

**Brittany Bay  
Homeowners' Association, Inc.  
Annual Financial Statements  
December 31, 2004**

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**Independent Auditor's Report**


Board of Directors  
Brittany Bay Homeowners Association, Inc.

We have audited the accompanying statement of financial position of the Brittany Bay Homeowners Association, Inc. as of December 31, 2004, 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 Association's management. Our responsibility is to express an opinion on these financial statements based on the results of the 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 results provide 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 the Brittany Bay Homeowners Association, Inc. at December 31, 2004, and the results of its operation and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Brittany Bay Homeowners Association, Inc. has not estimated the remaining useful lives and replacement costs of the common property and, therefore, has not presented the supplemental information that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.



Richard Wayne Russell, P.C.  
Houston, Texas  
February 14, 2005

**Brittany Bay Homeowners Association, Inc.****Statement of Financial Position****December 31, 2004**

<b>Assets</b>	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Totals 2004</b>
Cash and cash equivalents	\$ 41,907	\$ 12,108	\$ 54,015
Certificates of deposit	-	80,000	80,000
A/R - residential assessments	4,919	-	4,919
Prepaid expenses and deposits	2,673	-	2,673
	<u>\$ 49,499</u>	<u>\$ 92,108</u>	<u>\$ 141,607</u>
<b>Liabilities and Fund Balances</b>			
Accounts payable and accruals	\$ 944	\$ -	\$ 944
Prepaid residential assessments	33,555	-	33,555
<b>Total liabilities</b>	<u>34,499</u>	<u>-</u>	<u>34,499</u>
<b>Fund Balances</b>	<u>15,000</u>	<u>92,108</u>	<u>107,108</u>
	<u>\$ 49,499</u>	<u>\$ 92,108</u>	<u>\$ 141,607</u>

The accompanying notes are an integral part of these financial statements.

**Brittany Bay Homeowners Association, Inc.**

**Statement of Revenues, Expenses and Changes in Fund Balances**

**December 31, 2004**

<b>Revenues</b>	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Totals 2004</b>
Residential assessments	\$ 104,230	\$ 395	\$ 104,625
Late fees	2,875	-	2,875
Interest income	84	1,436	1,520
<b>Total revenues</b>	<u>107,189</u>	<u>1,831</u>	<u>109,020</u>
 <b>Expenses</b>			
Administrative expenses	3,145	-	3,145
Professional services	4,081	-	4,081
Taxes and insurance	2,039	-	2,039
Committee activities	642	-	642
Newsletter	156	-	156
Utilities	18,992	-	18,992
Contracts	53,570	-	53,570
Repairs and maintenance	462	9,574	10,036
Other expenses	451	-	451
Recreation expenses	4,219	-	4,219
<b>Total expenses</b>	<u>87,757</u>	<u>9,574</u>	<u>97,331</u>
 <b>Excess (deficit) revenues</b>	 19,432	 (7,743)	 11,689
 <b>Beginning fund balances</b>	 15,000	 80,419	 95,419
 <b>Fund transfers</b>	 <u>(19,432)</u>	 <u>19,432</u>	 <u>-</u>
 <b>Ending fund balances</b>	 <u>\$ 15,000</u>	 <u>\$ 92,108</u>	 <u>\$ 107,108</u>

The accompanying notes are an integral part of these financial statements.

## Brittany Bay Homeowners Association, Inc.

### Statement of Cash Flows

December 31, 2004

	Operating Fund	Replacement Fund	Totals 2004
<b><u>Cash flows from operating activities</u></b>			
Excess (deficit) revenues over expenses	\$ 19,432	\$ (7,743)	\$ 11,689
Adjustments to reconcile net earnings to cash provided by operating activities:			
(Increase) decrease in:			
Accounts receivable	(1,095)	-	(1,095)
Prepaid expenses	(2,673)	-	(2,673)
Increase (decrease) in:			
Accounts payable and accruals	206	-	206
Prepaid assessments	(3,881)	-	(3,881)
<b>Net cash provided (used) by operating activities</b>	11,989	(7,743)	4,246
<b><u>Cash flows from investing activities</u></b>			
Redemption of certificates of deposits	9,884	80,419	90,303
Purchase of certificates of deposits	-	(80,000)	(80,000)
<b>Net cash provided (used) by investing activities</b>	9,884	419	10,303
<b>Interfund transfers</b>	(19,432)	19,432	-
<b>Net increase (decrease) in cash</b>	2,441	12,108	14,549
<b>Cash - Beginning of year</b>	39,466	-	39,466
<b>Cash - End of year</b>	\$ 41,907	\$ 12,108	\$ 54,015
<b>Supplemental Disclosure</b>			
Income taxes paid	\$ 333	\$ -	\$ 333

The accompanying notes are an integral part of these financial statements.

## **Brittany Bay Homeowners Association, Inc.**

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Notes to Financial Statements

December 31, 2004

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### **Note 1- Nature of Organization**

The Brittany Bay Homeowners Association, Inc. ("the Association") was incorporated on August 27, 1984, in the State of Texas. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 376 residential units located in Galveston County, Texas.

### **Note 2 – Summary of Significant Accounting Policies**

**Fund Accounting** - The Association's governing documents provide certain guidelines for governing 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 the 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 assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. Assessments collected in advance are deferred and recognized as revenues in the subsequent year. The Association considers all assessments receivable at December 31, 2004 to be fully collectible. Any excess assessments at year end are retained by the Association for use in the succeeding year.

**Interest Income** - Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

**Federal Income Taxes** - Homeowners associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2004, the Association elected to be taxed as a homeowners association under Internal Revenue Section 528. This election allows the Association to exclude exempt function income, including membership dues, fees and assessments from taxation. All investment income, including interest, and all income not associated with the exempt function is subject to federal income taxes, and is taxed at 30%. Federal income tax expense for the current year is \$333.

## **Brittany Bay Homeowners Association, Inc.**

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**Notes to Financial Statements**

**December 31, 2004**

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**Cash and Cash Equivalents** – Certificates of deposit and 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, common areas, and related improvements are not recorded in the Association's financial statements. The common areas are owned by individual members and the economic benefits and obligations associated with ownership belong to the individual members, not the Association. Major improvements and repairs and maintenance costs are charged to operations when incurred.

**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 disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current reporting period. Actual results could differ from those amounts.

### **Note 3 – Litigation**

The Association is a party to various legal actions normally associated with homeowners associations, such as collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

### **Note 4 – Future Major Repairs and Replacements**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are generally not available for operating purposes. The Association has not conducted a study to determine the remaining useful lives of the components of Association property and current estimates of future major repairs and replacements. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. The Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay repairs and replacements until funds are available. Actual expenditures may vary from the estimates and these variances may be material.