

CIRCLE C HOMEOWNERS ASSOCIATION, INC.

REPORT ON EXAMINATION

YEARS ENDED DECEMBER 31, 2010

STEPHEN M. TILSON, PC

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Circle C Homeowners Association, Inc.
Austin, Texas

We have audited the accompanying balance sheet of Circle C Homeowners Association, Inc. as of December 31, 2010 and the related statements of revenues, expenditures and changes in member's equity, 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 our 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 provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Circle C Homeowners Association, Inc. as of December 31, 2010, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

As explained in Footnote 4, Circle C Homeowners Association, Inc. has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented the 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 basis of financial statements.

Stephen M. Tilson, PC

June 23, 2011
Austin, Texas

CIRCLE C HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1: NATURE OF ORGANIZATION

Circle C Homeowners Association, Inc. (the Association) was incorporated on March 8, 1988 in the State of Texas as a non-profit corporation for the purposes of operating an association for the social welfare and benefit of the lot owners and to preserve and maintain the common property which includes landscaped common areas owned by the City of Austin and the Circle C Pool facility. The Association consists of approximately 4,628 lots located in Austin, Travis County, Texas.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of 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.

Basis of Accounting

The accompanying financial statements have been prepared using a non-fund approach. The Association uses the accrual basis method of accounting. Using this method of accounting, revenues and accounts receivables are recognized when earned regardless of when cash is received. Revenues received prior to being earned are reported as prepaid assessments. Expenses and accounts payable are recognized when the obligation is incurred regardless of when cash is disbursed. Expenses paid before being obligated are reported as prepaid expenses.

Accounts Receivable

Assessments receivable at December 31, 2010 represent assessments due from homeowners. Prepaid assessments at December 31, 2010 represent assessments paid in advance by homeowners. The Association values accounts receivable using an allowance for uncollectible accounts. The Association estimates the collectibility of assessments receivable and adjusts the allowance accordingly.

Fixed Assets

The Association capitalizes all common property and equipment to which it has title or other evidence of ownership. Property not capitalized at December 31, 2010 includes approximately three lots donated by a homebuilder and twenty common areas. The Association is responsible for preserving and maintaining the common property.

Personal property acquired by the Association is recorded at cost and property contributed to the Association by the developer is recorded at estimated fair market value at the date of contribution. Property and equipment is depreciated over the useful life of the property using the straight line method of depreciation. Depreciation expense for 2010 was \$19,110.

CIRCLE C HOMEOWNERS ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
(Continued)

Member Assessments

Association members are subject to semi-annual assessments that provide funds for the Association's operating expenses, fixed asset purchases, capital acquisitions, and major repairs and replacements. The Association may make special assessments from time to time as approved by a vote of 2/3 of the property owners.

The Association's policy is to place liens on owner's lots whose assessments are one hundred twenty days or more delinquent. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

Note 3: FEDERAL INCOME TAXES

The Association may annually elect to be taxed as a regular corporation under Internal Revenue Code Section 277 or as a homeowners' association under Internal Revenue Code Section 528. The Association elected to be taxed as a homeowners' association for the year ended December 31, 2010. Taxable income arises from amounts received from nonmembers of the Association including interest earned on reserve funds. The Association had no federal income tax liability for 2010.

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. The board has also not developed a plan to fund those needs. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

To date the Association has funded actual major repairs and replacements from operating fund assessments as expenditures were required. The Association budgets on an annual basis for anticipated major repairs and replacement expenditures.

Note 5: LANDSCAPING INCOME

The Association collected \$97,000 during 2010 from a developer that owns several properties in the Circle C development. The developer has agreed to reimburse the Association for landscaping costs associated with its various development projects.

In addition, the Association has entered into an agreement with the City of Austin that requires the City of Austin to reimburse the Association for the costs of landscaping certain areas that lie within the Circle C development. In 2010 the Association billed the City of Austin \$17,600 for reimbursement of landscaping expenses according to the agreement.

CIRCLE C HOMEOWNERS ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 6: LITIGATION

A group of homeowners filed suit against the Association alleging that the Association has a duty to maintain and replace fence found within a landscaping easement. The case was heard by a judge in Travis County who found in favor of the Association. The judge ruled that the Association did not own the fence and had no duty to repair, replace or maintain the fence.

Note 7: CIRCLE C COMMUNITY CENTER (WEST POOL FACILITY)

The original developer of Circle C collected \$1,000 from buyers as homes were sold. This "Amenities Fund" was maintained by the original developer and his successors while the developer's bankruptcy was adjudicated. After several years the trustee in bankruptcy released the "Amenities Fund" to Circle C Homeowners' Association, Inc. at the end of 2009. The amount released was \$1,371,000.

The Association continued during 2010 to collect \$1,000 from each home sold in the Association. As a result the Association collected \$70,000 during 2010.

The Association elected to use the money from the settlement with the original developer to construct a new community and swim center. The proposed facility will contain a 7,000 square feet community center, several swimming pools and pool-related structures as well as landscaping, hardscape, parking and drives. The Association hired consultants including an architect during 2010 to design the facility and work on permitting. The projected cost of the facility is \$4,000,000.

Construction was scheduled to begin during the second quarter of 2011 with a seven month time line for completion of the project. The Association borrowed \$2,000,000 in April 2011 to help finance the project.