

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

**Financial Statements and
Supplementary Information**

December 31, 2006

Majestic Beach Resort Community Association, Inc.
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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, 2006, and the related statements of revenues, 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, 2006, 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 Statement of Expenses 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 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

Center for Public
Company Audit Firms

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.

Caru, Riggs & Ingram, L.L.C.

Mary Esther, Florida
March 15, 2007

Majestic Beach Resort Community Association, Inc.

Balance Sheet

December 31,

2006

	Community Association	Tower I	Tower II	Total
Assets				
Cash	\$ 29,597	\$ 230,338	\$ 173,679	\$ 433,614
Accounts receivable	8,366	13,761	16,830	38,957
Prepaid expenses	29,169	141,432	118,324	288,925
Property and equipment-net	20,232	-	-	20,232
Utility deposits	850	-	-	850
Total assets	\$ 88,214	\$ 385,531	\$ 308,833	\$ 782,578
Liabilities and Fund Balances				
Liabilities				
Accounts payable	49,522	\$ 14,371	\$ 41,898	\$ 105,791
Intercompany accounts	(5,673)	884	4,789	-
Taxes payable	698	-	-	698
Prepaid assessments	-	148,546	102,975	251,521
Total liabilities	44,547	163,801	149,662	358,010
Fund balances	43,667	221,730	159,171	424,568
Total liabilities and fund balances	\$ 88,214	\$ 385,531	\$ 308,833	\$ 782,578

See accompanying notes and independent auditor's report.

Majestic Beach Resort Community Association, Inc.

Statement of Revenue, Expenses and Changes in Fund Balances

Year ended December 31

2006

	Community Association	Tower I	Tower II	Total
Revenue				
Assessment fees	\$ -	\$ 1,579,418	\$ 408,508	\$ 1,987,926
Community property fees	870,394	-	-	870,394
Developer funding	-	-	121,659	121,659
Late fees	-	8,225	1,004	9,229
Interest income	-	2,359	2,583	4,942
Total revenue	870,394	1,590,002	533,754	2,994,150
Expenses				
Administrative	46,474	788,515	260,962	1,095,951
Insurance	63,262	315,473	173,134	551,869
Personnel	327,607	-	-	327,607
Repairs and maintenance	142,886	66,260	19,952	229,098
Security	51,866	91,029	25,913	168,808
Utilities	200,666	212,117	83,121	495,904
Total expenses	832,761	1,473,394	563,082	2,869,237
Excess (deficit) revenue over expenses	37,633	116,608	(29,328)	124,913
Beginning fund balances	(70,367)	180,686	-	110,319
Interfund transfers	76,401	(76,401)	-	-
Working capital contributions	-	837	188,499	189,336
Ending fund balances	\$ 43,667	\$ 221,730	\$ 159,171	\$ 424,568

See accompanying notes and independent auditor's report.

Majestic Beach Resort Community Association, Inc.

Statement of Cash Flows

Year ended December 31

2006

	Community Association	Tower I	Tower II	Total
Operating activities				
Regular assessments collected	\$ 900,664	\$ 1,563,586	\$ 494,653	\$ 2,958,903
Developer funding	-	-	121,659	121,659
Interest received	-	10,584	3,587	14,171
Cash paid for operating expenses	(869,730)	(1,541,022)	(639,508)	(3,050,260)
Net cash provided by (used in) operating activities	30,934	33,148	(19,609)	44,473
Investing activities				
Purchase of property and equipment	(18,386)	-	-	(18,386)
Financing activities				
Working capital contributions	-	837	188,499	189,336
Interfund accounts	13,139	(17,928)	4,789	-
Net cash provided by (used in) financing activities	13,139	(17,091)	193,288	189,336
Net increase in cash	25,687	16,057	173,679	215,423
Cash at beginning of year	3,910	214,281	-	218,191
Cash at end of year	\$ 29,597	\$ 230,338	\$ 173,679	\$ 433,614

Continued on next page

See accompanying notes and independent auditor's report.

Majestic Beach Resort Community Association, Inc.

Statement of Cash Flows-continued

Year ended December 31

2005

	Community Association	Tower I	Tower II	Total
Reconciliation of excess (deficit) revenue over expenses to net cash provided by (used in) operating activities:				
Excess (deficit) revenue over expenses	\$ 37,633	\$ 116,608	\$ (29,328)	\$ 124,913
Adjustments to reconcile excess (deficit) revenue over expenses to net cash provided by (used in) operating activities:				
Depreciation	4,188	-	-	4,188
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(4,836)	(3,526)	(16,830)	(25,192)
Accounts receivable developer	35,456	-	-	35,456
Prepaid expense	2,182	(69,006)	(118,324)	(185,148)
Utility deposit	(350)	-	-	(350)
Increase (decrease) in liabilities:				
Accounts payable	(44,037)	1,378	41,898	(761)
Taxes payable	698	-	-	698
Prepaid assesments	-	(12,306)	102,975	90,669
Net cash provided by (used in) operating activities	\$ 30,934	\$ 33,148	\$ (19,609)	\$ 44,473

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 two high rise buildings; Tower 1 with 329 residential condominium units and 21 commercial units and Tower II with 194 residential condominium units and 10 commercial units. The condominiums are located 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

Quarterly assessments for Tower I are based on the 2006 owner approved budget and vary according to square footage. The assessments range from \$542 to \$2,034 for the 329 residential units and from \$139 to \$3,026 for the 21 commercial units.

The 2006 quarterly assessments for Tower II are provided for in the Declaration of Condominium and vary according to square footage of the units. Assessments for the 194 residential units range from \$800 to \$1,386 and the 10 commercial units' range from \$99 to \$716.

The total assessment fees from owners in 2006 were \$1,987,926. 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 require funds to be accumulated for future major repairs and replacements. The board of directors conducted an internal study to review the components of major repairs and replacements based on the initial budget set forth in the Declaration of Condominium.

The Developer controlled Board of Directors exercised their right to waive funding for future major repairs and replacements in 2005 and 2006. As a result of not funding for future major repairs and replacements in 2005 and 2006, no amounts have been 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 - CONTINGENCIES

The insurance policy for windstorm coverage renewed June 14, 2006. The deductible amount for named hurricane storms is estimated at \$2,285,280 which represents 3% of the insured value of the residential buildings which is estimated at \$76,176,000.

NOTE 6 - INCOME TAXES

The Association must comply with the provisions of Internal Revenue 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 2006 the Association had net non member income of \$4,652, resulting in income tax expense of \$698.

NOTE 7 - 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 8 - PROPERTY AND EQUIPMENT

Property and Equipment consists of the following:

Equipment	\$	24,628
Less accumulated depreciation		4,396
		20,232
Property and equipment, net	\$	20,232

Depreciation expense for 2006 was \$4,188.

NOTE 9 - 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 10 - 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 I and Tower II. Each tower contributes to the Community Association based on the number of units in each building. The community property expense of \$674,247 and \$196,147 for Tower I and Tower II, respectively, is reflected as an administrative expense. The total of \$870,394 is reflected as revenue to the Community Association.

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 exceed the amounts assessed against unit holders other than the developer. The guarantee period began with the first closing (May 23, 2006) and ended on the first day of the fourth month following that closing (September 1, 2006), however, the developer exercised his option to end the guarantee period on August 1, 2006.. 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, 2006 the developer had contributed \$144,212 to Tower II.

On December 31, 2006 there were 12 unsold units in Tower II.

The following is a summary of the revenue and expenses for Tower II during the guarantee period (May 23, 2006 to August 1, 2006).

Common expenses	\$	189,842
Less: Assessments from unit owners other than the developer and interest income		(68,183)
Developer's deficit funding		121,659
Less: Payments from the developer		(121,659)
Due from developer for guarantee	\$	-