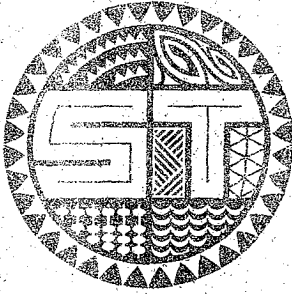


**WATERLEAF FALLS (KYLE)
HOMEOWNERS ASSOCIATION, INC.**

REPORT ON EXAMINATION

YEAR ENDED DECEMBER 31, 2010



Stephen M. Tilson, PC
Certified Public Accountants

P.O. Box 93053 • Austin, Texas 78709-3053 • Phone: 512-264-3006 • Fax: 888-319-6766 • info@tilsoncpa.com

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Waterleaf Falls (Kyle) Homeowners Association, Inc.
Kyle, Texas

We have audited the accompanying balance sheet of Waterleaf Falls (Kyle) Homeowners Association, Inc. as of December 31, 2010, and the related statements of revenues, expenses and changes in members' 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 that are 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 financial statements referred to above present fairly, in all material respects, the financial position of Waterleaf Falls (Kyle) 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.

The supplementary information on future major repairs and replacements presented at the end of this report is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Stephen M. Tilson, PC

January 10, 2012
Austin, Texas

WATERLEAF FALLS (KYLE) HOMEOWNERS' ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2010

ASSETS

CURRENT ASSETS

CASH - OPERATING	\$	52,991	
CASH - RESERVE		17,278	
CASH - COLLECTIONS		3,959	
CASH - HOA COLLECTIONS		6,378	
CASH - CD - RESERVE		6,137	
CASH - CD - RESERVE		22,299	
ACCOUNTS RECEIVABLE - ENTRY FEES		1,000	
ACCOUNTS RECEIVABLE - ASSESSMENTS		84,347	
ALLOWANCE FOR DOUBTFUL ACCOUNTS		(18,551)	
PREPAID INSURANCE		1,448	
TOTAL CURRENT ASSETS		<u> </u>	<u>\$ 177,287</u>
TOTAL ASSETS			<u><u>\$ 177,287</u></u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

PREPAID DUES	\$	16,413	
ACCOUNTS PAYABLE		<u>5,490</u>	
TOTAL CURRENT LIABILITIES			<u>\$ 21,903</u>

MEMBERS' EQUITY

DEVELOPER CONTRIBUTIONS	\$	10,000	
UNRESTRICTED MEMBERS' EQUITY		132,589	
EXCESS OF REVENUES OVER EXPENSES		<u>12,795</u>	
TOTAL MEMBERS' EQUITY			<u>\$ 155,384</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY			<u><u>\$ 177,287</u></u>

See accountant's report.

WATERLEAF FALLS (KYLE) HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2010

REVENUES

OWNER'S ASSESSMENTS	\$	212,897	
ATTORNEYS FEES		9,781	
VIOLATION FINES		145	
ENTRY FEE		13,529	
LANDSCAPE REIMBURSEMENTS		75	
LATE FEES		961	
NSF FEES		225	
POOL KEY INCOME		282	
INTEREST INCOME		843	
ACCOUNTING COLLECTION INCOME		4,855	
OTHER INCOME		682	
TOTAL REVENUES		682	\$ 244,273

EXPENSES

CAPITAL & RESERVE EXPENSES

FENCING & RAILINGS	\$	360	
DECK OR BALCONY IMPROVEMENT		27,135	
			\$ 27,495

TAXES AND INSURANCE

PROPERTY TAXES	\$	853	
INSURANCE EXPENSE		3,516	
			\$ 4,370

UTILITIES

WATER & SEWER	\$	22,063	
ELECTRICITY		11,673	
TELEPHONE		2,471	
			\$ 36,207

MAINTENANCE

LANDSCAPING	\$	39,685	
FORCED MOWS		4,475	
SUPPLIES		846	
LOCKS		926	
POOL		12,556	
POOL MONITORS		29,014	
POOL SUPPLIES		1,152	
MISCELLANEOUS		3,214	
ELECTRICAL		312	
SIGNAGE		519	
POOL CARDS		292	
			\$ 92,991

EXPENSES SUBTOTAL	\$	161,062.57	
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See accountant's report.

WATERLEAF FALLS (KYLE) HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2010
(CONTINUED)

EXPENSES (CONTINUED)			
EXPENSES SUBTOTAL		\$	161,063
 <i>GENERAL & ADMINISTRATIVE</i>			
MANAGEMENT FEES	\$	16,800	
LEGAL MEETINGS (ATTORNEY)		1,743	
LEGAL FEES - COLLECTIONS		14,436	
WELCOME PACKET		550	
OFFICE SUPPLIES		3,495	
FREIGHT & POSTAGE		3,289	
YARD OF THE MONTH		267	
PROFESSIONAL FEES		4,130	
SOCIAL COMMITTEE		201	
MEETING EXPENSE		674	
WEBSITE		657	
COLLECTION FEE EXPENSE		5,623	
BAD DEBT EXPENSE		<u>18,551</u>	
		<u>\$</u>	<u>70,415</u>
TOTAL EXPENSES			<u>\$ 231,478</u>
EXCESS OF REVENUES OVER EXPENSES		\$	12,795
 MEMBERS' EQUITY			
UNRESTRICTED MEMBERS' EQUITY - 12/31/09			132,589
DEVELOPER'S CONTRIBUTIONS			<u>10,000</u>
UNRESTRICTED MEMBERS' EQUITY - 12/31/10		\$	<u><u>155,384</u></u>

See accountant's report.

WATERLEAF FALLS (KYLE) HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010

OPERATING ACTIVITIES:

EXCESS OF REVENUES OVER EXPENSES \$ 12,795

CHANGES IN OPERATING ASSETS AND LIABILITIES

(INCREASE) DECREASE IN ASSESSMENTS RECEIVABLE NET OF ALLOWANCE	(27,143)
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE - OTHER	604
(INCREASE) DECREASE IN PREPAID INSURANCE	(1,448)
INCREASE (DECREASE) IN PREPAID ASSESSMENTS	13,963
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	5,066
INCREASE (DECREASE) DUE TO PRIOR PERIOD ADJUSTMENTS	<u>24,749</u>

NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES \$ 28,587

INVESTING ACTIVITIES:

NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES \$ -

FINANCING ACTIVITIES:

DEVELOPER CONTRIBUTIONS \$ 10,000

NET CASH PROVIDED BY (USED BY) FINANCING ACTIVITIES \$ 10,000

NET INCREASE (DECREASE) IN CASH \$ 38,587

CASH AND EQUIVALENTS AT 12/31/09 70,455

CASH AND EQUIVALENTS AT 12/31/10 \$ 109,042

SUPPLEMENTAL DISCLOSURE:

INCOME TAX PAID \$ -

WATERLEAF FALLS (KYLE) HOMEOWNERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

The Association was incorporated in February 2003 under the Texas Non-profit Corporation Act for the purpose of operating, managing, maintaining and administering the affairs of Waterleaf Falls (Kyle) Homeowners' Association, Inc. This is a 527 lot residential subdivision located in Kyle, Hays County, Texas. At full build-out, the development will contain approximately 977 lots. The owner of each lot pays an annual fee to the Association.

The Association records assets and liabilities and revenues and expenses on the accrual basis of accounting. Cash and cash equivalents are defined as all cash in banks such as money market, certificates of deposit or checking accounts for cash flow purposes.

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

2. FEDERAL INCOME TAXES

The Association has elected to be taxed under Internal Revenue Code § 528 which allows the Association to exclude exempt function income from gross income. Exempt function income consists of membership dues or other fees the Association receives from members as owners of the Association's services. Taxable income arises from amounts received from members on the per user charge basis, fees received from nonmembers of the Association and interest earned on reserve funds. The Association did not incur any federal income tax for the 2010 fiscal year.

3. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$45,714 at December 31, 2010, are generally not available for operating purposes.

The current funding program is based on a study performed in 2010 by an outside consultant hired by the Association. Estimates on remaining useful lives and replacement costs of the common property components were determined based on actual expenses incurred and estimates by the outside consultant. Accordingly, actual expenses may vary from estimated amounts.

Should amounts accumulated in the replacement fund not be adequate to meet future needs, the Association has the right, subject to member approval, to increase the regular assessment or levy special assessments. Otherwise, major repairs and replacements may be delayed until funds are available.

WATERLEAF FALLS (KYLE) HOMEOWNERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

5. **COMMON PROPERTY & POOL DECK REPAIR**

Real property and common areas acquired from the developer and improvements related thereto are not reflected on the financial statements of the Association. Those common properties are owned by the individual lot owners in common and not by the Association. In addition an appraisal of the common property was not performed at the time of transfer therefore the original cost of the property is not determinable. The Association is responsible for preserving and maintaining the common property.

The Association hired a contractor in 2010 to renovate and repair the deck surrounding the pools at an estimated cost of \$27,000. The work was substantially completed in February of 2010.

SUPPLEMENTARY INFORMATION

WATERLEAF FALLS (KYLE) HOMEOWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2010

The Association engaged an outside consultant to conduct a study in January 2010 to estimate the replacement costs of the components of common property and to estimate useful lives of the elements of common property. Replacement costs were based on estimates provided by the consultant and do take into account the effects of inflation.

The following information is based on the study and presents significant information about the components of common property. The board has not designated the funds accumulated in the reserve account to specific components.

COMPONENT	ESTIMATED REMAINING USEFUL LIFE (YEARS)	ESTIMATED CURRENT REPLACEMENT COST	DESIGNATED FOR REPAIRS/REPLACEMENT DECEMBER 31, 2010
PROPERTY SITE ELEMENTS			
ASPHALT PAVEMENT, TOTAL REPLACEMENT	11	\$ 238,155	
CONCRETE FLATWORK, PARTIAL REPLACEMENTS	6	56,479	
FENCES, WOOD, PHASED REPLACEMENT	12	133,895	
FENCES, WOOD, PAINT FINISHES	6	33,744	
LIGHT POLES AND FIXTURES	18	9,206	
PLAYGROUND EQUIPMENT (INCLUDES BENCHES AND TABLES)	12	45,965	
SIGNAGE	13	34,365	
POOL HOUSE ELEMENTS			
REST ROOMS, RENOVATION	18	23,672	
ROOFS, CLAY TILE	22	72,702	
SECURITY SYSTEM	11	45,545	
WALLS, STUCCO, PAINT FINISHES & CAPITAL REPAIRS	3	16,113	
POOL ELEMENTS			
CONCRETE DECK, INSPECTIONS, COATINGS & PARTIAL REPLACEMENTS	10	133,626	
FENCE, METAL	28	71,502	
FENCE, METAL, PAINT FINISH APPLICATIONS	1	46,401	
FURNITURE	9	24,544	
MECHANICAL EQUIPMENT	6	34,442	
PLASTER FINISH REPLACEMENT AND TILE REPAIRS, MAIN POOL	4	154,889	
PLASTER FINISH REPLACEMENT AND TILE REPAIRS, WADING POOL	4	50,814	
SHADE UMBRELLAS	6	138,075	
RESERVE STUDY UPDATE WITH SITE VISIT	2	2,800	
TOTAL		\$ 1,366,934	\$ 45,714