



Lake Monticello Owners' Association

Financial Statements

Year Ended December 31, 2007

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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, 2007, 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 2006 financial statements dated May 1, 2007, and 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, 2007, 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 made 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 1, 2008

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Financial Statements

LAKE MONTICELLO OWNERS' ASSOCIATION

Balance Sheet

At December 31, 2007

(With Comparative Totals for 2006)

Assets	2007	2006
Cash, including interest bearing deposits	\$ 903,509	\$ 524,557
Investments available for resale, at fair market value	8,077,534	8,569,913
Assessments receivable, less allowance for uncollectibles of \$101,062 and \$95,860	181,741	168,134
Other receivables	43,350	54,967
Accrued interest receivable	87,946	85,246
Prepaid expenses	79,848	78,250
Inventories	47,260	42,853
Fixed assets, net of accumulated depreciation	4,369,788	3,833,972
Total assets	\$ 13,790,976	\$ 13,357,892
Liabilities		
Accounts payable and accrued expenses	\$ 351,375	\$ 311,627
Refundable owners' building deposits	23,827	42,157
Bar code deposits	1,680	1,620
Deferred revenues:		
Assessments and fees received in advance	414,611	191,220
Total liabilities	\$ 791,493	\$ 546,624
Association Equity		
Reserved:		
Swimming pool construction	\$ 656,835	\$ 645,830
Major repairs and replacements	(1,288)	109,441
Roads/new home construction	1,265	-
Capital projects - property transfer fees	310,314	363,187
Restricted:		
Proceeds from sale of Lake Monticello Service Company	6,630,063	6,630,063
Undesignated reserves	88,960	21,857
Investment in net property and equipment	4,369,788	3,833,972
Unreserved/undesignated	836,931	1,192,425
Accumulated other comprehensive income	106,615	14,493
Total association equity	\$ 12,999,483	\$ 12,811,268
Total liabilities and association equity	\$ 13,790,976	\$ 13,357,892

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, 2007
(With Comparative Totals for 2006)

	2007	2006
Revenues		
Owner dues, assessments and related charges	\$ 2,188,153	\$ 2,126,881
Property transfer fees	156,500	223,500
Environmental control committee fees	17,558	21,953
Recreation fees	236,489	227,871
Golf and related fees	677,765	668,895
Sales of merchandise and related items, less cost of sales of \$263,030 and \$225,858	163,841	153,434
Barcode income	94,865	90,899
Cable income	119,607	115,594
Interest/investment income, net	537,851	584,825
New home construction fee	31,781	49,120
Other	94,218	135,094
Total revenues	\$ 4,318,628	\$ 4,398,066
Expenses		
Administrative services	\$ 1,005,452	\$ 942,668
General maintenance	533,659	507,968
Recreation	207,877	206,413
Pool snack bar	16,130	17,353
Eagles Nest	153,559	141,551
Golf	794,423	753,958
Security	783,779	767,892
Other	727,656	1,105,956
Total expenses	\$ 4,222,535	\$ 4,443,759
Excess of revenues over expenses	\$ 96,093	\$ (45,693)
Net unrealized gains (losses) on investments	92,122	(118,065)
Net changes in equity	\$ 188,215	\$ (163,758)

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, 2007
(With Comparative Totals for 2006)

	Reserved				
	Swimming Pool Construc- tion	Major Repairs and Replace- ments	Roads- Dues	Roads- New Home Fees	Capital Projects Property Transfer Fee
Association equity, January 1, 2006	\$ 629,343	\$ 232,645	\$ -	\$ -	\$ 521,702
Excess (deficiency) of revenues over expenses	16,487	13,169	805	49,583	234,857
Net unrealized gains (losses) on investments	-	-	-	-	-
Transfers					
Depreciation recovery	-	-	-	-	-
Operating contribution	-	129,619	-	-	-
Roads	-	-	(117,430)	(49,583)	-
Road dues	-	-	116,625	-	-
Other	-	3,500	-	-	(83,044)
Property and equipment:					
Acquisitions	-	(155,151)	-	-	(310,328)
Dispositions	-	-	-	-	-
Special projects	-	(114,341)	-	-	-
Association equity, December 31, 2006	\$ 645,830	\$ 109,441	\$ -	\$ -	\$ 363,187
Excess (deficiency) of revenues over expenses	14,819	4,343	-	32,200	164,788
Net unrealized gains (losses) on investments	-	-	-	-	-
Transfers					
Depreciation recovery	-	267,555	-	-	-
Operating contribution	(3,814)	(541)	-	(193)	-
Roads	-	-	-	(30,742)	-
Road dues	-	-	-	-	-
Other	-	-	-	-	-
Property and equipment:					
Acquisitions	-	-	-	-	(217,661)
Dispositions	-	-	-	-	-
Special projects	-	(382,086)	-	-	-
Association equity, December 31, 2007	\$ 656,835	\$ (1,288)	\$ -	\$ 1,265	\$ 310,314

<u>Restricted</u> <u>Sale of</u> <u>Lake</u> <u>Monticello</u> <u>Service</u> <u>Company</u>	<u>Undesignated</u> <u>Reserves</u>	<u>Investment</u> <u>in Property</u> <u>and</u> <u>Equipment</u>	<u>Un-</u> <u>reserved/</u> <u>Un-</u> <u>designated</u>	<u>Accumulated</u> <u>Other</u> <u>Compre-</u> <u>hensive</u> <u>Income</u>	<u>Total</u>
\$ 6,630,063	\$ 18,594	\$ 3,608,522	\$ 1,201,599	\$ 132,558	\$ 12,975,026
-	911	(262,185)	(99,320)	-	(45,693)
-	-	-	-	(118,065)	(118,065)
-	-	-	-	-	-
-	1,259	-	(130,878)	-	-
-	-	-	167,013	-	-
-	-	-	(116,625)	-	-
-	1,093	-	78,451	-	-
-	-	490,175	(24,696)	-	-
-	-	(2,540)	2,540	-	-
-	-	-	114,341	-	-
\$ 6,630,063	\$ 21,857	\$ 3,833,972	\$ 1,192,425	\$ 14,493	\$ 12,811,268
-	67,937	(277,536)	89,542	-	96,093
-	-	-	-	92,122	92,122
-	-	-	(267,555)	-	-
-	(834)	-	5,382	-	-
-	-	-	30,742	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	813,352	(595,691)	-	-
-	-	-	-	-	-
-	-	-	382,086	-	-
\$ 6,630,063	\$ 88,960	\$ 4,369,788	\$ 836,931	\$ 106,615	\$ 12,999,483

LAKE MONTICELLO OWNERS' ASSOCIATION

Statement of Cash Flows

Year Ended December 31, 2007
(With Comparative Totals for 2006)

	2007	2006
Cash flows provided (used) by operating activities:		
Net change in equity	\$ 188,215	\$ (163,758)
Adjustments to reconcile net cash provided (used) by operating activities:		
Depreciation	277,536	262,185
Provision for uncollectibles	15,561	(27,926)
Unrealized (gains) losses on investments	(92,122)	118,065
Loss on disposal of assets	-	2,539
Changes in:		
Receivables	(7,192)	42,313
Accrued interest receivable	(2,700)	(6,530)
Prepaid expenses	(1,598)	(12,967)
Inventories	(4,407)	(4,193)
Accounts payable and accrued expenses	39,748	5,359
Refundable owners' building deposits	(18,330)	(48,972)
Barcode deposits	60	330
Assessments and fees received in advance	223,391	(119,819)
Net cash provided (used) by operating activities	\$ 618,162	\$ 46,626
Cash flows provided (used) by investing activities:		
Sale (purchase) of investments, net	\$ 574,142	\$ 187,257
Purchase of fixed assets	(813,352)	(490,175)
Net cash provided (used) by investing activities	\$ (239,210)	\$ (302,918)
Net increase (decrease) in cash and cash equivalents	\$ 378,952	\$ (256,292)
Cash and cash equivalents, beginning of year	524,557	780,849
Cash and cash equivalents, end of year	\$ 903,509	\$ 524,557

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, 2007

NOTE 1—ORGANIZATION AND PURPOSE:

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:

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 \$82,369 at December 31, 2007 and \$67,050 at December 31, 2006.

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 a semi-annual basis as more fully described in Note 6.

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements
As of December 31, 2007 (Continued)

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

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 in the amount of \$500 per lot 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.

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, 2007 (Continued)

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

Concentration of Credit Risk: Financial instruments which potentially subject the Association to concentration of credit risk consist primarily of investments. At December 31, 2007, 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, 2007 and 2006 exceeded federally insured limits imposed on financial institutions in the amount of \$748,352 and \$287,701 respectively. Bank accounts are maintained only with high credit quality financial institutions.

The Association utilizes two 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 totals are presented for information purposes only.

NOTE 3—CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consist of the following:

	<u>2007</u>	<u>2006</u>
Cash on hand and petty cash	\$ 2,995	\$ 2,725
Cash in banks	<u>900,514</u>	<u>521,832</u>
Total	<u>\$ 903,509</u>	<u>\$ 524,557</u>

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

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements
As of December 31, 2007 (Continued)

NOTE 4—RESTRICTED AND RESERVED CASH AND INVESTMENTS:

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>2007</u>	<u>2006</u>
Major repairs and replacements (future years)	\$ (1,288)	\$ 109,441
Swimming pool construction *	406,834	395,830
Capital projects - property transfer fees	<u>302,045</u>	<u>346,917</u>
Total reserved cash and investments	<u>\$ 707,591</u>	<u>\$ 852,188</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, 2007.

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, 2007. 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, 2007 is as follows:

	Debt obligations		Fair Market Value	
	<u>Maturity Date Ranges</u>	<u>Cost Basis*</u>	<u>2007</u>	<u>2006</u>
Investments with Smith Barney, Inc.				
Cash and money market funds	-	\$ 447,355	\$ 447,355	\$ 977,811
Corporate debt	2008-2027	2,713,163	2,737,882	2,726,803
U.S. Government Securities	2008-2045	2,877,928	2,912,215	3,909,283
Mutual funds	-	216,474	267,507	357,974
Certificates of deposit	2008	<u>1,716,000</u>	<u>1,712,575</u>	<u>598,042</u>
Total		<u>\$ 7,970,920</u>	<u>\$ 8,077,534</u>	<u>\$ 8,569,913</u>

* 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.

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements
As of December 31, 2007 (Continued)

NOTE 5—INVESTMENTS: (Continued)

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

	<u>2007</u>	<u>2006</u>
Sales and redemptions of securities	\$ 1,633,745	\$ 942,000
Gross realized gains	62,570	138,033
Gross realized gains (losses)	(1,210)	(6,836)
Net unrealized gains (losses) at December 31:		
Gains	132,616	126,146
Losses	<u>(26,001)</u>	<u>(111,653)</u>
Net	<u>\$ 106,615</u>	<u>\$ 14,493</u>

The first in - first out method was used in determining cost 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 14 for additional details of investment income.

NOTE 6—ACCOUNTS RECEIVABLE/DUES AND ASSESSMENTS:

Association dues are assessed on numbered residential lots and Marina Point Units as of January 1 and July 1, and may be attached as enforceable liens on property as of January 31 and July 31. Dues, assessments and fees are due in January and July of each year. First half dues not paid by January 31 will cause the second half dues to be accelerated and the entire balance for the year will be due by February 28.

It is the practice of the Association to bill property owners for one-half (½) of the annual billings in December of the year preceding the year for which they are assessed. 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 \$101,062 and \$95,860 at December 31, 2007 and 2006, respectively. Uncollectible accounts are charged off when management has exhausted all available legal collection procedures.

There are six substantially delinquent accounts which total \$114,622 or approximately 41% of the balance of dues receivable as of December 31, 2007.

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements
As of December 31, 2007 (Continued)

NOTE 6—ACCOUNTS RECEIVABLE/DUES AND ASSESSMENTS:

Summary of accounts and dues receivable at December 31:

	<u>2007</u>	<u>2006</u>
Dues and finance charges	\$ 282,803	\$ 263,994
Allowance for uncollectible dues	<u>(101,062)</u>	<u>(95,860)</u>
Net dues receivable	<u>\$ 181,741</u>	<u>\$ 168,134</u>
Other receivables:		
Property transfer fees	\$ 1,500	\$ 6,500
Cable franchise fee	30,842	29,153
Virginia Department of Environmental Quality	6,654	6,654
Others	<u>4,354</u>	<u>12,660</u>
Total other receivables	<u>\$ 43,350</u>	<u>\$ 54,967</u>

NOTE 7—INVENTORIES:

Association inventories at December 31, consisted of the following:

	<u>2007</u>	<u>2006</u>
Food and beverages	\$ 4,548	\$ 2,649
Paper supplies	1,732	694
Gasoline for resale	9,449	4,099
Maintenance gasoline	4,891	4,902
Merchandise and supplies for resale	<u>26,640</u>	<u>30,509</u>
Total	<u>\$ 47,260</u>	<u>\$ 42,853</u>

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements
As of December 31, 2007 (Continued)

NOTE 8—FIXED ASSETS:

Changes in fixed assets during the year are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Association				
Land	\$ 580,827	\$ -	\$ -	\$ 580,827
Golf course	865,000	-	-	865,000
Buildings and facilities	1,146,770	16,750	-	1,163,520
Automobiles and trucks	353,835	53,211	20,261	386,785
Equipment	1,354,866	170,910	21,880	1,503,896
Furniture and fixtures	106,817	21,372	700	127,489
Improvements to buildings and recreational areas	<u>2,678,320</u>	<u>551,109</u>	<u>22,126</u>	<u>3,207,303</u>
Total	\$ 7,086,435	\$ 813,352	\$ 64,967	\$ 7,834,820
Accumulated depreciation	<u>\$ (3,252,463)</u>	<u>\$ (277,536)</u>	<u>\$ (64,967)</u>	<u>\$ (3,465,032)</u>
Net fixed assets	<u>\$ 3,833,972</u>	<u>\$ 535,816</u>	<u>\$ -</u>	<u>\$ 4,369,788</u>

Fixed assets were derived from the following sources:

	<u>2007</u>	<u>2006</u>
Association revenues	\$ 6,289,794	\$ 5,541,409
Original developer contributions *	<u>1,545,026</u>	<u>1,545,026</u>
Total	<u>\$ 7,834,820</u>	<u>\$ 7,086,435</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.

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements
As of December 31, 2007 (Continued)

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, 2007 and 2006 totaled \$414,611 and \$191,220, 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—RETIREMENT PLANS:

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 \$29,071 and \$25,073 for 2007 and 2006, respectively. Administrative fees were \$3,787 and \$4,260 for 2007 and 2006, respectively.

NOTE 11—OPERATING LEASES:

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 \$54,165 for 2007 and \$43,920 for 2006. Future minimum lease payments under these noncancellable operating leases are as follows:

2008	\$	65,318
2009		65,318
2010		60,514
2011		50,904
2012		<u>12,726</u>
Total	\$	<u><u>254,780</u></u>

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements
As of December 31, 2007 (Continued)

NOTE 12—FUTURE MAJOR REPAIRS AND REPLACEMENT RESERVES:

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 Board of Directors approved the establishment of a reserve for major repairs and replacements during the 1994 budget process. The study recommended that \$980,717 in funding contributions and interest would be needed in 2007 to result in the desired reserve balance of \$29,825 by December 31, 2007. Actual contribution sources added to the beginning balance of \$376,997 were interest income of \$8,883 and 2007 depreciation funding of \$277,536. After expenditures of \$383,961 the resulting fund balance is \$279,405 as of January 1, 2008.

The Board authorized the expenditure of \$395,914 from the reserve for replacements during the 2007 budget process. \$383,961 was actually expended.

The reserve study also recommended \$687,894 in funding contributions and interest for a road reserve. LMOA has separated the current road maintenance program from the general replacement fund; to that end, \$32,006 was funded from the 2007 New Home Construction fee/interest, \$190,659 from long-term investment funds (growth/long-term investment), \$138,900 from 2007 dues, and \$48,900 from reserves for replacements for a total of \$410,465. An additional \$217,661 in culvert replacement was funded from property transfer fees. A minimum of \$25.00 of the annual dues per lot is set aside for the road program.

\$216,012 in funding contributions was recommended for a lake reserve. LMOA had a balance forward of \$75,013 from 2006 dues, \$41,000 from the long term investment funds (discretionary), \$239,268 from 2007 dues, and \$2,853 through the remaining grant funds. \$298,082 was expended for an ending balance of \$60,052. A minimum of \$48.00 of the annual dues per lot is set aside for the lake program.

NOTE 13—COMMITMENTS AND CONTINGENCIES:

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 December 2007, the Association authorized the construction of an operations building at a cost not to exceed \$400,000. This construction is funded through the 2008 budget and is expected to be paid in 2008.

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements
As of December 31, 2007 (Continued)

NOTE 14—INVESTMENT INCOME:

Investment income consists of the following:

	<u>2007</u>	<u>2006</u>
Interest	\$ 516,063	\$ 570,733
Dividends from mutual funds	5,104	20,928
Net realized gains (losses) on sales of securities	16,684	(6,836)
Unrealized gains (losses) on investments	92,122	(118,065)
Total net investment income	<u>\$ 629,973</u>	<u>\$ 466,760</u>

Investment income has been allocated as follows:

Reserved activity:

Swimming pool construction	\$ 14,819	\$ 16,487
Major repairs and replacement	4,343	13,170
Road dues	-	805
Roads - new home construction fee	419	463
Property transfer fees	8,288	11,356

Unreserved activities:

Undesignated reserves	3,121	910
Operations	553,405	390,371
Board Discretionary Fund	19,845	13,558
Board Growth Fund	21,242	14,270
Depreciation escrow	4,491	5,370
Total investment income	<u>\$ 629,973</u>	<u>\$ 466,760</u>

At December 31, Unrealized gains/losses on investments are allocated as follows:

Operations	\$ 55,581	\$ (72,515)
Board Growth Fund	51,034	87,008
Total	<u>\$ 106,615</u>	<u>\$ 14,493</u>

NOTE 15—SALE OF LAKE MONTICELLO SERVICE COMPANY:

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, 2007 (Continued)

NOTE 16—RESTRICTED FUNDS:

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 17—RESERVED EQUITY:

Equity has been reserved for the following:

	<u>2007</u>	<u>2006</u>
Swimming Pool Construction	\$ 656,835	\$ 645,830
Major repairs and replacement (future years)	(1,288)	109,441
Roads/new home construction	1,265	-
Capital projects - property transfer fees	310,314	363,187

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].

LAKE MONTICELLO OWNERS' ASSOCIATION

Notes to Financial Statements
As of December 31, 2007 (Continued)

NOTE 17—RESERVED EQUITY: (Continued)

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].

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 \$656,835 and \$645,830 at December 31, 2007 and 2006, respectively.

NOTE 18—UNDESIGNATED EQUITY:

Included in undesignated equity are the Board of Directors' Discretionary and Growth funds which totaled \$515,330 and \$834,745 at December 31, 2007 and 2006, respectively.

NOTE 19—SUBSEQUENT EVENT:

In January 2008, the Board of Directors authorized the purchase of an amphibious excavator with a cost of approximately \$192,000, the expansion of the swimming pool deck, and the issuance of a request for proposal for pool house renovations. The cost of the swimming pool deck is estimated to approximate \$60,000. The estimated pool house renovation costs are not known.

Supplemental Information

LAKE MONTICELLO OWNERS' ASSOCIATION

Departmental Revenues and Expenses

Year Ended December 31, 2007
(With Comparative Totals for 2006)

	<u>Administration</u>	<u>General Maintenance</u>	<u>Recreation</u>
Revenues			
Dues, assessments and related charges	\$ -	\$ -	\$ -
Property transfer fees	-	-	-
Environmental Control Committee fees	-	-	-
Recreation fees	-	-	236,489
Golf and related fees	-	-	-
Sales of merchandise and related items	-	-	119,018
Cost of sales	-	-	(108,703)
Barcode income	-	-	-
Cable income	119,607	-	-
Interest/investment income, net	405,474	-	-
New home construction fee	-	-	-
Other	41,454	12,411	-
Total revenues	<u>\$ 566,535</u>	<u>\$ 12,411</u>	<u>\$ 246,804</u>
Operating expenses			
Compensation/benefits	\$ 615,185	\$ 326,345	\$ 108,438
Administrative	96,102	7,618	4,718
Transportation	3,904	26,330	-
Utilities	35,239	5,984	24,825
Buildings/grounds repairs and maintenance	8,314	89,093	9,813
Equipment repairs and maintenance	51,603	29,576	5,735
Irrigation	-	-	-
Non-capital purchases	3,626	3,044	2,124
Professional services	148,118	3,577	-
Equipment leases	-	-	-
Road maintenance	-	-	-
Other	4,494	2,173	13,982
Total operating expenses	<u>\$ 966,585</u>	<u>\$ 493,740</u>	<u>\$ 169,635</u>
Operating profit (loss)	<u>\$ (400,050)</u>	<u>\$ (481,329)</u>	<u>\$ 77,169</u>
Other expenses (income)			
Depreciation	\$ 38,867	\$ 39,919	\$ 38,242
Improved property (income) expense	-	-	-
Provision for uncollectible dues	-	-	-
Projects from MR & R	-	-	-
Lake expenses	-	-	-
Road project fund	-	-	-
(Gain) loss on disposition of assets	-	-	-
Total other (income) expenses	<u>\$ 38,867</u>	<u>\$ 39,919</u>	<u>\$ 38,242</u>
Net departmental income (loss)	<u>\$ (438,917)</u>	<u>\$ (521,248)</u>	<u>\$ 38,927</u>
Unrealized gains (losses) on investments	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in equity	<u><u>\$ (438,917)</u></u>	<u><u>\$ (521,248)</u></u>	<u><u>\$ 38,927</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>
\$ -	\$ -	\$ -	\$ -	\$ 2,188,153	\$ 2,188,153	\$ 2,126,881
-	-	-	-	156,500	156,500	223,500
-	-	-	17,558	-	17,558	21,953
-	-	-	-	-	236,489	227,871
-	-	677,765	-	-	677,765	668,895
39,564	205,418	62,871	-	-	426,871	379,292
(17,988)	(86,771)	(49,568)	-	-	(263,030)	(225,858)
-	-	-	94,865	-	94,865	90,899
-	-	-	-	-	119,607	115,594
-	-	-	-	132,377	537,851	584,825
-	-	-	-	31,781	31,781	49,120
-	-	-	34,353	6,000	94,218	135,094
<u>\$ 21,576</u>	<u>\$ 118,647</u>	<u>\$ 691,068</u>	<u>\$ 146,776</u>	<u>\$ 2,514,811</u>	<u>\$ 4,318,628</u>	<u>\$ 4,398,066</u>
\$ 12,872	\$ 111,897	\$ 427,751	\$ 624,444	\$ -	\$ 2,226,932	\$ 2,107,709
245	1,703	56,204	51,560	-	218,150	180,562
-	-	8,881	38,133	-	77,248	75,216
690	13,743	19,903	4,918	-	105,302	90,315
166	6,263	63,003	831	-	177,483	166,543
-	1,192	45,587	16,093	-	149,786	169,031
-	-	20,861	-	-	20,861	17,511
478	811	5,320	2,695	-	18,098	11,434
-	340	-	-	-	152,035	170,971
-	-	49,360	-	-	49,360	43,920
-	-	-	-	138,000	138,000	116,625
981	10,314	18,967	3,313	3,625	57,849	42,406
<u>\$ 15,432</u>	<u>\$ 146,263</u>	<u>\$ 715,837</u>	<u>\$ 741,987</u>	<u>\$ 141,625</u>	<u>\$ 3,391,104</u>	<u>\$ 3,192,243</u>
<u>\$ 6,144</u>	<u>\$ (27,616)</u>	<u>\$ (24,769)</u>	<u>\$ (595,211)</u>	<u>\$ 2,373,186</u>	<u>\$ 927,524</u>	<u>\$ 1,205,823</u>
\$ 698	\$ 7,296	\$ 78,586	\$ 41,792	\$ 32,136	\$ 277,536	\$ 262,185
-	-	-	-	(37,015)	(37,015)	(46,671)
-	-	-	-	15,561	15,561	(27,926)
-	-	-	-	41,000	41,000	136,994
-	-	-	-	277,849	277,849	254,102
-	-	-	-	256,500	256,500	670,293
-	-	-	-	-	-	2,539
<u>\$ 698</u>	<u>\$ 7,296</u>	<u>\$ 78,586</u>	<u>\$ 41,792</u>	<u>\$ 586,031</u>	<u>\$ 831,431</u>	<u>\$ 1,251,516</u>
\$ 5,446	\$ (34,912)	\$ (103,355)	\$ (637,003)	\$ 1,787,155	\$ 96,093	\$ (45,693)
-	-	-	-	92,122	92,122	(118,065)
<u>\$ 5,446</u>	<u>\$ (34,912)</u>	<u>\$ (103,355)</u>	<u>\$ (637,003)</u>	<u>\$ 1,879,277</u>	<u>\$ 188,215</u>	<u>\$ (163,758)</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, 2007

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:

<u>Components</u>	<u>Remaining Estimated Useful Lives (Years)</u>	<u>Estimated Future Replacement Costs</u>	<u>2008 Replacement Recommendations</u>
Main Clubhouse:			
Exterior	2 to 7	\$ 429,406	\$ 11,000
Interior	1 to 17	422,584	20,800
Furnishings	1 to 17	276,277	2,500
Building systems/equipment	1 to 12	1,302,251	23,860
Miscellaneous	N/A	-	10,000
Site elements	4 to 20	501,674	-
Recreation			
Beaches	2 to 19	836,990	8,000
Marina	1 to 20	614,870	30,000
Playgrounds	1 to 15	461,761	26,525
Swimming Pool/SB	1 to 21	2,295,878	9,000
Tennis/Basketball Courts	2 to 8	779,750	-
Maintenance			
Equipment	1 to 20	2,324,737	130,800
Buildings	8 to 17	197,932	-
Security			
Equipment	1 to 15	2,553,285	28,348
Golf			
Golf Course	1 to 19	4,436,741	133,000
Pro Shop, Barn, and Maintenance Buildings	1 to 15	1,367,539	3,000
Equipment	1 to 15	3,561,988	6,476
Roads	1 to 14	12,220,491	50,000
Lake	1 to 29	7,813,367	222,528
Total		\$ <u>42,397,521</u>	\$ <u>715,837</u>

In 2007, programmed replacements in the amounts of \$383,961 were provided from major repairs and replacement reserves. Funding sources for future years in the amount of \$376,997 were established in 2006. Sources for this purpose in 2007 included 2007 interest income of \$8,833 and 2007 depreciation of \$277,536.

In 2007, programmed expenditures for road maintenance of \$409,200 were expended. Funding sources for road maintenance were provided by the 2007 New Home Construction fee/interest of \$32,006, from long-term investment funds (growth) in the amount of \$190,659, from reserve for replacement funds in the amount of \$48,900, and from 2007 dues/interest in the amount of \$138,900 for a total of \$410,465. An additional \$217,661 for culvert replacements was funded by Property Transfer fees.

Roads

A program to fund future road improvements and repair within the Reserve Plan is in progress. The current 8-year road program was completed in 2007 at a cost of \$577,961 from sources other than the Reserve Plan in 2007. A minimum of \$25 of the annual dues per lot is set aside for the roads program.

Lake

\$216,012 in funding contributions was recommended for a lake reserve. LMOA funded \$403,428 from prior year dues (\$75,013), 2007 dues (\$239,268), long term investments (discretionary) (\$41,000), and through remaining grant funds (\$2,853). A minimum of \$48.00 of the annual dues per lot is set aside for the lake program.

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