE 11: Supplemental disclosures of cash flow information

Non-cash financing activities during 2013 were as follows:

Cost of insurance coverage acquired via financing agreements	\$ 115,215
Cash paid related to financing agreements (down payments)	<u>(25,957)</u>
Liabilities assumed (Note 10)	<u>\$ 89,258</u>

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT'D)
December 31, 2013

NOTE 12: Deferred settlement proceeds

During 2012, the Association settled an on-going lawsuit with Centex Homes related to alleged construction defects. The Association received \$195,000 in exchange for a release of all past, present, and future claims against Centex. At December 31, 2013, the Association has expended \$50,330 towards its designated purpose. Therefore, at December 31, 2013 the remaining balance of \$144,670 has been recorded as deferred settlement proceeds until expended for its designated purpose.

NOTE 13: Future major repairs and replacements

The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate interest bearing accounts and are generally not available for operating purposes. During 2009 the Board of Directors contracted with an independent contractor to conduct an independent study to estimate the remaining useful lives and replacement costs of the common property components. The schedule included in the supplementary information on future repairs and replacements is based upon this study. The Association is funding \$182,063 for 2014.

Actual expenditures may vary from the estimated amounts and the variation may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Components of the replacement fund are as follows:

	Balance 01/01/13	Additions	Interest Income	Expenses	Transfers	Balance 12/31/13
Roof	\$ 367,192	\$ 86,216	\$ -	\$ 16,520	\$ -	\$ 436,888
Painting	183,528	14,448	-	-	-	197,976
Pressure washing	25,401	157	-	7,537	-	18,021
Paving	47,677	10,117	-	1,700	-	56,094
Pool and equipment	18,578	4,501	-	2,344	-	20,735
Comm. area interior	14,800	4,662	-	1,365	-	18,097
Site improvements	30,174	16,132	-	5,425	-	40,881
Defects / upgrades	-	85,000	-	56,004	-	28,996
Unallocated interest	561	-	1,127	-	-	1,688
	<u>\$ 687,911</u>	<u>\$ 221,233</u>	<u>\$ 1,127</u>	<u>\$ 90,895</u>	<u>\$ -</u>	<u>\$ 819,376</u>

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To The Board of Directors
Lexington Lakes Condominium Association, Inc.

Report on the Financial Statements

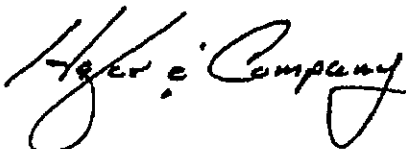
We have audited the financial statements of Lexington Lakes Condominium Association, Inc. ("the Association") as of and for the year ended December 31, 2013, and our report thereon dated May 13, 2014, which expressed an unmodified opinion on those financial statements, appears on Page 1.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of operating expenses compared to budget on Page 10, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited," was derived from and related, directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide assurance on it.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary Schedule of Future Major Repairs and Replacements on Page 11 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Palm Beach, Florida
May 13, 2014

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET
For the year ended December 31, 2013

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Variance Favorable (Unfavorable)</u>
Administration			
Accounting services	\$ 12,552	\$ 12,500	\$ (52)
Audit and tax preparation	4,350	4,000	(350)
Background check expense	4,251	-	(4,251)
Bad debt	17,242	40,000	22,758
Fees to division	1,056	1,162	106
Insurance	106,703	105,682	(1,021)
Insurance appraisal	1,450	1,450	-
Legal and professional	6,381	5,000	(1,381)
Management - other	3,175	2,620	(555)
Management fees	60,388	55,000	(5,388)
Office supplies	3,481	8,600	5,119
Other expenses	2,638	1,000	(1,638)
Wind mitigation	1,980	14,318	12,338
	<u>225,647</u>	<u>251,332</u>	<u>25,685</u>
Building maintenance and repairs			
Backflow inspections	300	400	100
Building maintenance and supply	18,198	5,000	(13,198)
Construction defect expenses	50,330	100,000	49,670
Contingency	450	1,000	550
Fido baggies	411	500	89
Gate maintenance and repairs	1,892	5,300	3,408
Golf cart maintenance	403	500	97
Irrigation contract	10,200	9,600	(600)
Irrigation supplies and repairs	5,803	4,000	(1,803)
Irrigation water	1,058	3,000	1,942
Janitorial service	14,154	12,600	(1,554)
Lake maintenance and littoral zone	2,374	3,800	1,426
Landscape maintenance	61,200	61,200	-
Landscape replacement	7,167	7,500	333
Mulch	5,915	16,000	10,085
Pest control	12,974	12,000	(974)
Pest control - clubhouse	97	-	(97)
Pool maintenance and repairs	4,809	5,064	255
Recreation area maintenance and repairs	4,303	500	(3,803)
Rental expense	7,462	2,000	(5,462)
Road and sign maintenance	3,352	1,000	(2,352)
Security guards	75,607	56,000	(19,607)
Tree trimming	5,019	3,000	(2,019)
	<u>293,478</u>	<u>309,964</u>	<u>16,486</u>
Utilities			
Cable TV	122,189	124,200	2,011
Electric	20,815	24,000	3,185
Telephone	3,602	3,000	(602)
Trash collection	32,297	32,550	253
Water and sewer	112,679	105,000	(7,679)
	<u>291,582</u>	<u>288,750</u>	<u>(2,832)</u>
Total budgeted expenses	<u>\$ 810,707</u>	<u>\$ 850,046</u>	<u>\$ 39,339</u>

See auditors' report on supplementary information.

LEXINGTON LAKES CONDOMINIUM ASSOCIATION, INC.
SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
December 31, 2013

The following schedule is based upon a study conducted by an independent consultant in 2009 to estimate the remaining useful lives and replacement costs of the components of common property. The schedule provides information about components of common property.

<u>Component</u>	<u>Estimated Useful Life (years)</u>	<u>Estimated Remaining Life (years)</u>	<u>Estimated Replacement Cost</u>	<u>Required Statutory Funding 12/31/14</u>	<u>Approved Budgeted Funding 12/31/14</u>
Roof	30	20	\$ 2,312,400	\$ 93,781	\$ 92,950
Painting	10	2	244,895	23,460	22,410
Pressure washing	Variable	Variable	27,000	-	157
Paving	5-25	0-15	144,601	5,900	9,635
Pool and equipment	8-25	0-15	45,335	1,648	5,643
Common area interiors	12-15	2-15	51,250	2,210	6,649
Site improvements	10-30	0-20	188,915	7,402	17,184
Unallocated interest	-	-	-	-	(1,200)
Defects / upgrades	-	-	-	-	28,635
			<u>\$ 3,014,396</u>	<u>\$ 134,401</u>	<u>\$ 182,063</u>

* Required statutory funding for the year ended December 31, 2014, of \$134,401 is the amount of assessments necessary to bring reserves up to the level necessary to avoid a special assessment based upon the upper bound of the estimated remaining useful life. This disclosure is made in accordance with Florida Statute §718.111(13).

See auditors' report on supplementary information.