

**Majestic Beach Resort  
Community Association, Inc.**

**Financial Statements and  
Supplementary Information**

**December 31, 2005**

Majestic Beach Resort Community Association, Inc.  
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December 31, 2005

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## 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, 2005, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the period from 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, 2005, 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 Schedule of Operating Fund Expenses-Actual and Budget on pages 11 and 12 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, 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 basic financial statements taken as a whole.

American Institute of  
Certified Public Accountants

Alabama Society of  
Certified Public Accountants

Florida Institute of  
Certified Public Accountants

Mississippi Society of  
Certified Public Accountants

AICPA Alliance for CPA Firms

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The Supplementary Information on Future Major Repairs and Replacements on page 13 is not a required part of the basic financial statements of Majestic Beach Resort Community Association, Inc, but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Cary Riggs & Ingram, L.L.C.*

Mary Esther, Florida  
February 28, 2005

Majestic Beach Resort Community Association, Inc.

Balance Sheet

December 31,

2005

	Community Association	Tower I	Total
<b>Assets</b>			
Cash	\$ 3,910	\$ 214,281	\$ 218,191
Accounts receivable - developer	35,456	-	35,456
Accounts receivable - other	3,530	10,235	13,765
Prepaid expenses	31,351	72,426	103,777
Net property and equipment	6,034	-	6,034
Utility deposits	500	-	500
<b>Total assets</b>	<b>\$ 80,781</b>	<b>\$ 296,942</b>	<b>\$ 377,723</b>

**Liabilities and Fund Balances**

<b>Liabilities</b>			
Accounts payable	\$ 93,559	\$ 12,993	\$ 106,552
Intercompany accounts	57,589	(57,589)	-
Prepaid assessments	-	160,852	160,852
<b>Total liabilities</b>	<b>151,148</b>	<b>116,256</b>	<b>267,404</b>
<b>Fund balances</b>	<b>(70,367)</b>	<b>180,686</b>	<b>110,319</b>
<b>Total liabilities and fund balances</b>	<b>\$ 80,781</b>	<b>\$ 296,942</b>	<b>\$ 377,723</b>

See accompanying notes and independent auditor's report.

Majestic Beach Resort Community Association, Inc.

Statement of Revenue, Expenses and Changes in Fund Balances

For the initial period April 13, 2005(Date of Incorporation)  
through December 31,

2005

	Community Association	Tower I	Total
<b>Revenue</b>			
Assessment fees	\$ -	\$ 419,238	\$ 419,238
Community property fees	248,780	-	248,780
Developer funding	25,739	172,927	198,666
Interest income	-	1,435	1,435
<b>Total revenue</b>	<b>274,519</b>	<b>593,600</b>	<b>868,119</b>
<b>Expenses</b>			
Administrative	30,590	322,349	352,939
Insurance	40,736	152,829	193,565
Personnel	159,447	-	159,447
Repairs and maintenance	47,613	30,921	78,534
Security	17,893	47,886	65,779
Utilities	48,607	94,531	143,138
<b>Total expenses</b>	<b>344,886</b>	<b>648,516</b>	<b>993,402</b>
<b>Excess expenses over revenue</b>	<b>(70,367)</b>	<b>(54,916)</b>	<b>(125,283)</b>
<b>Beginning fund balances</b>	-	-	-
Working capital contributions	-	235,602	235,602
<b>Ending fund balances</b>	<b>\$ (70,367)</b>	<b>\$ 180,686</b>	<b>\$ 110,319</b>

See accompanying notes and independent auditor's report.

# Majestic Beach Resort Community Association, Inc.

## Statement of Cash Flows

*For the initial period April 13, 2005(Date of Incorporation)  
through December 31,*

**2005**

	Community Association	Tower I	Total
<b>Operating activities</b>			
Regular assessments collected	\$ 245,250	\$ 569,855	\$ 815,105
Developer funding	(9,717)	172,927	163,210
Interest received	-	1,435	1,435
Cash paid for operating expenses	(282,970)	(707,949)	(990,919)
<hr/>			
Net cash provided by (used in) operating activities	(47,437)	36,268	(11,169)
<hr/>			
<b>Investing activities</b>			
Purchase of property and equipment	(6,242)	-	(6,242)
<hr/>			
<b>Financing activities</b>			
Working capital contributions	-	235,602	235,602
Interfund accounts	57,589	(57,589)	-
<hr/>			
Net cash provided by financing activities	57,589	178,013	235,602
<hr/>			
<b>Net increase in cash</b>	<b>3,910</b>	<b>214,281</b>	<b>218,191</b>
<hr/>			
<b>Cash at beginning of year</b>	<b>-</b>	<b>-</b>	<b>-</b>
<hr/>			
<b>Cash at end of year</b>	<b>\$ 3,910</b>	<b>\$ 214,281</b>	<b>\$ 218,191</b>

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See accompanying notes and independent auditor's report.

# Majestic Beach Resort Community Association, Inc.

## Statement of Cash Flow-continued

For the initial period April 13, 2005(Date of Incorporation)  
through December 31,

**2005**

	Community Association	Tower I	Total
<b>Reconciliation of excess expenses over revenue to net cash provided by (used in) operating activities:</b>			
Excess expenses over revenue	\$ (70,367)	\$ (54,916)	\$ (125,283)
Adjustments to reconcile excess expenses over revenue to net cash provided by operating activities:			
Depreciation	208	-	208
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	(3,530)	(10,235)	(13,765)
Developer	(35,456)	-	(35,456)
Prepaid expense	(31,351)	(72,426)	(103,777)
Utility deposit	(500)	-	(500)
Increase (decrease) in liabilities:			
Accounts payable	93,559	12,993	106,552
Prepaid assesments	-	160,852	160,852
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (47,437)</b>	<b>\$ 36,268</b>	<b>\$ (11,169)</b>

See accompanying notes and independent auditor's report.

**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 329 residential condominium units and 21 commercial units in one high rise building in Bay County, Florida.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Funds***

The Association uses the fund method of accounting, which requires that funds, such as the operating fund and funds for future major repairs and replacements be classified separately for accounting and reporting purposes.

Fund accounting is helpful in segregating funds having restrictions on their use. Disbursements from the operating fund are made generally at the discretion of the board of directors and property manager. Disbursements from the replacement fund may be made only for their designated purposes.

***Accounts Receivable***

Generally accepted accounting principles require an allowance for doubtful accounts. Since condominium associations have the right to make assessments against unit owners for the operation, administration and maintenance of the condominiums, and since any unpaid assessments become (by law) a lien against the property and should, therefore, eventually be collected by the Association, no provision for doubtful accounts has been made in this instance. In the event a lien becomes non-enforceable and foreclosure is not possible, the delinquent assessments are charged off as bad debts.

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

***Recognition of Assets and Depreciation Policy***

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 5-7 years.

Real and personal common property acquired by the original homeowners from the Developer is not recognized on the Association's financial statement because it is commonly owned by individual owners and its disposition by the Association's Board of Directors is restricted.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

Replacements and improvements to common property are not capitalized, as the improvements would belong to the owners and not the Association.

***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 expenditures during the reporting period. Actual results could differ from the estimates.

**NOTE 3 - OWNERS' ASSESSMENTS**

The quarterly assessments for 2005 are provided for in the Declaration of Condominium and vary according to square footage of the units. The 329 residential units' assessments range from \$336.82 to \$1,264.07 and the 10 commercial units' range from \$86.36 to \$1,880.40. The total assessment fees from owners in 2005 were \$419,238. The Association retains excess operating funds at the end of the year, if any, for use in future operating years.

**NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents requires funds to be accumulated for future major repairs and replacements. However, the Developer controlled Board of Directors exercised their right to waive funding for future major repairs and replacements in 2005. The Declaration of Condominium sets forth in the initial budget the components, estimated remaining useful lives and estimates of the costs of major repairs and replacements that may be required in the future.

As a result of not currently funding for future major repairs and replacements, there will not be any amounts accumulated in the replacement fund to meet future needs. When such repairs and replacements become necessary, the Association has the right to increase regular assessments, pass special assessments or delay major repairs and replacements until the funds are available. The effect on future assessments has not been determined at this time.

**NOTE 5 - INCOME TAXES**

The Association must comply with the provisions of Code Section 277 which applies to membership-type organizations. Under Section 277, the Association is required to separate membership income and expenses from non-membership income and expenses and, accordingly, each type of income is taxed separately. A loss generated by either income cannot offset a profit earned by the other. However, losses are available to carry back or carryover to years which show net income within their respective categories. In 2005 the Association had a net non member loss therefore no provision has been made for income taxes.

**NOTE 6 - CONCENTRATIONS**

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.

The Association places its cash with federally insured financial institutions. At times, the balances at these financial institutions may exceed the FDIC insured limit of \$100,000.

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and Equipment consists of the following:

Equipment	\$	6,242
Less accumulated depreciation		208
<hr/>		
Property and equipment, net	\$	6,034
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Depreciation expense for 2005 was \$208.

**NOTE 8 - PROPERTY MANAGEMENT**

The Association has entered into a property management contract with Majestic Beach Management Company, LLC, to manage the day-to-day affairs of the Association's business and maintenance and operation of the common areas.

The Association itself does not have a rental program; however, the individual unit owners contract separately with various realty companies to operate their rental program.

**NOTE 9 - CONTINGENCIES**

The insurance policy for windstorm coverage renewed June 15, 2005. The deductible amount for named hurricane storms is estimated at \$1,153,500 which represents 3% of the insured value of the residential building which is estimated at \$38,450,000.

**NOTE 10 - COMMUNITY PROPERTY EXPENSE**

Assessment fees are paid by Tower 1 unit owners based on square footage as mentioned in Note 3. The Community Association pays for certain common expenses that will eventually be shared by all Tower buildings. In 2005, Tower 1 was the only building completed and contributed to the Community Association based on the number of units in the building. The community property expense of \$248,780 is reflected on Tower 1 books as an administrative expense and on the Community Association books as revenue.

**NOTE 11 - DEVELOPER RELATED ACTIVITY**

The developer of Majestic Beach Resort is Majestic Beach Towers Development LLC, a Florida limited liability company. The developer has guaranteed payment of common expenses incurred which exceeds the amounts assessed against unit holders other than the developer. The guarantee period began with the first closing (June 1, 2005) and ended on the first day of the fourth month following that closing (September 1, 2005). The developer is excused from the payment of his share of common expenses and assessments related to all units owned by him for the guarantee period. As of December 31, 2005 the developer had contributed \$25,739 to the community association and \$172,927 to Tower 1.

## Supplementary Information

Majestic Beach Resort Community Association, Inc.

Statement of Expenses

<i>For the initial period April 13, 2005(Date of Incorporation) through December 31, 2005</i>	<b>Community Association</b>	<b>Tower</b>	<b>Total</b>
<b>Expenses:</b>			
<b>Administrative</b>			
Administrative	\$ 7,819	\$ -	\$ 7,819
Air rights	5,361	-	5,361
Community property expense	-	248,780	248,780
Depreciation	208	-	208
DOT surety bond	166	-	166
Florida condominium fee	-	1,316	1,316
Legal	225	-	225
Licenses, fees and taxes	2,050	-	2,050
Management fees	-	46,046	46,046
Miscellaneous	-	132	132
Owners' services	5,410	-	5,410
Start up expenses	9,351	26,075	35,426
<b>Total administrative</b>	<b>30,590</b>	<b>322,349</b>	<b>352,939</b>
<b>Insurance</b>	<b>40,736</b>	<b>152,829</b>	<b>193,565</b>
<b>Personnel</b>	<b>159,447</b>	<b>-</b>	<b>159,447</b>
<b>Repairs and Maintenance</b>			
Building	656	14,398	15,054
Condominium maintenance	3,487	-	3,487
Elevators	2,205	8,878	11,083
Equipment	251	-	251
Fire system	-	353	353
Grounds	17,666	-	17,666
Parking garage	3,087	-	3,087
Pedestrian walkover	1,354	-	1,354
Pool and spa	5,780	-	5,780
Supplies and tools	12,391	4,414	16,805
Uniforms	736	2,878	3,614
<b>Total repairs and maintenance</b>	<b>47,613</b>	<b>30,921</b>	<b>78,534</b>

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Majestic Beach Resort Community Association, Inc.

Statement of Expenses

<i>For the initial period April 13, 2005(Date of Incorporation) through December 31, 2005</i>	<b>Community Association</b>	<b>Tower I</b>	<b>Total</b>
<b>Security</b>	17,893	47,886	65,779
<b>Utilities</b>			
Cable television	-	19,049	19,049
Electricity	22,345	37,408	59,753
Gas	16,757	-	16,757
Pest control	-	3,948	3,948
Sanitation	278	14,772	15,050
Telephone	2,820	1,813	4,633
Water and sewer	6,407	17,541	23,948
<b>Total utilities</b>	<b>48,607</b>	<b>94,531</b>	<b>143,138</b>
<b>Total expenses</b>	<b>\$ 344,886</b>	<b>\$ 648,516</b>	<b>\$ 993,402</b>

# Majestic Beach Resort Community Association, Inc.

## Supplementary Information on Future Major Repairs and Replacements

The Board of Directors has listed the components for future major repairs and replacements as provided for in the original Declaration of Condominium.

The following table is based on the Declaration of Condominium and presents significant information about the components of common property.

### Community Association

Component	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost	Replacement Fund Balance at December 31, 2005
Painting	7	\$ 245,000	\$ -
Roofing	20	240,900	-
Fire sprinkler system	20	50,000	-
Elevators	20	150,000	-
Water pressure	15	37,500	-
Compactor	10	28,000	-
Generator	30	30,000	-
<b>Total</b>		<b>\$ 781,400</b>	<b>\$ -</b>

### Tower I

Component	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost	Replacement Fund Balance at December 31, 2005
Paving	18	\$ 27,000	\$ -
Pool	10	6,000	-
Garage/walkover exterior	7	36,400	-
Elevators	20	225,000	-
<b>Total</b>		<b>\$ 294,400</b>	<b>\$ -</b>