

Majestic Beach Resort
Community Association, Inc.

Financial Statements and
Supplementary Information

December 31, 2010

DRAFT

Majestic Beach Resort Community Association, Inc.
Table of Contents
December 31, 2010

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Balance Sheet	2
Statement of Revenue, Expenses and Changes in Fund Balances	3
Statement of Cash Flows	4 - 5
Notes to Financial Statements	6 - 10
SUPPLEMENTARY INFORMATION:	
Schedules of Assets, Liabilities and Fund Balances by Condominium	11 - 13
Schedules of Revenue, Expenses and Changes in Fund Balances by Condominium	14 - 16
Schedule of Changes in Replacement Fund Balances	17
Supplementary Information on Future Major Repairs and Replacements	18

DRAFT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Majestic Beach Resort Community Association, Inc.
Panama City Beach, Florida

We have audited the accompanying balance sheet of Majestic Beach Resort Community Association, Inc. as of December 31, 2010, and the related statements of revenue, expenses, and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the management of Majestic Beach Resort Community Association, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Majestic Beach Resort Community Association, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules on pages 11-17 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of the Association's management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements on page 18 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 the sufficient evidence to express an opinion or provide any assurance.

Carr, Riggs & Ingram, L.L.C.

Mary Esther, Florida
March 11, 2011

DRAFT

Majestic Beach Resort Community Association, Inc.

Balance Sheet

December 31,

2010

	Operating Fund	Maintenance Contingency/ Working Capital Fund	Replacement Fund	Total
Assets				
Cash	\$ 384,268	\$ 291,766	\$ 468,122	\$ 1,144,156
Accounts receivable	99,779	-	-	99,779
Interfund accounts	-	49	-	49
Prepaid expenses	143,550	-	-	143,550
Property and equipment, net	25,108	-	-	25,108
Total assets	\$ 652,705	\$ 291,815	\$ 468,122	\$ 1,412,642

Liabilities and Fund Balances

Liabilities

Accounts payable	\$ 156,377	\$ -	\$ -	\$ 156,377
Interfund accounts	49	-	-	49
Insurance note payable	97,305	-	-	97,305
Taxes payable	88	-	-	88
Prepaid assessments	200,000	-	-	200,000
Total liabilities	453,819	-	-	453,819
Fund balances	198,886	291,815	468,122	958,823
Total liabilities and fund balances	\$ 652,705	\$ 291,815	\$ 468,122	\$ 1,412,642

DRAFT

See accompanying notes to financial statements.

Majestic Beach Resort Community Association, Inc.

Statement of Revenue, Expenses and Changes in Fund Balances

Year ended December 31,

2010

	Operating Fund	Maintenance Contingency/ Working Capital Fund	Replacement Fund	Total
Revenue				
Assessment fees	\$ 3,007,787	\$ -	\$ 218,145	\$ 3,225,932
Late fees	46,796	-	-	46,796
Lease income	59,500	-	-	59,500
Interest income	-	3,288	5,585	8,873
Miscellaneous	9,292	-	-	9,292
				-
Total revenue	3,123,375	3,288	223,730	3,350,393
Expenses				
Administrative	252,420	-	-	252,420
Bad debts	132,379	-	-	132,379
Depreciation	11,288	-	-	11,288
Income tax	1,066	-	-	1,066
Insurance	323,189	-	-	323,189
Personnel	484,149	-	-	484,149
Repairs and maintenance	787,017	-	325,996	1,113,013
Replacement fund contribution	55,177	-	-	55,177
Security	415,040	-	-	415,040
Utilities	782,216	-	-	782,216
				-
Total expenses	3,243,941	-	325,996	3,569,937
Excess (deficit) revenue over expenses	(120,566)	3,288	(102,266)	(219,544)
Beginning fund balances	316,706	291,273	570,388	1,178,367
Interfund transfers	2,746	(2,746)	-	-
Ending fund balances	\$ 198,886	\$ 291,815	\$ 468,122	\$ 958,823

DRAFT

See accompanying notes to financial statements.

Majestic Beach Resort Community Association, Inc.

Statement of Cash Flows

Year ended December 31

2010

	Operating Fund	Maintenance Contingency/ Working Capital Fund	Replacement Fund	Total
Operating activities				
Regular assessments collected	\$ 3,023,255	\$ -	\$ 218,145	\$ 3,241,400
Interest received	-	3,288	5,585	8,873
Other income	115,588	-	-	115,588
Cash paid for operating expenses	(3,098,674)	-	(325,996)	(3,424,670)
Net cash provided by (used in) operating activities	40,169	3,288	(102,266)	(58,809)
Investing activities				
Purchase of equipment	(13,573)	-	-	(13,573)
Financing activities				
Interfund accounts	2,795	(2,795)	-	-
Net increase (decrease) in cash	29,391	493	(102,266)	(72,382)
Cash at beginning of year	354,877	291,273	570,388	1,216,538
Cash at end of year	\$ 384,268	\$ 291,766	\$ 468,122	\$ 1,144,156

(Continued on next page)

DRAFT

See accompanying notes to financial statements.

Majestic Beach Resort Community Association, Inc.

Statement of Cash Flows (Continued)

Year ended December 31

2010

	Operating Fund	Maintenance Contingency/ Working Capital Fund	Replacement Fund	Total
Reconciliation of excess (deficit)				
revenue over expenses to net				
cash provided by (used in)				
operating activities:				
Excess (deficit) revenue				
over expenses	\$ (120,566)	\$ 3,288	\$ (102,266)	\$ (219,544)
Adjustments to reconcile excess				
(deficit) revenue over expenses to				
net cash provided by (used in)				
operating activities:				
Bad debts	132,079	-	-	132,079
Depreciation	11,288	-	-	11,288
(Increase) decrease in assets:				
Accounts receivable	(64,129)	-	-	(64,129)
Prepaid expense	32,606	-	-	32,606
Increase (decrease) in liabilities:				
Accounts payable	86,848	-	-	86,848
Insurance note payable	14,885	-	-	14,885
Taxes payable	(360)	-	-	(360)
Prepaid assesments	(52,482)	-	-	(52,482)
Net cash provided by (used in)				
operating activities	\$ 40,169	\$ 3,288	\$ (102,266)	\$ (58,809)

DRAFT

See accompanying notes to financial statements.

NOTE 1 - NATURE OF ORGANIZATION

Majestic Beach Resort Community Association, Inc was incorporated April 13, 2005, under the Laws of the State of Florida, as a not-for-profit corporation for the operation, management, maintenance and control of Majestic Beach Resort Condominiums, Panama City Beach, FL. The complex consists of two high rise buildings; Tower One with 329 residential condominium units and 21 commercial units and Tower Two with 194 residential condominium units and 10 commercial units. The condominiums are located in Bay County, Florida.

The Association was organized for the purpose of maintaining and protecting the elements owned by the unit owners in common, including roofs, building exteriors, elevators, parking areas and landscaping, etc. Disposition of common area property requires consent of the members.

Management and accounting services are provided to the Association by Majestic Beach Management Company, LLC. The Association itself does not have a rental program; however, the individual unit owners contract separately with various realty companies to manage the rental of their units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Association's significant accounting policies applied in the preparation of the accompanying financial statements is as follows.

Basis of Presentation

The accompanying financial statements include the assets, liabilities, fund balances, revenue, and expenses as determined using the accrual basis of accounting.

Funds

The Association is a not-for-profit organization which employs the fund method of accounting in order to properly account for restrictions on the expenditures resulting from actions of the Board of Directors or the Association voting membership. The financial statements segregate the accounting for such funds as either operating, maintenance contingency/working capital or replacement funds. At the end of the year, excess funds are retained by the fund generating such excess during the year.

The operating fund is used to account for financial resources available for the general operation of the Association. Disbursements from the operating fund are generally at the discretion of the Board of Directors and the Association's manager.

The maintenance contingency/working capital fund is generally used for common maintenance expenses not included in the current year's operating budget.

DRAFT

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds-continued

The replacement fund is generally used to account for assessments made for major repair and replacement of common property, and related expenses. Disbursements from the replacement fund may only be utilized in accordance with Florida Statutes and the purposes established by the Board of Directors and the Association membership. Interest income earned in the replacement fund is allocated to a separate line item.

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 and disclosures. Accordingly, actual results could differ from those estimates.

Accounts Receivable from Owners and Allowance for Doubtful Accounts

Accounts receivable from owners are reported at the outstanding balance due from owners, net of any allowance for doubtful accounts. The outstanding balance primarily consists of assessment fees but may also include other owner billed charges such as late fee, interest and work orders. The Association provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting the receivable. As of December 31, 2010, the balance in the allowance for doubtful accounts totaled \$86,689 for Tower One and \$101,277 for Tower Two for a total of \$187,966.

Capitalization and Depreciation

Real property acquired by the Association is capitalized when it is used to generate significant cash flows from members on the basis of usage or from nonmembers or can be disposed of for cash with the Association retaining the proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses in the fund making the expenditure. Real property not capitalized includes building exteriors, roofs, swimming pools, fencing, landscaping, etc.

Personal property acquired by using the Association's funds is recorded at cost and is depreciated using the straight-line method over its estimated useful lives, which range from 3-7 years.

Revenue Recognition

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as prepaid assessments on the balance sheet.

DRAFT

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement

For the financial statements presented on pages 3-6, interdivision revenue and expenses (i.e. community property expense paid by individual condominiums to the Community Association) have been eliminated.

Subsequent Event

In preparing the financial statements, the Association's management has evaluated events and transactions for potential recognition or disclosure through February 22, 2011, which is the date the financial statements were available to be issued.

NOTE 3 - OWNERS' ASSESSMENTS

Quarterly assessments for Tower One are based on the 2010 owner approved budget and vary according to square footage of the units. Assessments for the residential units range from \$589 to \$2,212 and from \$167 to \$3,634 for the commercial units. Regular assessments for the year ended December 31, 2010 totaled \$1,896,780 of which \$94,559 was allocated to the replacement fund.

Quarterly assessments for Tower Two are based on the 2010 owner approved budget and vary according to square footage of the units. Assessments for the residential units range from \$1,244 to \$2,154 and from \$153 to \$1,113 for the commercial units. Regular assessments for the year ended December 31, 2010 totaled \$1,273,975 of which \$68,409 was allocated to the replacement fund.

NOTE 4 - COMMUNITY PROPERTY EXPENSE

Assessment fees are paid by unit owners based on square footage as mentioned in Note 3. The Community Association pays for certain common expenses that are shared by Tower One and Tower Two. Each tower contributes to the Community Association based on the number of units in each building. The community property expense of \$983,389 and \$579,870 for Tower One and Tower Two, respectively, has been eliminated on the Statement of Revenue, Expenses and Changes in Fund Balances, as mentioned in Note 2.

NOTE 5 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents and Florida Statutes require the Association to accumulate funds for future major repairs and replacements, unless otherwise decided by the voting membership. The Association has adopted a program to accumulate funds for estimated future major repairs and replacements through regular assessments. Accumulated funds are held in separate bank accounts and generally not available for expenditures for normal operations.

The Board of Directors and management annually review the major components of common property. As part of this review, the Board and management re-evaluate the estimated remaining useful lives and estimated replacement costs of each of the components of the replacement fund. Where applicable, licensed contractors are consulted regarding useful lives and replacement costs.

NOTE 5 - FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The Association is funding for future major repairs and replacements over the estimated remaining useful lives of the components based on the Board and management's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the full funding requirement of \$218,145, based on the Board and management's plan, has been included in the 2010 budget.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures, however, may vary from the estimated amounts and the variations may be significant. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

In 2010, the Board of Directors contracted with Dreux Isaac and Associates, Inc. to perform a study of the replacement fund components. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on that study.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The insurance policy for windstorm coverage renewed May 14, 2010. The deductible amount for named hurricane storms for Towers One and Two is estimated at \$1,185,180 which represents 2% of the insured value of the residential buildings.

The Association entered into a contract to paint the two towers, the amenities building and the walkover for \$700,370. As of December 31, 2010, the Association had incurred expenses of \$532,958. The balance of \$167,412 is expected to be paid in 2011.

NOTE 7 - CREDIT RISKS

The Association assesses regular assessments to its members. It is the Association's policy to turn over significantly past due accounts for collection and to file liens against the individual condominium units. Should the collection of any such liens be enforced by the sale of the unit, the collectibility of the receivable is dependent on the quick sale market value of the unit, and the amount of any such other liens which have priority. Market value may be influenced by the real estate market in south Bay County, Florida. In the event that the market value is less than the associated mortgage debt, the Association has other remedies as provided by Florida Statutes to collect past due assessments.

The Association places its cash with federally insured financial institutions. At times, the balances at these financial institutions may exceed the FDIC insured limit.

NOTE 8 - NOTE PAYABLE

The Association obtained a short-term, unsecured note payable to finance its annual insurance premiums. The note is payable in eleven monthly installments of \$24,326 including interest at 3.17%, and matures in April 2011. The balance due as of December 31, 2010 totaled \$97,305.

NOTE 9 - INCOME TAXES

The Association filed its tax return for 2010 as a regular corporation on form 1120. As such the Association must comply with Internal Revenue Code (IRC) Section 277, which applies to certain membership organizations. Under IRC Section 277, the Association is required to separate membership income and expenses from non membership income and expenses. Each component is taxed separately; however, net membership income is exempt from taxation if certain elections are made. For the year ended December 31, 2010, the Association's net non membership income was \$6,607, which resulted in federal and state income taxes of \$978 and \$88 respectively.

Under federal and state income tax laws, the Associations' income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected for examination generally ends at the later of three years after the initial due date of the return or three years after the return is filed. At December 31, 2010, the Association's tax years that may remain subject to examination are 2007, 2008 and 2009.

NOTE 10 - PROPERTY AND EQUIPMENT

Property and Equipment consists of the following:

<u>December 31,</u>	<u>2010</u>
Equipment	\$ 62,323
Less accumulated depreciation	(37,215)
<u>Property and equipment, net</u>	<u>\$ 25,108</u>

Depreciation expense for 2010 totaled \$11,288.

NOTE 11 - DEVELOPER RELATED ACTIVITY

As of December 31, 2010, the developer, Majestic Beach Towers Development LLC, owned 12 residential units and 31 commercial units. For the year ended December 31, 2010, the developer paid residential unit assessments of \$89,500 and commercial unit assessments of \$57,087 which are included in assessment fees on page 3.

NOTE 13 - FORECLOSED UNIT

The Association foreclosed on a unit in 2009 and acquired title at auction. The Association determined that the unit has no net fair market value, and accordingly, no amount is reflected on the accompanying financial statements. This determination was based on the unit having a mortgage associated with it that exceeds any expected sales price. The mortgagor is expected to take additional action on the property in the immediate future. The total amount of any future rents to be collected is unknown.

DRAFT

Supplementary Information

DRAFT

Majestic Beach Resort Community Association, Inc.

Schedule of Assets, Liabilities and Fund Balances

<i>December 31,</i>	2010			
Community Association	Operating Fund	Maintenance Contingency Fund	Replacement Fund	Total
Assets				
Cash	\$ 107,229	\$ 70,615	\$ 129,496	\$ 307,340
Accounts receivable	5,881	-	-	5,881
Intercompany accounts	78,703	-	-	78,703
Prepaid expenses	34,926	-	-	34,926
Property and equipment, net	25,108	-	-	25,108
Total assets	\$ 251,847	\$ 70,615	\$ 129,496	\$ 451,958
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 124,750	\$ -	\$ -	\$ 124,750
Insurance note payable	97,305	-	-	97,305
Taxes payable	88	-	-	88
Total liabilities	222,143	-	-	222,143
Fund balances	29,704	70,615	129,496	229,815
Total liabilities and fund balances	\$ 251,847	\$ 70,615	\$ 129,496	\$ 451,958

DRAFT

Majestic Beach Resort Community Association, Inc.

Schedule of Assets, Liabilities and Fund Balances

<i>December 31,</i>	2010			
Tower One	Operating Fund	Working Capital Fund	Replacement Fund	Total
Assets				
Cash	\$ 165,240	\$ 65,268	\$ 163,866	\$ 394,374
Accounts receivable, net	49,771	-	-	49,771
Intercompany accounts	-	49	-	49
Prepaid expenses	61,362	-	-	61,362
Total assets	\$ 276,373	\$ 65,317	\$ 163,866	\$ 505,556
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 20,152	\$ -	\$ -	\$ 20,152
Intercompany accounts	44,606	-	-	44,606
Prepaid assessments	115,950	-	-	115,950
Total liabilities	180,708	-	-	180,708
Fund balances	95,665	65,317	163,866	324,848
Total liabilities and fund balances	\$ 276,373	\$ 65,317	\$ 163,866	\$ 505,556

DRAFT

Majestic Beach Resort Community Association, Inc.

Schedule of Assets, Liabilities and Fund Balances

<i>December 31,</i>	2010			
Tower Two	Operating Fund	Working Capital Fund	Replacement Fund	Total
Assets				
Cash	\$ 111,799	\$ 155,883	\$ 174,760	\$ 442,442
Accounts receivable, net	44,127	-	-	44,127
Prepaid expenses	47,262	-	-	47,262
Total assets	\$ 203,188	\$ 155,883	\$ 174,760	\$ 533,831

Liabilities and Fund Balances

Liabilities				
Accounts payable	\$ 11,475	\$ -	\$ -	\$ 11,475
Intercompany accounts	34,146	-	-	34,146
Prepaid assessments	84,050	-	-	84,050
Total liabilities	129,671	-	-	129,671
Fund balances	73,517	155,883	174,760	404,160
Total liabilities and fund balances	\$ 203,188	\$ 155,883	\$ 174,760	\$ 533,831

DRAFT

Majestic Beach Resort Community Association, Inc.

Schedule of Revenue, Expenses and Changes in Fund Balances

Year ended December 31,	2010				
	Community Association	Operating Fund	Maintenance Contingency Fund	Replacement Fund	Total
Revenue					
Community property fees	\$ 1,563,259	\$ -	\$ 55,177	\$ 1,618,436	
Lease income	30,000	-	-	30,000	
Interest income	-	646	1,239	1,885	
Miscellaneous	9,292	-	-	9,292	
Total revenue	1,602,551	646	56,416	1,659,613	
Expenses					
Administrative	51,890	-	-	51,890	
Depreciation	11,288	-	-	11,288	
Income tax	1,066	-	-	1,066	
Insurance	52,857	-	-	52,857	
Personnel	484,149	-	-	484,149	
Repairs and maintenance	294,692	-	47,940	342,632	
Replacement fund contribution	55,177	-	-	55,177	
Security	415,040	-	-	415,040	
Utilities	283,577	-	-	283,577	
Total expenses	1,649,736	-	47,940	1,697,676	
Excess (deficit) revenue over expenses	(47,185)	646	8,476	(38,063)	
Beginning fund balances	124,996	21,862	121,020	267,878	
Interfund transfers	(48,107)	48,107	-	-	
Ending fund balances	\$ 29,704	\$ 70,615	\$ 129,496	\$ 229,815	

DRAFT

Majestic Beach Resort Community Association, Inc.

Schedule of Revenue, Expenses and Changes in Fund Balances

<i>Year ended December 31,</i>	2010			
Tower One	Operating Fund	Working Capital Fund	Replacement Fund	Total
Revenue				
Assessment fees	\$ 1,802,221	\$ -	\$ 94,559	\$ 1,896,780
Late fees	25,387	-	-	25,387
Interest income	-	1,064	2,602	3,666
Antenna lease	29,500	-	-	29,500
Total revenue	1,857,108	1,064	97,161	1,955,333
Expenses				
Administrative	125,888	-	-	125,888
Bad debts	65,075	-	-	65,075
Community property	983,389	-	-	983,389
Insurance	152,562	-	-	152,562
Repairs and maintenance	273,250	-	200,533	473,783
Utilities	298,338	-	-	298,338
Total expenses	1,898,502	-	200,533	2,099,035
Excess (deficit) revenue over expenses	(41,394)	1,064	(103,372)	(143,702)
Beginning fund balances	101,832	99,480	267,238	468,550
Interfund transfers	35,227	(35,227)	-	-
Ending fund balances	\$ 95,665	\$ 65,317	\$ 163,866	\$ 324,848

DRAFT

Majestic Beach Resort Community Association, Inc.

Schedule of Revenue, Expenses and Changes in Fund Balances

<i>Year ended December 31,</i>	2010			
Tower Two	Operating Fund	Working Capital Fund	Replacement Fund	Total
Revenue				
Assessment fees	\$ 1,205,566	\$ -	\$ 68,409	\$ 1,273,975
Late fees	21,409	-	-	21,409
Interest income	-	1,578	1,744	3,322
Total revenue	1,226,975	1,578	70,153	1,298,706
Expenses				
Administrative	74,642	-	-	74,642
Bad debts	67,304	-	-	67,304
Community property	579,870	-	-	579,870
Insurance	117,770	-	-	117,770
Repairs and maintenance	219,075	-	77,523	296,598
Utilities	200,301	-	-	200,301
Total expenses	1,258,962	-	77,523	1,336,485
Excess (deficit) revenue over expenses	(31,987)	1,578	(7,370)	(37,779)
Beginning fund balances	89,878	169,931	182,130	441,939
Interfund transfers	15,626	(15,626)	-	-
Ending fund balances	\$ 73,517	\$ 155,883	\$ 174,760	\$ 404,160

DRAFT

Majestic Beach Resort Community Association, Inc.

Schedule of Changes in Replacement Fund Balances

Year ended December 31,

2010

Community Component	Beginning Balance	Revenue	Expenses	Interfund Transfers	Ending Balance
Elevator	\$ 12,285	\$ 4,181	\$ -	\$ -	\$ 16,466
Inspections	-	13,605	(8,000)	-	5,605
Pavement	4,959	1,709	-	-	6,668
Pools Tower One	19,550	6,890	-	-	26,440
Pools Tower Two	11,619	4,063	-	-	15,682
Spas Tower One	2,174	766	-	-	2,940
Spas Tower Two	967	339	-	-	1,306
Garage exterior	10,000	-	-	-	10,000
Walkover #1 painting	15,750	23,624	(39,940)	566	-
Walkover #2 painting	39,938	-	-	(566)	39,372
Interest accumulation	3,778	1,239	-	-	5,017
Total	\$ 121,020	\$ 56,416	\$ (47,940)	\$ -	\$ 129,496

Tower One Component	Beginning Balance	Revenue	Expenses	Interfund Transfers	Ending Balance
Elevators	\$ 50,003	\$ 16,667	\$ -	\$ -	\$ 66,670
Fire sprinkler system	8,332	2,778	-	-	11,110
Generator	3,216	1,071	-	-	4,287
Inspections	-	8,775	-	-	8,775
Painting	147,000	49,000	(200,533)	5,400	867
Roof	40,147	13,383	-	-	53,530
Water pump	8,653	2,885	-	-	11,538
Interest accumulation	5,075	1,203	-	-	6,278
Interest accumulation-paint	4,812	1,399	-	(5,400)	811
Total	\$ 267,238	\$ 97,161	\$ (200,533)	\$ -	\$ 163,866

Tower Two Component	Beginning Balance	Revenue	Expenses	Interfund Transfers	Ending Balance
Elevators	\$ 30,528	\$ 12,155	\$ -	\$ -	\$ 42,683
Fire sprinkler system	6,344	2,116	-	-	8,460
Generator	3,108	1,034	-	-	4,142
Inspections	-	7,950	-	-	7,950
Painting	98,400	32,820	(77,523)	-	53,697
Roof	30,555	10,184	-	-	40,739
Water pump	6,448	2,150	-	-	8,598
Interest accumulation	3,516	843	-	-	4,359
Interest accumulation-paint	3,231	901	-	-	4,132
Total	\$ 182,130	\$ 70,153	\$ (77,523)	\$ -	\$ 174,760

DRAFT

Majestic Beach Resort Community Association, Inc.

Supplementary Information on Future Major Repairs and Replacements(unaudited)

The following table presents significant information about the components of common property.

Component	Community Association	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost	Replacement Fund Balance at 12/31/10
Elevators		15	\$ 75,000	\$ 16,466
Inspections		0-2	14,230	5,605
Pavement		13	27,000	6,668
Pools Tower One		5	54,000	26,440
Pools Tower Two		6	36,000	15,682
Spas Tower One		5	6,000	2,940
Spas Tower Two		6	3,000	1,306
Garage exterior		0	10,000	10,000
Walkover #1 painting		2	63,000	-
Walkover #2 painting		0	39,940	39,372
Interest accumulation		N/A	N/A	5,017
Total			\$ 328,170	\$ 129,496

Component	Tower One	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost	Replacement Fund Balance at 12/31/10
Elevators		15	\$ 300,000	\$ 66,670
Fire sprinkler system		15	50,000	11,110
Generator		25	30,000	4,287
Inspections		0-2	9,400	8,775
Painting		2	245,000	867
Roof		15	240,900	53,530
Water pump		10	37,500	11,538
Interest accumulation		N/A	N/A	6,278
Interest accumulation-paint		N/A	N/A	811
Total			\$ 912,800	\$ 163,866

Component	Tower Two	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost	Replacement Fund Balance at 12/31/10
Elevators		16	\$ 225,000	\$ 42,683
Fire sprinkler system		16	40,200	8,460
Generator		26	30,000	4,142
Inspections		1-2	9,400	7,950
Painting		3	196,800	53,697
Roof		16	193,500	40,739
Water pump		11	30,100	8,598
Interest accumulation		N/A	N/A	4,359
Interest accumulation-paint		N/A	N/A	4,132
Total			\$ 725,000	\$ 174,760

March 11, 2011

To the Board of Directors
Majestic Beach Resort Community Association, Inc.
11212 Front Beach Road
Panama City Beach, Florida 32407

We have audited the financial statements of Majestic Beach Resort Community Association, Inc. for the year ended December 31, 2010, and have issued our report thereon dated March 29, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 7, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Majestic Beach Resort Community Association, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statement was:

Management's estimate of the Allowance for Doubtful Accounts is based on experience and analysis of the individual accounts. We evaluated the key factors and assumptions used to develop the Allowance for Doubtful Accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

DRAFT

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of Significant Accounting Policies-Account Receivable from Owners and Allowance for Doubtful Accounts in Note 2 regarding a balance of \$187,966.
- The disclosure of Contingencies in Note 6 regarding the windstorm deductible of \$1,185,180.
- The disclosure of Credit Risk in Note 8 to the financial statements regarding cash balances in excess of FDIC coverage.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 11, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

DRAFT

Majestic Beach Resort Community Association, Inc.
Page 3

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Majestic Beach Resort Community Association, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs, & Ingram, LLC
Mary Esther, FL 32569

DRAFT

March 11, 2011

To the Board of Directors
Majestic Beach Resort Community Association, Inc.
11212 Front Beach Road
Panama City Beach , FL 32407

In planning and performing our audit of the financial statements of Majestic Beach Resort Community Association, Inc. for the year ended December 31, 2010, we considered Majestic Beach Resort Community Association, Inc.'s internal control structure to determine our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. We have summarized our comment below regarding this matter. This letter does not affect our report dated March 11, 2011 on the financial statements of Majestic Beach Resort Community Association, Inc.

Uninsured Cash Balances

As of December 31, 2010, the Association had over \$1.1 million in various accounts with Regions Bank. Depositors are currently insured for a maximum of \$250,000 per financial institution. In the current economic environment, we recommend that the Association review its policy regarding cash deposits and consult with your financial institution regarding programs that would provide coverage by the FDIC.

We hope the above mentioned recommendation assists you in operating the Association more effectively. We would be happy to discuss this matter with you if you so desire. We very much appreciate Karen and Patti's assistance during the audit and appreciate the opportunity to serve you and look forward to a continuing professional relationship.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be, and should not be, used by anyone other than those specified parties.

Respectfully,

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Mary Esther, Florida

DRAFT