

MAJESTIC OAKS HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

**MAJESTIC OAKS HOMEOWNERS ASSOCIATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

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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, 2005 and 2004, 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, 2005 and 2004, 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 information presented in Note 4 to the financial statements 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 principally 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.



Houston, Texas
July 9, 2006

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**MAJESTIC OAKS HOMEOWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2005 AND 2004**

	2005	2004
ASSETS		
Cash and equivalents	\$ 74,327	\$ 52,421
Assessments receivable	<u>9,259</u>	<u>4,815</u>
TOTAL ASSETS	<u>\$ 83,586</u>	<u>\$ 57,236</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Bank note payable - note 5	\$ 94,170	\$ 107,083
Assessments received in advance	<u>54,786</u>	<u>22,674</u>
TOTAL LIABILITIES	148,956	129,757
MEMBERS' EQUITY (DEFICIT)	<u>(65,370)</u>	<u>(72,521)</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 83,586</u>	<u>\$ 57,236</u>

**MAJESTIC OAKS HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
REVENUES		
Owners assessments	\$ 161,555	\$ 161,555
Interest income	777	364
Deposits, late charges, and other	<u>8,973</u>	<u>1,787</u>
TOTAL REVENUES	<u>171,305</u>	<u>163,706</u>
EXPENSES		
PROPERTY SERVICES AND MAINTENANCE		
Electricity and street light service	28,086	24,694
Courtesy patrol	18,525	15,600
Landscape contract	22,442	22,220
Landscape maintenance and improvements	6,885	6,292
Pest control	<u>2,499</u>	<u>2,153</u>
	<u>78,437</u>	<u>70,959</u>
RECREATION FACILITIES		
Pool access system	-	527
Pool contract	22,185	22,303
Water and sewer	226	180
Telephone	656	659
Supplies and repairs	<u>17,090</u>	<u>4,473</u>
	<u>40,157</u>	<u>28,142</u>
ADMINISTRATION		
Interest expense on bank note payable	6,765	7,892
Insurance	6,010	5,877
Taxes	-	6,454
Legal and professional	8,921	1,200
Bad debts	1,102	1,243
Newsletter and community activities	1,433	2,780
Management fee and expenses	<u>21,329</u>	<u>16,779</u>
	<u>45,560</u>	<u>42,225</u>
TOTAL EXPENSES	<u>164,154</u>	<u>141,326</u>
EXCESS (DEFICIT) OF REVENUES	<u>\$ 7,151</u>	<u>\$ 22,380</u>

SEE NOTES TO FINANCIAL STATEMENTS AND AUDITOR'S REPORT

**MAJESTIC OAKS HOMEOWNERS ASSOCIATION
 STATEMENT OF MEMBERS' EQUITY
 YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<i>2005</i>	<i>2004</i>
<i>BALANCE (DEFICIT) - BEGINNING OF YEAR</i>	\$ (72,521)	\$ (94,901)
<i>EXCESS (DEFICIT) OF REVENUES</i>	<u>7,151</u>	<u>22,380</u>
<i>BALANCE (DEFICIT) - END OF YEAR</i>	<u>\$ (65,370)</u>	<u>\$ (72,521)</u>

MAJESTIC OAKS HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
EXCESS (DEFICIT) OF REVENUES	\$ 7,151	\$ 22,380
Adjustments to reconcile to cash flows provided by operating activities:		
Decrease (increase) in assessments receivable	(4,444)	7,566
Increase (decrease) in assessments received in advance	<u>32,112</u>	<u>3,797</u>
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>34,819</u>	<u>33,743</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments reducing loan balance	<u>(12,913)</u>	<u>(11,786)</u>
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(12,913)</u>	<u>(11,788)</u>
INCREASE (DECREASE) IN CASH	21,906	21,955
Cash balances - beginning of year	<u>52,421</u>	<u>30,466</u>
CASH BALANCES - END OF YEAR	<u>\$ 74,327</u>	<u>\$ 52,421</u>
 SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 6,765</u>	<u>\$ 7,892</u>
Federal income tax paid	<u>\$ 0</u>	<u>\$ 0</u>

SEE NOTES TO FINANCIAL STATEMENTS AND AUDITOR'S REPORT

**MAJESTIC OAKS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

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.

**MAJESTIC OAKS HOMEOWNERS ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2005 AND 2004**

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has prepared a study of the remaining useful lives of the components of Association property and current estimates of costs of major repairs and replacements that will be required in the future. A report dated January 1, 2006 has been prepared by an independent consultant.

The report assumes an inflation rate of 4.00% during the twenty year period covered by the report and an earnings rate on funds set aside for future major repairs and replacements in a like amount during the same period.

During for twenty year period contemplated by the study an estimated \$170,000 (in current dollars) will be required to fund future major repairs and replacements. The study presents a funding resolution that assumes no funds are dedicated for future major repairs and replacements at the end of 2005. Beginning in 2006 annual contributions to the replacement will be made in the amount of \$40,000 (adjusted for inflation) for a period of five years. Beginning in 2011 annual contributions in the amount of \$20,000 (adjusted for inflation) will be made each year through the year 2025.

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:

YEAR ENDING DECEMBER 31,	AMOUNTS
2006	\$11,121
2007	13,275
2008	14,499
2009	15,840
2010	17,305