

**Grayson Lakes Community Association, Inc.**  
**Financial Statements**  
**December 31, 2010**

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To: Board of Directors  
Grayson Lakes Community Association, Inc.  
Houston, Texas

We have compiled the accompanying balance sheet of Grayson Lakes Community Association, Inc. as of December 31, 2010, and the related statements of income and retained earnings and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements of Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

April 25, 2011

**Grayson Lakes Community Association, Inc.**  
**Balance Sheet**  
**December 31, 2010**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 151,956	\$ 4,010	\$ 155,966
Assessments receivable	<u>33,462</u>	<u>          </u>	<u>33,462</u>
Total Assets	<u><u>\$ 185,418</u></u>	<u><u>\$ 4,010</u></u>	<u><u>\$ 189,428</u></u>
 <b>Liabilities and Fund Balances</b>			
Assessments received in advance	<u>\$ 135,215</u>	<u>          </u>	<u>\$ 135,215</u>
Total Liabilities	135,215		135,215
Fund Balances	<u>50,203</u>	<u>4,010</u>	<u>54,213</u>
Total Liabilities and Fund Balances	<u><u>\$ 185,418</u></u>	<u><u>\$ 4,010</u></u>	<u><u>\$ 189,428</u></u>

See accompanying notes and accountant's compilation report.

**Grayson Lakes Community Association, Inc.**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2010**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Revenues</b>			
Assessments	\$ 468,962	\$	\$ 468,962
Interest	298		298
Legal fees recovered	6,275		6,275
Interest on delinquent accounts	2,194		2,194
Pool rental	623		623
Miscellaneous income	<u>1,289</u>		<u>1,289</u>
<b>Total Revenues</b>	<u>479,640</u>		<u>479,640</u>
<b>Expenses</b>			
Administrative (Schedule 1)	80,846		80,846
Contract Services (Schedule 2)	230,701		230,701
Repair and Maintenance (Schedule 3)	49,417		49,417
Utilities (Schedule 4)	73,082		73,082
Taxes (Schedule 5)	<u>7,153</u>		<u>7,153</u>
<b>Total Expenses</b>	<u>441,199</u>		<u>441,199</u>
<b>Excess of Revenues over Expenses</b>	38,441		38,441
<b>Fund Balances</b>			
Beginning of year	11,762	4,010	15,772
Ending of year	<u>\$ 50,203</u>	<u>\$ 4,010</u>	<u>\$ 54,213</u>

See accompanying notes and accountant's compilation report.

**Grayson Lakes Community Association, Inc.**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2010**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Expenses</b>			
<b>Schedule 1 - Administrative</b>			
Management fees	\$ 21,970	\$	\$ 21,970
Insurance	15,750		15,750
Legal fees	15,742		15,742
Accounting and audit	5,695		5,695
Communications	3,779		3,779
Postage and delivery	3,314		3,314
Office supplies	2,511		2,511
Deed restriction enforcement	2,075		2,075
Bad debt	1,857		1,857
Telephone	1,690		1,690
Miscellaneous expenses	1,688		1,688
Events	1,453		1,453
Signs	1,140		1,140
Contingency	600		600
Filing fees	465		465
Meeting expenses	339		339
Bank service charges	300		300
Dues and subscriptions	298		298
Holiday decorations	150		150
Vacant home mowing	30		30
<b>Subtotal</b>	80,846		80,846
<b>Schedule 2 - Contract Services</b>			
Grounds keeping	208,224		208,224
Pool maintenance	11,019		11,019
Lake management contract	9,600		9,600
Pest control	1,356		1,356
Security monitoring	502		502
<b>Subtotal</b>	230,701		230,701

See accompanying notes and accountant's compilation report.

**Grayson Lakes Community Association, Inc.**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2010**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Schedule 3 - Repair and Maintenance</b>			
General repairs	\$ 13,422	\$	\$ 13,422
Irrigation repairs / installation	11,228		11,228
Lake maintenance	9,065		9,065
Tennis court repairs / maintenance	6,333		6,333
Pool repairs / maintenance	4,174		4,174
Landscape replacement	1,536		1,536
Electrical repairs	1,511		1,511
Plumbing repairs	1,137		1,137
Fence repairs	1,011		1,011
<b>Subtotal</b>	49,417		49,417
<b>Schedule 4 - Utilities</b>			
Electricity	52,685		52,685
Water	17,149		17,149
N.F.B.W.A.	3,248		3,248
<b>Subtotal</b>	73,082		73,082
<b>Schedule 5 - Taxes</b>			
Other taxes	3,694		3,694
Real estate tax	3,459		3,459
<b>Subtotal</b>	7,153		7,153

See accompanying notes and accountant's compilation report.

**Grayson Lakes Community Association, Inc.**  
**Statement of Cash Flows**  
**For the Year ended December 31, 2010**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Excess of revenues over expenses	\$ 38,441	\$ -	\$ 38,441
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Decrease in:			
Assessments receivable	3,841		3,841
(Decrease) in:			
Assessments received in advance	<u>(1,514)</u>	<u>                    </u>	<u>(1,514)</u>
<b>Net cash provided by operating activities</b>	<u>40,768</u>	<u>                    </u>	<u>40,768</u>
Net increase in cash and cash equivalents	40,768		40,768
Cash and cash equivalents. Beginning of the year	<u>111,188</u>	<u>4,010</u>	<u>115,198</u>
<b>Cash and cash equivalents, end of the year</b>	<u><u>\$ 151,956</u></u>	<u><u>\$ 4,010</u></u>	<u><u>\$ 155,966</u></u>
<b>Supplemental Disclosures:</b>			
Taxes Paid	\$ -	\$ -	\$ -
Interest Paid	\$ -	\$ -	\$ -

See accompanying notes and accountant's compilation report.

**Grayson Lakes Community Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2010**

**Note 1 - Organization**

Grayson Lakes Community Association, Inc. (the Association) is a Texas non-profit corporation incorporated on November 27, 2001 for the purpose of providing for maintenance, preservation and architectural control of the properties that may be brought within the jurisdiction of the Association. The Association is comprised of 530 residential units in Katy, Texas.

**Note 2 - Summary of Significant Accounting Policies**

**Fund Accounting**

The Association uses fund accounting which requires funds allocated for future major repairs and replacements be classified separately from funds available for general operations. 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 account for financial resources designated for future repairs and replacements.

**Assessments**

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit members. Any excess assessments at year end are retained by the Association for use in the succeeding year. Income received in advance is deferred and amortized over the period to which it relates. No assessments for future major repairs and replacements have been assessed to date.

A contribution is made, by or on behalf of the purchaser, to the working capital of the Association in an amount equal to one-sixth of the annual base assessment per unit upon sale to the first owner other than the Developer or builder.

**Federal Income Tax**

The Association is exempt from Federal income taxes under Section 501(c)(4) of the Internal Revenue Code.



**Grayson Lakes Community Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2010**

**Note 2 - Summary of Significant Accounting Policies**

**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 because those properties are owned by the individual unit owners in common and not by the Association.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Fair Value of Financial Instruments**

The Association's financial instruments are cash and cash equivalents, accounts receivable, prepaid expenses and accounts payable. The recorded values of the cash and cash equivalents, investments, accounts receivable, prepaid expenses and accounts payables approximate their fair values based on their short-term nature.

**Note 3 - Assessments Receivable**

Assessments receivable represents fees billed prior to December 31, 2010. The Association's policy is to retain legal counsel to pursue collection matters when assessments become past due.

**Note 4 - Future Major Repairs and Replacements**

The Association's governing documents requires funds to be accumulated for future major repairs and replacements. Accumulated funds are generally not available for operating purposes.

In the future, funds will be 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 Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on the future assessments has not been determined at this time.