

MAJESTIC OAKS HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

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FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors

MAJESTIC OAKS HOMEOWNERS ASSOCIATION

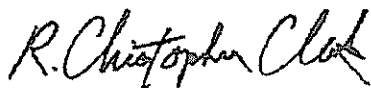
Directors:

I have audited the accompanying balance sheet of **MAJESTIC OAKS HOMEOWNERS ASSOCIATION** as of December 31, 2004 and 2003, and the related statements of revenues and expenses, members' equity, and cash flows for the years 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 audits.

I conducted my audits 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 audits provide 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 the Association as of December 31, 2004 and 2003, and the results of its operations, changes in members' equity, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Association has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.



Houston, Texas

March 10, 2005

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MAJESTIC OAKS HOMEOWNERS ASSOCIATION

BALANCE SHEET

DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
Cash and cash equivalents	\$ 52,421	\$ 30,466
Assessments receivable	<u>4,815</u>	<u>12,381</u>
TOTAL ASSETS	<u>\$ 57,236</u>	<u>\$ 42,847</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Bank note payable - note 5	\$ 107,083	\$ 118,871
Assessments received in advance	<u>22,674</u>	<u>18,877</u>
TOTAL LIABILITIES	129,757	137,748
MEMBERS' EQUITY (DEFICIT)	<u>(72,521)</u>	<u>(94,901)</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 57,236</u>	<u>\$ 42,847</u>

SEE NOTES TO FINANCIAL STATEMENTS AND AUDITOR'S REPORT

MAJESTIC OAKS HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
REVENUES		
Owners assessments	\$ 161,555	\$ 144,810
Interest income	364	335
Deposits, late charges, and other	<u>1,787</u>	<u>2,451</u>
TOTAL REVENUES	<u>163,706</u>	<u>147,596</u>
EXPENSES		
PROPERTY SERVICES AND MAINTENANCE		
Electricity and street light service	24,694	24,781
Courtesy patrol	15,600	15,600
Landscape contract	22,220	24,282
Landscape maintenance and improvements	6,292	16,392
Pest control	<u>2,153</u>	<u>2,070</u>
	<u>70,959</u>	<u>83,125</u>
RECREATION FACILITIES		
Pool access system	527	590
Pool contract	22,303	20,740
Water and sewer	180	176
Telephone	659	622
Supplies and repairs	<u>4,473</u>	<u>705</u>
	<u>28,142</u>	<u>22,833</u>
ADMINISTRATION		
Interest expense on bank note payable	7,892	9,055
Insurance	5,877	5,905
Taxes	6,454	1,111
Audit and tax return preparation	1,200	1,200
Bad debts	1,243	3,845
Newsletter and community activities	2,780	2,986
Management fee	<u>16,779</u>	<u>16,782</u>
	<u>42,225</u>	<u>40,884</u>
TOTAL EXPENSES	<u>141,326</u>	<u>146,842</u>
EXCESS (DEFICIT) OF REVENUES	<u>\$ 22,380</u>	<u>\$ 754</u>

SEE NOTES TO FINANCIAL STATEMENTS AND AUDITOR'S REPORT

MAJESTIC OAKS HOMEOWNERS ASSOCIATION
STATEMENT OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
BALANCE (DEFICIT) - BEGINNING OF YEAR	\$ (94,901)	\$ (95,655)
EXCESS (DEFICIT) OF REVENUES	<u>22,380</u>	<u>754</u>
BALANCE (DEFICIT) - END OF YEAR	<u>\$ (72,521)</u>	<u>\$ (94,901)</u>

SEE NOTES TO FINANCIAL STATEMENTS AND AUDITOR'S REPORT

MAJESTIC OAKS HOMEOWNERS ASSOCIATION

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
EXCESS (DEFICIT) OF REVENUES	\$ 22,380	\$ 754
Adjustments to reconcile to cash flows provided by operating activities:		
Decrease (increase) in assessments receivable	7,566	(4,912)
Increase (decrease) in accounts payable and deposits	-	(4,440)
Increase (decrease) in assessments received in advance	<u>3,797</u>	<u>14,498</u>
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>33,743</u>	<u>5,900</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments reducing loan balance	<u>(11,788)</u>	<u>(10,624)</u>
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(11,788)</u>	<u>(10,624)</u>
INCREASE (DECREASE) IN CASH	21,955	(4,724)
Cash balances - beginning of year	<u>30,466</u>	<u>35,190</u>
CASH BALANCES - END OF YEAR	<u>\$ 52,421</u>	<u>\$ 30,466</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ <u>7,892</u>	\$ <u>9,055</u>
Federal income tax paid	\$ <u>-</u>	\$ <u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS AND AUDITOR'S REPORT

**MAJESTIC OAKS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

NOTE 1 - NATURE OF ORGANIZATION

The Association was incorporated as a Texas non-profit corporation to provide for maintenance and preservation of Association property and architectural control of the residential subdivision know as Majestic Oaks. Section 10 includes 180 homesites and section 7, which was annexed into the Association during 1997, includes 234 homesites. The Association is located in Harris County, Texas.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accrual basis of accounting is used in the preparation of these financial statements. Consequently, revenue is recognized when assessments and other charges to homeowners are billed and expenses are recorded when services have been provided to the Association.

MEMBER ASSESSMENTS

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. The Association's policy is to actively pursue collection of assessments. Assessments receivable at the balance sheet date represents delinquent assessments. Assessments received in advance represent prepayments by members. Any excess assessments at year end are retained by the Association for use in future years.

CASH EQUIVALENTS

Certificates of deposit and all highly liquid financial instruments purchased with an initial maturity of three months or less are considered to be cash equivalents.

PROPERTY AND EQUIPMENT

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements in accordance with accepted accounting practices. The Association capitalizes significant personal property it acquires.

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 expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - FEDERAL INCOME TAX

Community associations may be taxed either as a homeowners association or as a corporation. For both years the Association was taxed as homeowners association. The Association paid tax on its net non-exempt function income, such as interest income, at a thirty percent tax rate.

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. Accordingly, the Association is unable to disclose that information, as required by generally accepted accounting principles. Actual expenditures may be greater than funds accumulated for those purposes. When replacement funds are needed for those purposes, the Association has the right to increase regular assessments or pass special assessments by the procedures provided in the governing documents or delay replacements until funds are available. The effect on future assessments has not been determined at this time.

**MAJESTIC OAKS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

NOTE 5 - BANK NOTE PAYABLE

A loan from a local bank was obtained on May 3, 2000, in the amount of \$145,000 for the purpose of funding the construction of a community swimming pool and related structures and equipment. Repayment of the loan began in December of 2002. Monthly payments of \$1,694 are to be made until the final payment in October of 2012. The loan bears interest at the rate of 8.875 percent per annum and is secured by real property owned by the Association.

Principal maturities of the note payable during each of the next five years are as follows:

<i>YEAR ENDING DECEMBER 31,</i>	<i>AMOUNTS</i>
2005	\$10,180
2006	11,121
2007	13,275
2008	14,499
2009	15,840