

ST. JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.

PORT ST. LUCIE, FLORIDA

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For Year Ended December 31, 2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
St. James Golf Club Homeowners Association, Inc.

I have audited the accompanying balance sheet of St. James Golf Club Homeowners Association, Inc., as of December 31, 2006, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. James Golf Club Homeowners 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.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Statement of Revenues and Expenses vs. Budget is presented for the purposes of additional analysis and is 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 my opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



Gerald Jackson Jr. CPA
Port St Lucie, Florida
February 4, 2007

ST. JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.
Balance Sheet
December 31, 2006

	2006			2005
	Operating Fund	Replacement Fund	Total Funds	Total Funds
<u>ASSETS</u>				
CASH, INCLUDING INTEREST BEARING ACCOUNTS	\$ 116,349	\$ 100,235	\$ 216,584	\$ 109,052
ASSESSMENTS RECEIVABLE	33,173	0	33,173	10,369
PREPAID INSURANCE	23,999	0	23,999	19,403
OTHER PREPAID EXPENSES	925	0	925	0
DEPOSITS	2,600	0	2,600	2,500
DUE TO RESERVES FROM OPERATING	0	6,708	6,708	25,000
FURNITURE & EQUIPMENT	7,435	0	7,435	7,435
LESS: ACCUMULATED DEPRECIATION	(2,871)	0	(2,871)	(1,384)
TOTAL ASSETS	\$ 181,610	\$ 106,943	\$ 288,553	\$ 172,375
 <u>LIABILITIES AND FUND BALANCES</u>				
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 23,371	\$ 0	\$ 23,371	10,525
ASSESSMENTS PAID IN ADVANCE	83,865	0	83,865	62,453
DEFERRED REVENUE FOR TOT LOT	0	0	0	3,810
PAYROLL TAXES PAYABLE	195	0	195	549
DUE TO RESERVES FROM OPERATING	6,708	0	6,708	25,000
TOTAL LIABILITIES	114,139	0	114,139	102,337
 FUND BALANCES	 67,471	 106,943	 174,414	 70,038
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 181,610	 \$ 106,943	 \$ 288,553	 \$ 172,375

Read the Accompanying Notes to Financial Statements.

ST. JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.
Statement of Revenues, Expenditures and Changes in Fund Balance
For Year Ended December 31, 2006

	2006			2005
	Operating Fund	Replacement Fund	Total Funds	Total Funds
<u>REVENUES</u>				
ASSESSMENTS	\$ 978,475	\$ 80,500	\$ 1,058,975	\$ 845,929
CONTRIBUTIONS - INITIAL CAPITAL	11,760	0	11,760	9,551
INTEREST INCOME	0	1,443	1,443	0
LATE FEES AND FINE INCOME	14,115	0	14,115	729
HOMEOWNER PUBLICATIONS	1,480	0	1,480	1,320
APPLICATION & SALES FEES	6,000	0	6,000	2,585
GATE OPENERS	3,950	0	3,950	2,095
MISCELLANEOUS INCOME	5,318	0	5,318	6,741
TOTAL REVENUES	1,021,098	81,943	1,103,041	868,950
<u>EXPENDITURES</u>				
ADMINISTRATION	118,325	0	118,325	76,227
MAINTENANCE & REPAIRS - GENERAL	50,191	0	50,191	43,737
INSURANCE	23,669	0	23,669	6,565
GROUNDS, LANDSCAPE & IRRIGATION	450,127	0	450,127	387,076
LAKE & FOUNTAIN	43,163	0	43,163	15,145
CLUBHOUSE OPERATING	42,939	0	42,939	59,292
UTILITIES	268,764	0	268,764	210,416
DEPRECIATION EXPENSE	1,487	0	1,487	619
TOTAL EXPENDITURES	998,665	0	998,665	799,078
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	22,433	81,943	104,376	69,872
FUND BALANCES, BEGINNING OF YEAR	45,038	25,000	70,038	166
FUND BALANCES, END OF YEAR	\$ 67,471	\$ 106,943	\$ 174,414	\$ 70,038

Read the Accompanying Notes to Financial Statements.

ST. JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.
Statement of Cash Flows - Direct Method
For Year Ended December 31, 2006

INCREASE(DECREASE) IN CASH	2006			2005
	Operating Fund	Replacement Fund	Total Funds	Total Funds
CASH FLOW FROM OPERATING ACTIVITIES:				
Cash Receipts From Assessments	\$ 977,083	\$ 80,500	\$ 1,057,583	\$ 898,013
Contributed Capital	11,760	0	11,760	9,551
Interest Income	0	1,443	1,443	0
Other Receipts	30,863	0	30,863	13,470
Cash Payments to Vendors and Suppliers	(994,117)	0	(994,117)	(803,131)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>25,589</u>	<u>81,943</u>	<u>107,532</u>	<u>117,903</u>
CASH FLOW FROM INVESTING ACTIVITIES:				
Change in Interfund Borrowing	(18,292)	18,292	0	0
Paid to Developer	0	0	0	(20,000)
Purchase of Fixed Assets	0	0	0	(5,814)
NET CASH USED BY INVESTING ACTIVITIES	<u>(18,292)</u>	<u>18,292</u>	<u>0</u>	<u>(25,814)</u>
NET INCREASE (DECREASE) IN CASH FOR CURRENT YEAR	7,297	100,235	107,532	92,089
CASH AT BEGINNING OF YEAR	109,052	0	109,052	16,963
CASH AT END OF YEAR	<u>\$ 116,349</u>	<u>\$ 100,235</u>	<u>\$ 216,584</u>	<u>\$ 109,052</u>
RECONCILIATION OF EXCESS OF ASSESSMENTS AND REVENUES OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficit) of revenues over expenses	\$ 22,433	\$ 81,943	\$ 104,376	\$ 69,872
Adjustments to reconcile excess (deficit) of revenues				
Depreciation				
Depreciation	1,487	0	1,487	619
(Increase) Decrease in:				
Assessments Receivable	(22,804)	0	(22,804)	(10,412)
Prepaid Insurance	(4,596)	0	(4,596)	0
Other Prepaid Expenses	(925)	0	(925)	0
Deposits	(100)	0	(100)	(110)
Increase (Decrease) in:				
Accounts Payable	12,846	0	12,846	0
Payroll Taxes Payable	(354)	0	(354)	549
Assessments Received in Advance	21,412	0	21,412	62,453
Deferred Revenue-From Social Club	(3,810)	0	(3,810)	3,810
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 25,589</u>	<u>\$ 81,943</u>	<u>\$ 107,532</u>	<u>\$ 117,903</u>

Read the Accompanying Notes to Financial Statements.

ST JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENT

NOTE 1 - ORGANIZATION AND PURPOSE

St James Golf Club Homeowners Association, Inc. was organized as a Florida not-for-profit corporation on October 15, 1998. The Association has been organized for the purpose of operating and maintaining the common property of the Association to enforce the covenants, conditions, restrictions, and other provisions pursuant to Chapter 720 of the Florida Statutes. The Association will include 698 residential units upon completion. All policy decisions are formed by the Board of Directors. .

All policy decisions are formed by the Board of Directors. Major decisions as defined in the Association's By-Laws, are referred to the general Association membership for approval before action is taken.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The financial statements have been prepared pursuant to Chapter 720 of the Florida Statutes. The Association's governing documents provide certain guidelines for conducting its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund

This fund is used to account for financial resources available for general operations of the Association.

Replacement Fund

This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments:

Association members are subject to quarterly assessments in advance, to provide funds for the Association's operating expenses and a reserve for major repairs and replacements. Fiscal Year quarterly member assessments for 2006 were based upon the proportionate share of common expenses for the adopted budget. The annual budget and member assessments are determined and approved by the Board of Directors. The Association's policy is to retain legal counsel and place liens on the properties of unit owners whose assessments are in arrears.

ST JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENT

Common Property and Fixed Assets

The Association's common property consists of a clubhouse, pool, tennis courts, gatehouse, lakes, drains, inter-connecting lake conduits, entrance, roads, street lighting and related greenbelt areas. Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because the properties may not be disposed of at the discretion of the Board of Directors and are used exclusively by homeowners.

Effective January 1, 2006, the board of directors has established the policy of capitalizing as fixed assets items with lives of at least 5 years costing \$2,500 or more.

Interest Earned:

The board's policy is to retain interest earned on replacement fund investments in the replacement fund.

Income Taxes:

Homeowners Associations may elect to be taxed either as regular corporations or as homeowners Association. For the year ended December 31, 2006, the Association has elected to be taxed as a homeowners Association in accordance with Internal Revenue Code Section 528. Under this section, the Association is taxed on its nonexempt function income, such as net investment earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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 expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

For presentation purposes, the Association consolidates checking, money market and certificates of deposit.

ST JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENT

Cash Flows:

The Association presents changes in cash flows using the direct method. Cash consists of cash in banks.

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The board is funding for major repairs and replacements over the estimated useful lives of the components based on the Board of Directors update of current replacement costs, considering amount previously accumulated in the replacement fund.

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

The following table reflects the replacement fund assessments, interest income and expenditures during the current fiscal year, along with the beginning and closing balances by the various components:

<u>RESERVES</u>	<u>Beginning</u> <u>Balance</u>	<u>Owner</u> <u>Funding</u>	<u>Current Year</u>		<u>Ending</u> <u>Balance</u>
			<u>Interest</u>	<u>Expended</u>	
Common Facilities	5,000	14,240	1,443	0	20,683
Clubhouse/Office/Gym					
Pool & Spa					
Gatehouse					
Tennis Court					
Tot Lot					
Drain/Irrigation/Landscaping	10,000	31,000	0	0	41,000
Roadways/Walks/Curbs	5,000	25,260	0	0	30,260
Storm/Emergency	5,000	10,000	0	0	15,000
Totals	25,000	80,500	1,443	0	106,943

ST JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENT

NOTE 4 – DEVELOPER TURNOVER

Turnover from the developer occurred on March 11, 2005. As of December 31, 2006, financial and other issues related to the turnover were not yet resolved.

NOTE 5 – LITIGATION

There is currently a lawsuit pending between the Association and Residential Telecom, LLC, the Association's bulk cable television provider. The Association believes that its contract with Residential Telecom, which was entered into during developer control of the Association, is invalid and has filed a suit seeking a Declaratory Judgment that the contract is void and also is seeking an award of its attorneys' fees and costs. Residential Telecom has filed a Counter Claim against the Association for damages, attorneys' fees and costs and a Declaration that the contract is valid and binding.

Residential Telecom has also filed a separate suit against Adelphia Cable and one of the Association's officers alleging that they conspired to interfere with Residential Telecom's contractual relationship with the Association. The Association insurance carrier is providing the Association's officer with legal defense in this lawsuit.

We believe that the Association's probability of success in these matters is very good. However, there is a chance that the Association will be subject to liability (including damages and attorneys' fees). We are unable to estimate the amount of same at this time.

SUPPLEMENTARY

ST. JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.

Comparison of Actual vs. Budget-Operating

For Year Ended December 31, 2006

	<u>2005</u>		<u>2006</u>	
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>%</u> <u>Variance</u>
<u>ORDINARY INCOME / EXPENSES</u>				
<u>REVENUES</u>				
Assessments	820,929	978,475	977,900	0.1%
Contributions - Initial Capital	9,551	11,760	13,974	-15.8%
Late Fee and Fine Income	729	14,115	0	0.0%
Homeowner Publications Revenue	1,320	1,480	2,000	-26.0%
Application & Sales Fees	2,585	6,000	0	0.0%
Gate Opener	2,095	3,950	0	0.0%
Miscellaneous Income	6,741	5,318	2,500	112.7%
TOTAL REVENUE	843,950	1,021,098	996,374	2.5%
<u>EXPENSES</u>				
Administrative Salaries	14,654	25,790	34,500	25.2%
Accounting	3,093	6,475	8,070	19.8%
Legal	9,055	44,046	30,000	-46.8%
Professional Fees-Other	15,600	16,741	0	0.0%
Office Supplies	8,926	8,351	4,000	-108.8%
Bank Service Charges	581	0	1,000	100.0%
Management Services	11,264	0	0	0.0%
Postage and Delivery	1,455	1,803	1,500	-20.2%
Corporation Fees	0	70	100	30.0%
Taxes - Payroll	2,494	6,916	0	0.0%
Taxes - Local County	1,984	1,984	0	0.0%
Homeowner Publication Expense	2,235	3,596	3,200	-12.4%
Dues and Subscriptions	259	49	0	0.0%
Misc. Administrative	53	2,433	2,500	2.7%
Government Fees	0	71	3,000	0.0%
Write Off Old A/R Balances	4,573	0	0	0.0%
Total - ADMINISTRATION	76,227	118,325	87,870	-34.7%
Maintenance & Repairs- General				
Gatehouse	14,992	11,752	12,800	8.2%
Street Maintenance	2,628	85	7,500	98.9%
Hurricane Repairs	6,194	0	0	0.0%
Repairs & Maintenance	5,593	2,057	7,000	70.6%
Maintenance Wages	14,330	36,297	0	0.0%
Total - Maintenance & Repairs	43,737	50,191	27,300	-83.8%
Insurance				
Umbrella	0	389	400	2.8%
Directors & Officers	655	2,822	3,000	5.9%
Liability Insurance	4,411	8,891	10,600	16.1%
Rec Center	528	9,062	9,000	-0.7%
Workers Compensation Insurance	971	2,505	0	0.0%
Total -Insurance	6,565	23,669	23,000	-2.9%

Read the Accompanying Notes to Financial Statements.

ST. JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.
Comparison of Actual vs. Budget-Operating
For Year Ended December 31, 2006

	<u>2005</u>	<u>2006</u>		%
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	
<u>EXPENSES: (continued)</u>				
Grounds, Landscape & Irrigation				
Landscape Maintenance Contract	355,843	377,390	429,932	12.2%
Irrigation Repair	25,938	9,228	60,000	84.6%
Landscape Replacement	3,277	6,872	5,000	-37.4%
Pest Control & Fertilization	2,018	0	3,500	100.0%
Landscape & Grounds	0	56,637	1,200	-4619.8%
Total - Grounds Landscape & Irrigation	387,076	450,127	499,632	9.9%
Lake & Fountain				
Lake Maintenance Contract	12,210	12,322	20,000	38.4%
Fountain Maintenance Contract	1,390	2,286	2,000	-14.3%
Wetland Monitoring	1,545	28,555	2,000	-1327.8%
Total - Lake & Fountain	15,145	43,163	24,000	-79.8%
Clubhouse Operating				
Clubhouse Cleaning	7,926	10,921	11,000	0.7%
Repairs & Maintenance	12,665	10,607	9,000	-17.9%
Pool Operations and Repairs	16,796	8,933	16,000	44.2%
Lndscp&Grnds Maint Clbhs&Cmmn	12,168	0	0	0.0%
Trash	851	1,978	1,000	-97.8%
Water and Sewer	4,355	3,291	3,310	0.6%
Treadmill Lease	1,924	739	1,800	58.9%
Clubhouse Operating	0	6,023	1,500	-301.5%
Pest Control	2,607	447	3,000	85.1%
Total - Clubhouse Operating	59,292	42,939	46,610	7.9%
Utilities				
Electric - General	30,271	22,141	24,097	8.1%
Electric - Clubhouse	8,518	15,743	20,075	21.6%
Electric - Street Lights	21,910	23,823	25,383	6.1%
Cable Television	145,560	201,512	192,329	-4.8%
Telephone	4,157	5,545	5,100	-8.7%
Total - Utilities	210,416	268,764	266,984	-0.7%
Contingency Expense	0	0	20,978	0.0%
Depreciation Expense	619	1,487	0	0.0%
INCOME TAXES	0	0	0	0.0%
TOTAL EXPENSES	799,078	998,665	996,374	-0.2%
NET SURPLUS / (DEFICIT)	44,872	22,433	0	0.0%

Read the Accompanying Notes to Financial Statements.

ST. JAMES GOLF CLUB HOMEOWNERS ASSOCIATION, INC.
SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS
For Year Ended December 31, 2006

The Board of Directors had a study performed by an engineering firm in the first quarter of 2006. The information listed below was based on that study.

<u>Component</u>	<u>Estimated Useful Life</u>		<u>Requirements</u>		<u>Actual 2007 Funding</u>	<u>Replacement Fund Balance At 12/31/2006</u>
	<u>Original Life</u>	<u>Remaining Life</u>	<u>Estimated Current Replacement Cost</u>	<u>2007 Funding Requirement</u>		
Common Facilities	5 - 10	1-5	74,950	17,769	17,769	20,683
Clubhouse/Office/Gym						
Pool & Spa						
Gatehouse						
Tennis Court						
Tot Lot						
Drain/Irrigation/Landscaping	3-10	1-5	115,000	17,000	17,000	41,000
Roads/Walks/Curbs	10-12	8-10	622,186	59,321	59,321	30,260
Storm/Emergency	3	1	30,000	10,000	10,000	15,000
Total			\$ 842,136	\$ 104,090	\$ 104,090	\$ 106,943