

THE VILLAGES

**Audit Report
Financial Statements
and
Supplemental Information
*June 30, 2006***

PORTER & COMPANY
Certified Public Accountant

The Villages
Combined Financial Statements
And
Report of Independent Certified Public Accountants

June 30, 2006

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**The Villages
Boards of Directors and Members**
San Jose, CA

Independent Auditor's Report

I have audited the accompanying combined balance sheet of The Villages as of June 30, 2006 and the related combined 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 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 in the first paragraph above present fairly, in all material respects, the financial position of The Villages as of June 30, 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. I have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of my audit. The Supplemental Information included in the accompanying schedules is not a required part of the basic financial statements but is supplemental information required by the American Institute of Certified Public Accountants. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it. The Supplemental Information on the statement of Replacement revenues and expenses for the Association's individual Districts, and the statements of revenues and expenses for the Operating Funds and the Replacement Funds are presented for purposes of additional analysis and is not required as part of the basic financial statements. This 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.

Porter & Company

September 21, 2006

The Villages
Combined Balance Sheet

As of June 30, 2006

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Interfund Eliminations</u>	<u>Total Funds</u>
<u>ASSETS</u>				
<i>Current Assets:</i>				
Cash and Equivalents	\$ 196,424	\$ 864,308	\$ -	\$ 1,060,732
Investments - Short Term	-	4,517,027	-	4,517,027
Accounts Receivable, Net of Allowance for Doubtful Accounts	331,072	-	-	331,072
Prepaid Insurance	953,507	-	-	953,507
Prepaid Expenses & Other Deposits	85,287	-	-	85,287
Prepaid Income Taxes	20,000	7,901	-	27,901
Interest Receivable	-	49,747	-	49,747
Other Receivables	120,887	-	-	120,887
Inventory	234,551	-	-	234,551
Other Current Assets	27,119	178,799	-	205,918
Due From Other Funds	(501,074)	501,074	-	-
 Total Current Assets	 <u>1,467,773</u>	 <u>6,118,856</u>	 <u>-</u>	 <u>7,586,629</u>
 Investments - Long Term	 -	 1,978,786	 -	 1,978,786
 Property and Equipment, Net of Accumulated Depreciation	 1,626,003	 6,836,025	 -	 8,462,028
 Total Assets	 <u>\$ 3,093,776</u>	 <u>\$ 14,933,667</u>	 <u>\$ -</u>	 <u>\$ 18,027,443</u>
<u>LIABILITIES and FUND BALANCES</u>				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 1,176,323	\$ -	\$ -	\$ 1,176,323
Accrued Expenses	322,884	-	-	322,884
Accrued Payroll & Related Items	296,843	-	-	296,843
Income Taxes Payable	-	62,609	-	62,609
Prepaid Assessments	-	-	-	-
Other Liabilities	63,636	-	-	63,636
Due To Other Fund	-	-	-	-
 Total Current Liabilities	 <u>1,859,686</u>	 <u>62,609</u>	 <u>-</u>	 <u>1,922,295</u>
 Total Liabilities	 <u>1,859,686</u>	 <u>62,609</u>	 <u>-</u>	 <u>1,922,295</u>
 Contributed Capital	 3,407,141	 3,353,546	 -	 6,760,687
Fund Balance (Deficit)	(2,173,051)	11,517,512	-	9,344,461
Total Fund Balances	<u>1,234,090</u>	<u>14,871,058</u>	<u>-</u>	<u>16,105,148</u>
 Total Liabilities and Fund Balances	 <u>\$ 3,093,776</u>	 <u>\$ 14,933,667</u>	 <u>\$ -</u>	 <u>\$ 18,027,443</u>

See Auditor's Report

The Notes to Financial Statements Are An Integral Part of This Statement

The Villages
Combined Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended June 30, 2006

	Operating Fund	Replacement Fund	Interfund Eliminations	Total Funds
<u>REVENUES</u>				
Assessments	\$ 11,534,570	\$ 4,277,186	\$ -	\$ 15,811,756
Special Assessments	20,326	9,053	-	29,379
Golf Program Fees	1,469,289	-	-	1,469,289
Rental and Other User Fees	239,990	-	-	239,990
Restaurant Income	1,460,432	-	-	1,460,432
Advertising Income	240,578	-	-	240,578
Resident Activities and Programs	196,666	-	-	196,666
Interest Income	18,917	294,518	(61,039)	252,396
Other Income	128,072	1,007,101	(25,456)	1,109,717
Total Revenues	<u>15,308,840</u>	<u>5,587,858</u>	<u>(86,495)</u>	<u>20,810,203</u>
<u>EXPENSES</u>				
Salaries and Related Expenses	5,243,452	-	-	5,243,452
Materials and Supplies	1,207,633	-	-	1,207,633
Legal and Professional Services	703,128	311,819	-	1,014,947
Repairs and Maintenance	3,433,865	576,822	-	4,010,687
Utilities and Telephone	2,273,434	-	-	2,273,434
Insurance	1,857,475	-	-	1,857,475
Property Taxes	80,256	-	-	80,256
Depreciation	106,623	617,718	-	724,341
Major Repairs and Replacements:	-			
Streets	-	306,812	-	306,812
Roofs	-	516,860	-	516,860
Painting	-	850,896	-	850,896
Plumbing	-	72,526	-	72,526
Wood Repairs	-	1,348,023	-	1,348,023
Construction Defects	-	97,377	-	97,377
Interest Expense	17,825	43,214	(61,039)	-
Income Taxes	-	49,417	-	49,417
Other Expenses	551,026	140,564	(25,456)	666,134
Total Expenses	<u>15,474,717</u>	<u>4,932,048</u>	<u>(86,495)</u>	<u>20,320,270</u>
Excess (Deficiency) of Revenues Over Expenses	(165,877)	655,810	-	489,933
Fund Balance (Deficit), Beginning of Year	<u>(2,007,174)</u>	<u>10,861,702</u>	<u>-</u>	<u>8,854,528</u>
Fund Balance (Deficit), End of Year	<u>\$ (2,173,051)</u>	<u>\$ 11,517,512</u>	<u>\$ -</u>	<u>\$ 9,344,461</u>

See Auditor's Report

The Notes to Financial Statements Are An Integral Part of This Statement

The Villages
Combined Statement of Cash Flows
For the Year Ended June 30, 2006

	Operating Fund	Replacement Fund	Total Funds
<u>Cash Flows From Operating Activities:</u>			
Excess (Deficiency) of Revenues Over Expenses	\$ (165,877)	\$ 655,810	\$ 489,933
<u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u>			
Depreciation	111,656	617,718	729,374
Bad Debts	19,609	-	19,609
<u>Change in Assets and Liabilities:</u>			
Change in Accounts Receivable	28,368	-	28,368
Change in Prepaid Insurance	(27,916)	-	(27,916)
Change in Prepaid Expenses and Other Deposits	(85,287)	-	(85,287)
Change in Prepaid Income Taxes	(20,000)	(7,901)	(27,901)
Change in Interest Receivable	-	(19,284)	(19,284)
Change in Other Receivable	(120,887)	-	(120,887)
Change in Other Current Assets	77,122	(169,979)	(92,857)
Change in Inventory	(7,747)	-	(7,747)
Change in Accounts Payable	164,179	-	164,179
Change in Accrued Expenses	(30,638)	(25,386)	(56,024)
Change in Accrued Payroll and Related Items	63,905	-	63,905
Change in Income Taxes Payable	-	62,609	62,609
Change in Other Current Liabilities	(5,757)	(6,014)	(11,771)
Total Adjustments	166,607	451,301	617,908
Cash Provided By Operations	730	1,107,111	1,107,841
<u>Cash Flows from Investing Activities:</u>			
Sales of Equipment	-	-	-
(Purchases) of Equipment	(23,676)	(264,293)	(287,969)
(Purchases) of Investments	-	(4,601,319)	(4,601,319)
Maturities of Investments	-	3,672,737	3,672,737
Cash (Used) By Investing Activities	(23,676)	(1,192,875)	(1,216,551)
Net (Decrease) In Cash	(22,946)	(85,764)	(108,710)
Cash, Beginning of Year	219,370	950,072	1,169,442
Cash, End of Year	\$ 196,424	\$ 864,308	\$ 1,060,732
<u>Supplemental Information:</u>			
Cash Paid for Income Taxes	\$ -	\$ 17,800	\$ 17,800
Cash Paid for Interest	\$ -	\$ -	\$ -

The Villages
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational

The Villages is an adult community development in San Jose, California. The combined financial statements of The Villages include the accounts of The Villages Homeowners Corporation (the Corporation), The Villages Golf and Country Club (the Club), and The Villages Association (the Association). These corporations are organized to own, operate and/or maintain various properties and facilities at The Villages. Membership in the Association, the Corporation, and the Club becomes effective when each recorded owner of a villa or of an individual lot acquires the title to such villa or lot. The Villages consists of 2,536 residential units plus Club facilities occupying a site of approximately 1,200 acres.

Accounting Method

The Villages maintains its books of account on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

Principles of Combination

All interfund and inter-entity balances and transactions have been eliminated in combination. The "Intra Cost Transfer" expenses, which appear on monthly unaudited financial statements, have been allocated to the various expense categories based on relative percentages of individual expenses to total expenses for each fund, prior to allocation.

Fund Accounting

The Villages uses fund accounting, which requires the funds, such as operating fund and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating funds are generally at the discretion of the Board of Directors and property management. Disbursements from the replacement funds generally may be made only for designated purposes.

Member Assessments

Members of the combined entities are subject to monthly assessments to provide funds for The Villages' operating expenses, future capital acquisitions repairs and replacements. Membership receivables as shown on the balance sheet represent fees due from unit owners. The Villages retains excess operating funds at the end of the year, if any, for use in future years.

Assessments Receivable

A provision has been made for bad debts. The Association has the right to levy liens on a member's property to insure payment of an assessment due the Association. Assessments receivable as reflected in the financial statements are from members whose units are located within the City of San Jose.

	2006
Membership Receivables	\$ 338,641
Less: Allowance for Doubtful Accounts	(7,569)
	\$ 331,072

Property and Equipment

Property and equipment include assets that have been contributed to the Club, purchased out of the Club's reserve and operating funds, or constructed by the Club using reserve and operating funds. Contributed assets, consisting of land used for roads, lakes, golf courses, park community centers, a cable television system and other properties, have been recorded at the approximate fair market value at the date contributed. Constructed property and purchased property and equipment are recorded at cost. Depreciable property is depreciated over its estimated useful life using the straight-line method of depreciation. Real property capitalized on the balance sheet of the Club includes the golf course and related improvements, and buildings.

The Association has not recorded real property or improvements, nor equipment, as it either does not have title, or the property is not severable and saleable at the Board of Directors' discretion. Real property not capitalized on the balance sheet of the Association includes the condominium buildings.

The Villages
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING

POLICIES (continued):

Property and Equipment (continued):

Personal property is capitalized at cost and depreciated over the estimated useful lives of the items purchased using the straight-line method of depreciation.

Common areas are restricted to use by the Villages' members, their tenants, and guests. The Villages is responsible for the preservation and maintenance of the common areas.

Common area property capitalized on the financial statements consists of:

Description	2006
Land	\$ 2,181,874
Land Improvements	1,942,474
Buildings and Improvements	8,389,366
Furniture, Fixtures and Equipment	4,979,833
 Total Cost of Property and Equipment	 17,493,547
<i>Less:</i>	
Accumulated Depreciation and Amortization	(9,031,519)
Net Property and Equipment at 6/30/06	\$ 8,462,028

Use of Estimates

Estimates contained in these financial statements relate to bad debts, depreciation, and a series of estimates underlying the reserve study, consisting of useful and remaining lives, inflation, and costs to replace.

Reserve Fund Balance

A summary of reserve fund balance accounts is as follows:

- Facility Improvements – are the fees collected and reserved for capital improvements and additions to the Club and are assessed and accounted for as part of the members' club assessments.
- Replacement and Contingencies – are the designated portion of the members' monthly assessments that are reserved to fund the periodic replacement of elements of The Villages' common areas (such as roof repair, road repair, painting, etc.) and contingencies, and future debt liabilities.

Lines of Business

The Club conducts two lines of business; operating the golf course and related food and beverage and maintenance of common areas activities, and acting as managing agent for the housing associations. The housing associations conduct one line of business, providing management services to their members, consisting primarily of maintenance of the common areas and related administrative functions.

NOTE 2 – CASH and CASH EQUIVALENTS:

The Villages considers any highly liquid investment that matures within ninety days of its original purchase date to be a cash equivalent.

A summary of cash and cash equivalents at June 30, 2006 is as follows:

	2006
Unreserved Cash	\$ 196,424
Reserved for:	
<i>Facility Improvements</i>	369,573
Reserved for:	
<i>Replacements and Contingencies</i>	494,735
 Total Cash and Cash Equivalents	 \$1,060,732

The Villages
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 3 – INVESTMENT SECURITIES:

Debt securities issued by the U.S. Treasury and Certificates of Deposit for which The Villages has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity. As of June 30, 2006, The Villages securities are all classified as held-to-maturity.

The carrying amounts and fair values of investment securities at June 30, 2006 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Certificates of Deposit	\$ 2,651,300	\$ -	\$ (33,463)	\$ 2,617,837
U.S. Government Securities	3,844,513	415	(48,451)	3,796,477
Total Investment Securities	\$ 6,495,813	\$ 415	\$ (81,914)	\$ 6,414,314

The amortized cost and estimated fair market value of investment securities at June 30, 2006, by contractual maturity are as follows:

	Amortized Cost	Fair Value
Due in one year or less	4,517,027	4,489,032
Due after one year	1,978,786	1,925,282
	\$ 6,495,813	\$ 6,414,314

NOTE 4 - REPLACEMENT FUND AND RESTRICTED CASH:

The Villages governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

The Association's Board of Directors updated a study in May 2003 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were updated by consultants and management. The Club is scheduled to update its study in the 2006-07 fiscal year.

NOTE 4 - REPLACEMENT FUND AND RESTRICTED CASH (continued):

The Villages is funding major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund.

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

Cash balances in amounts equal to the designated capital reserves represent cash restricted for this purpose only.

NOTE 5 - INCOME TAXES:

The Association and Corporation are exempt from California Franchise and Federal income tax on exempt function income by reason of their status of qualifying homeowners' associations. Federal and state income taxes for the Association and the Corporation included in the combined financial statements are based upon nonexempt function income. The Club is taxed as a regular corporation for both Federal income and California tax purposes, subject to the provisions of Internal Revenue Code Section 277. Under this Section, losses attributable to member activities cannot be used to offset income from non-member activities.

The Villages
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 5 - INCOME TAXES (continued):

At June 30, 2006, the Club has net member loss carryforwards of approximately \$1,071,692 for Federal income tax purposes and approximately \$231,591 for California tax purposes, which can be used indefinitely to offset future net member income. The difference between the Federal and California carryforwards is primarily due to the deductibility of California Franchise taxes for Federal tax purposes and differences in depreciation methods and lives. The Villages estimates that the deferred tax asset arising from this carry forward approximates \$390,985. Because management does not believe the realization of this deferred tax benefit is likely, they have established a valuation allowance in the same amount, thus, recording no deferred tax asset in the financial statements.

***NOTE 6 – SIGNIFICANT GROUP
CONCENTRATIONS OF CREDIT RISK:***

The Association maintains bank accounts at various financial institutions. Balances in these accounts may occasionally exceed the FDIC federally insured amount of \$100,000. Funds maintained in brokerage accounts are not federally insured, but are privately insured by the SIPC (Securities Investors Protection Corporation).

NOTE 7 – OBLIGATIONS:

The Villages utilizes inter-entity and interfund borrowings during the ordinary course of its operations. Net short-term borrowings at June 30, 2006 are \$ 501,074.

NOTE 8 – EMPLOYEE BENEFIT PLAN:

The Villages has a defined contribution employee benefit plan (The Villages Money Purchase Pension Plan and Trust) to provide retirement benefits to employees whose customary

employment is for more than twenty hours per week and more than five months per year.

The plan provides for annual contributions by The Villages of up to 4% of employees' base salaries. Vesting in the plan occurs ratably over a four-year period. Upon employee termination, nonvested employer contributions are forfeited and are used to reduce the amount of the employer's future contributions to the plan.

Employer contributions for the year ended June 30, 2006, were \$154,535.

NOTE 9 – PENDING LITIGATION:

The Villages Association has three construction defects lawsuits pending against the developer. The lawsuits are ongoing, and the outcome cannot be predicted at this time. The Association's only obligation is for legal fees, expert fees, and court costs.

A former employee has filed suit against the Club alleging unlawful employment practices. The claim has been forwarded to the Club's insurance carrier which is providing defense and indemnity.

NOTE 10 – SUBSEQUENT EVENTS:

The Villages Association signed a letter of credit with Banco Popular on October 16, 2006 in the amount of \$4,700,000. The purpose of the line of credit is to effect roof replacements at Village Montgomery, where construction is scheduled to begin in November 2006. The line of credit is collateralized by assessment collections of Village Montgomery residents only. The line of credit bears interest at prime minus 1%, and is for a 24-month period. The line of credit is convertible to a 15-year term loan, with interest fixed at the then market rate.

The Villages
Supplementary Information

Schedule of Replacement Reserve Revenues and Expenses and Changes in Fund Balance
For the Year Ended June 30, 2006

Revenues	Association													
	Total	Cribari	Montgomery	The Heights	Hermosa	Verano	Del Lago	Highland	Glen Arden	Olivas	Fairways	Sonata	Valle Vista	
Monthly assessment	\$ 3,131,060	\$ 680,321	\$ 794,925	\$ 145,897	\$ 310,944	\$ 411,372	\$ 70,512	\$ 150,696	\$ 201,629	\$ 250,800	\$ 9,312	\$ 83,904	\$ 20,748	
Special assessment	9,053	-	-	-	-	-	-	-	-	-	-	-	9,053	
Interest and other	1,136,777	14,694	2,812	1,489	10,444	7,092	11,004	44,166	1,024,024	5,528	2,215	4,900	8,409	
Total Revenues	4,276,890	695,015	797,737	147,386	321,388	418,464	81,516	194,862	1,225,653	256,328	11,527	88,804	38,210	
Expenses														
Irrigation	\$ 50,488	\$ 4,878	\$ 7,525	\$ 940	\$ 6,659	\$ 4,213	\$ 3,994	\$ 3,560	\$ 2,848	\$ 6,929	\$ 878	\$ 3,795	\$ 4,269	
Roof	510,200	-	17,358	-	420,580	-	-	72,262	-	-	-	-	-	
Painting	842,517	397,524	2,012	199	784	3,143	133	251,390	132,984	54,348	-	-	-	
Plumbing	70,670	17,455	25,509	1,158	26,306	-	(2,050)	-	-	2,292	-	-	-	
Wood repairs	1,208,828	273,817	87,023	12,748	43,116	69,802	47,645	179,507	392,888	72,966	3,489	15,740	10,087	
Concrete & walkways	86,862	18,636	25,670	559	9,920	10,199	6,598	-	6,184	1,850	1,050	6,196	-	
Deck/Entry coat	202,841	2,890	-	-	1,240	-	-	-	198,133	578	-	-	-	
Lake relining/repairs	2,292	-	-	-	-	-	2,292	-	-	-	-	-	-	
Construction defects	97,377	-	-	-	-	-	-	-	-	59,570	-	29,075	8,732	
Professional fees	307,607	-	-	-	-	-	-	-	77,470	79,532	-	77,662	72,943	
Income taxes	27,221	2,863	352	265	2,132	1,366	2,270	9,532	4,217	1,003	469	990	1,762	
Interest expense	3,399	-	3,362	37	-	-	-	-	-	-	-	-	-	
All other expenses	162,822	101,677	6,583	19,403	6,947	566	10,355	26	3,280	26	26	5,363	8,570	
Total Expenses	3,573,124	819,740	175,394	35,309	517,684	89,289	71,237	516,277	818,004	279,094	5,912	138,821	106,363	
Excess (Deficiency) of Revenues Over Expenses	703,766	(124,725)	622,343	112,077	(196,296)	329,175	10,279	(321,415)	407,649	(22,766)	5,615	(50,017)	(68,153)	
Fund Balance (Deficit), Beginning of Year	3,444,202	556,710	(365,689)	(13,272)	402,386	47,874	331,343	1,642,578	217,218	124,796	67,222	148,527	284,509	
Funds transferred	-	-	-	-	-	-	-	-	-	-	-	-	-	
Fund Balances, End of Year	\$ 4,147,968	\$ 431,985	\$ 256,654	\$ 98,805	\$ 206,090	\$ 377,049	\$ 341,622	\$ 1,321,163	\$ 624,867	\$ 102,030	\$ 72,837	\$ 98,510	\$ 216,356	

See Auditor's Report

The Notes to Financial Statements Are An Integral Part of This Statement

The Villages
Supplementary Information
 Combined Statement of Revenues and Expenses and Changes in Fund Balances
 Operating Funds
 For the Year Ended June 30, 2006

	<u>Club</u>	<u>Association</u>	<u>Homeowners</u>	<u>Estates</u>	<u>Total Operating</u>
<u>REVENUES</u>					
Assessments	\$ 4,820,415	\$ 6,524,963	\$ 37,848	\$ 151,344	\$ 11,534,570
Special Assessments	-	-	17,176	3,150	20,326
Golf Program Fees	1,469,289	-	-	-	1,469,289
Rental and Other User Fees	239,990	-	-	-	239,990
Restaurant Income	1,460,432	-	-	-	1,460,432
Advertising Income	240,578	-	-	-	240,578
Resident Activities and Programs	196,666	-	-	-	196,666
Interest Income	17,291	1,616	6	4	18,917
Other Income	97,587	30,485	-	-	128,072
Total Revenues	<u>8,542,248</u>	<u>6,557,064</u>	<u>55,030</u>	<u>154,498</u>	<u>15,308,840</u>
<u>EXPENSES</u>					
Salaries and Related Expenses	4,722,192	498,345	12,974	9,941	5,243,452
Materials and Supplies	921,808	275,902	2,528	7,395	1,207,633
Legal and Professional Services	609,881	89,469	2,225	1,553	703,128
Repairs and Maintenance	985,728	2,373,208	2,695	72,234	3,433,865
Utilities and Telephone	723,789	1,500,717	2,003	46,925	2,273,434
Insurance	127,863	1,713,401	10,794	5,417	1,857,475
Property Taxes	72,589	7,330	191	146	80,256
Depreciation	96,083	10,077	262	201	106,623
Major Repairs and Replacements:					-
Streets	-	-	-	-	-
Roofs	-	-	-	-	-
Painting	-	-	-	-	-
Plumbing	-	-	-	-	-
Wood Repairs	-	-	-	-	-
Construction Defects	-	-	-	-	-
Interest Expense	5,998	11,766	18	43	17,825
Income Taxes	-	-	-	-	-
Other Expenses	418,318	129,456	1,515	1,737	551,026
Total Expenses	<u>8,684,249</u>	<u>6,609,671</u>	<u>35,205</u>	<u>145,592</u>	<u>15,474,717</u>
Excess (Deficiency) of Revenues Over Expenses	(142,001)	(52,607)	19,825	8,906	(165,877)
Fund Balance (Deficit), Beginning of Year	(2,109,061)	122,068	(17,049)	(3,132)	(2,007,174)
Additions to Contributed Capital	-	-	-	-	-
Fund Balance (Deficit), End of Year	<u>\$ (2,251,062)</u>	<u>\$ 69,461</u>	<u>\$ 2,776</u>	<u>\$ 5,774</u>	<u>\$ (2,173,051)</u>

The Villages
Supplementary Information
 Combined Statement of Revenues and Expenses and Changes in Fund Balances
 Replacement Funds
 For the Year Ended June 30, 2006

	<u>Club</u>	<u>Facility Funds</u>	<u>Association</u>	<u>Estates</u>	<u>Total Reserves</u>
<u>REVENUES</u>					
Assessments	\$ 687,762	\$ 452,064	\$ 3,131,060	\$ 6,300	\$ 4,277,186
Special Assessments	-	-	9,053	-	9,053
Golf Program Fees	-	-	-	-	-
Rental and Other User Fees	-	-	-	-	-
Restaurant Income	-	-	-	-	-
Advertising Income	-	-	-	-	-
Resident Activities and Programs	-	-	-	-	-
Interest Income	129,001	32,569	132,443	505	294,518
Other Income	(1,073)	3,840	1,004,334	-	1,007,101
Total Revenues	<u>815,690</u>	<u>488,473</u>	<u>4,276,890</u>	<u>6,805</u>	<u>5,587,858</u>
<u>EXPENSES</u>					
Salaries and Related Expenses	-	-	-	-	-
Materials and Supplies	-	-	-	-	-
Legal and Professional Services	-	-	311,819	-	311,819
Repairs and Maintenance	195,492	17,584	363,746	-	576,822
Utilities and Telephone	-	-	-	-	-
Insurance and Property Taxes	-	-	-	-	-
Property Taxes	-	-	-	-	-
Depreciation	387,859	229,859	-	-	617,718
Major Repairs and Replacements:					
Streets	306,812	-	-	-	306,812
Roofs	6,660	-	510,200	-	516,860
Painting	8,379	-	842,517	-	850,896
Plumbing	1,857	-	70,669	-	72,526
Wood Repairs	139,195	-	1,208,828	-	1,348,023
Construction Defects	-	-	97,377	-	97,377
Interest Expense	-	39,815	3,399	-	43,214
Income Taxes	18,313	3,883	27,221	-	49,417
Other Expenses	-	-	137,348	3,216	140,564
Total Expenses	<u>1,064,567</u>	<u>291,141</u>	<u>3,573,124</u>	<u>3,216</u>	<u>4,932,048</u>
Excess (Deficiency) of Revenues Over Expenses	(248,877)	197,332	703,766	3,589	655,810
Fund Balance (Deficit), Beginning of Year	4,586,768	2,819,493	3,444,202	11,239	10,861,702
Additions to Contributed Capital	-	-	-	-	-
Interfund Transfers	-	-	-	-	-
Fund Balances, End of Year	<u>\$ 4,337,891</u>	<u>\$ 3,016,825</u>	<u>\$ 4,147,968</u>	<u>\$ 14,828</u>	<u>\$ 11,517,512</u>

The Villages
Supplemental Information on Replacement Fund Balances
For the Year Ended June 30, 2006
(unaudited)

The Association Board of Directors commissioned a study in 2003 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association has assessed the present condition of all common area components; estimated replacement costs relying upon published data, contractor's or engineer's estimates, and previously paid amounts; and estimated remaining lives, relying upon consultants or published data. The Club is scheduled to update its reserve study in 2006-07. The following tables present significant information about the components of common property.

Club Reserve, excluding Facility Improvements Fund

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs	2006-2007 Funding Requirements	Components of Fund Balance 6/30/06
Painting	0-10	\$ 137,000	\$ 14,000	\$ 50,454
Flooring	0-20	397,000	40,000	146,777
Roofs	0-18	149,000	15,000	55,041
Paving/Streets	0-20	3,850,000	392,000	1,421,898
Equipment & Furniture	0-18	5,774,000	588,000	1,883,970
Wood Components	0-25	124,000	13,000	45,868
Irrigation Systems	0-25	360,000	37,000	133,016
Lake Relining	0-25	981,000	100,000	362,355
Tennis Courts	0-20	236,000	24,000	87,149
Fences	0-15	410,000	41,000	151,363
		<u>\$ 12,418,000</u>	<u>\$ 1,264,000</u>	<u>\$ 4,337,891</u>

Association Reserve

Components	Estimated Remaining Useful Life (Years)	Estimated Future Replacement Costs	2006-2007 Funding Requirements	Components of Fund Balance 6/30/2006
Painting	0-10	\$ 5,461,000	\$ 639,000	\$ 570,990
Roofs	0-35	17,698,000	2,530,000	2,204,084
Paving	0-35	2,044,000	196,000	176,335
Landscape/Lakes	0-35	4,788,000	734,000	654,959
Plumbing/storm drains	0-35	3,094,000	108,000	96,564
Wood Components	0-25	32,572,000	458,000	407,250
Electrical	0-35	974,000	44,000	37,786
		<u>\$ 66,631,000</u>	<u>\$ 4,709,000</u>	<u>\$ 4,147,968</u>

The Villages
Supplemental Information on Replacement Fund Balances
For the Year Ended June 30, 2006
(unaudited)

Estates Single Family Homes Reserve

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs	2006-2007 Funding Requirements	Components of Fund Balance 6/30/06
Wood Components	0-25	\$ 10,000	\$ 900	\$ 1,142
Irrigation Systems	0-10	5,000	600	\$ 571
Water Feature	0-25	43,000	1,900	\$ 4,911
Landscape Renovation	0-25	100,000	5,200	\$ 8,204
		<u>\$ 158,000</u>	<u>\$ 8,600</u>	<u>\$ 14,828</u>