



Clear Lake City Community Association, Inc.

Financial Statements

June 30, 2009 and 2008

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Independent Auditor's Report

To the Board of Trustees
Clear Lake City Community Association, Inc.
Houston, Texas

We have audited the accompanying balance sheets of the Clear Lake City Community Association, Inc. (a Texas Corporation) as of June 30, 2009 and June 30, 2008 and the related statements of revenues, expenditures and changes in fund balances and cash flows for the years 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 audits. The audited financial statements for the year ended June 30, 2008 had a qualified opinion.

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 audits 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 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 Clear Lake City Community Association, Inc. as of June 30, 2009 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information on future major repairs and replacements on pages 11-16 is not a required part of the basic financial statements but is supplementary information required by generally accepted accounting principles in the United States of America. 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.

Canady & Canady P.C.

March 10, 2010

Clear Lake City Community Association, Inc.
Balance Sheet
June 30, 2009 and 2008

	2009		2008
	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 331,067		\$ 331,067
Certificates of deposits	708,000	1,000,000	1,708,000
Assessments receivable	77,672		77,672
Allowance for doubtful accounts	(27,000)		(27,000)
Accounts receivable - investment interest	9,404		9,404
Undeposited funds	50,593		50,593
Prepaid expenses	39,783		39,783
Deposit - Sign constuction	-		-
Finance lease asset, net of accumulated amortization of \$ 370	5,187		5,187
Furniture and equipment, net of accumulated depreciation of \$4,048,292	857,536		857,536
Land	1,745,178		1,745,178
Total assets	<u>3,797,420</u>	<u>1,000,000</u>	<u>4,797,420</u>
Liabilities and Fund Balances			
Accounts payable	89,131		89,131
Payroll tax payable	11,516		11,516
Accrued expenses	2,614		2,614
Rental and key deposits	6,727		6,727
Prepaid maintenance fees	296,603		296,603
Lease obligation	4,692		4,692
Total liabilities	<u>411,283</u>		<u>411,283</u>
Fund balances	<u>3,386,137</u>	<u>1,000,000</u>	<u>4,386,137</u>
Total liabilities and fund balances	<u>\$ 3,797,420</u>	<u>\$ 1,000,000</u>	<u>\$ 4,797,420</u>

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

Clear Lake City Community Association, Inc.
Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Years Ended June 30, 2009 and 2008

	2009		2008
	Operating Fund	Replacement Fund	Total
Revenues			
Maintenance assessment	\$ 627,307		\$ 627,307
Transfer fees	38,000		38,000
Legal fees reimbursement	22,509		22,509
Late fees	(7,684)		(7,684)
Classes income:			
Exercise classes	23,864		23,864
Water classes	22,271		22,271
Facilities income:			
Rental fees	86,653		86,653
Pool tags	76,298		76,298
Fitness tags	22,462		22,462
Tennis tags	1,287		1,287
Other fees	-		-
Interest income	81,620		81,620
Recreation & programming income	1,548		1,548
Miscellaneous income	7,050		7,050
Total revenues	<u>1,003,185</u>		<u>1,003,185</u>
Expenditures			
Administrative expenses:			
Insurance	125,457		125,457
Legal fees	38,503		38,503
Newsletter expenses	17,799		17,799
Accounting and professional fees	14,765		14,765
General and administration expenses	11,924		11,924
Phone, pager, fax, website	9,706		9,706
Office supplies	8,714		8,714
Postage	6,597		6,597
Equipment rental	4,825		4,825
Advertising	3,032		3,032
Permits, dues and subscriptions	2,472		2,472
Employee retirement benefits	1,642		1,642
Bad debt expense	1,001		1,001

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

Clear Lake City Community Association, Inc.
Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Years Ended June 30, 2009 and 2008

	2009		2008
	Operating Fund	Replacement Fund	Total
Expenditures			
Administrative expenses (cont.)			
Taxes - payroll	43,412		43,412
Taxes - other	221		221
Transportation	4,761		4,761
Contract labor	26,211		26,211
Depreciation expense	84,441		84,441
Lease asset amortization	370		370
Interest expense	140		140
Facilities expense:			
Janitor and shop supplies	4,964		4,964
Landscape and grounds maintenance	98,372		98,372
Maintenance and repairs - equipment and structure	128,025		128,025
Pool expenses	28,087		28,087
Facilities supplies	6,167		6,167
Recreation expenses	2,272		2,272
Trash collection expense	3,618		3,618
Utilities	96,820		96,820
Wages:			
Facility wages	94,987		94,987
Lifeguard wages	111,763		111,763
Office wages	139,290		139,290
Recreation wages	57,544		57,544
Deposit - signs write off	55,487		55,487
Total expenses	1,233,389		1,233,389
Excess revenue over (under) expenses	(230,204)		(230,204)
Fund balance			
Beginning balance	3,616,341	1,000,000	4,616,341
Prior year adjustment	-	-	(47,847)
Ending balance	\$ 3,386,137	\$ 1,000,000	\$ 4,386,137

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

Clear Lake City Community Association, Inc.
Statements of Cash Flows
For the Years ended June 30, 2009 and 2008

	2009		2008
	Operating Fund	Replacement Fund	Total
Cash flows from operating activities			
Excess (deficiency) of revenues over expenses	\$ (230,204)		\$ (230,204)
Depreciation	84,441		84,441
Amortization	370		370
Bad debt	1,001		1,001
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	22,404		22,404
Accounts receivable - investment interest	920		920
Accounts receivable - other	-		-
Prepaid expenses	4,824		4,824
Deposits - sign construction	55,487		55,487
Undeposited fund	(50,593)		(50,593)
Increase (decrease) in:			
Accounts payable	77,846		77,846
Payroll tax payable	9,584		9,584
Accrued expenses	(9,036)		(9,036)
Prepaid assessments	(67,397)		(67,397)
Rental deposits	1,239		1,239
Lease obligation	4,692		4,692
Net cash (used) provided by operating activities	(94,422)		(94,422)
Cash flows from investing activities			
Purchase of Certificates of deposits	(85,000)		(85,000)
Acquisition of fixed assets	(96,654)		(96,654)
Net cash (used) provided by investing activities	(181,654)		(181,654)
Prior period adjustment			-
Net increase (decrease) in cash and cash equivalents	(276,076)		(276,076)
Cash and cash equivalents, beginning of year	607,143	-	607,143
Cash and cash equivalents, end of year	\$ 331,067	\$ -	\$ 331,067
Supplemental Disclosures:			
Taxes Paid	\$ -	\$ -	\$ -
Interest Paid	\$ 40	\$ -	\$ 40

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

Clear Lake City Community Association, Inc.
Notes to the Financial Statements
June 30, 2009

Note 1 – Organization

Clear Lake City Community Association, Inc. (the "Association"), a Texas non-profit corporation, was incorporated March 1963, organized for exclusively civic, educational, and recreational purposes, and to provide for maintenance, preservation and architectural control of properties within the boundaries of Clear Lake City Community Association's jurisdiction, and to promote the health, recreation, and well-being of the residents of the community. Association policies and procedures are determined by the Board of Trustees.

Note 2 - Summary of Significant Accounting Policies

Funds

The Association maintains an Operating Fund and a Replacement Fund. The Operating Fund is used for the payment of current operating expenses including normal maintenance of common areas. The Replacement Fund is used to fund anticipated major repairs and capital improvements over normal expected life of building improvements. Part of the monthly assessments is allocated to the Replacement Fund.

Cash

Cash includes cash and cash equivalents, defined as liquid investments with maturities of three months or less.

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.

Assessments

Certain residential and commercial properties in Clear Lake City are subject to an annual community service charge at the rate of eight (8) mills per square foot. The annual mill assessments, are collected to meet the Association's normal operating costs and, at the Board of Trustees' discretion, to fund reserves for the repair and replacement of the capital components. The annual community service charge shall not be raised above eight (8) mills per square foot of area, unless raised by the owners of a majority of the square foot area of the lots or property in all of said sections paying such charges. To secure payment of the assessments, a continuing lien covenant runs with the property assessed. This assessment fee is recognized as it is earned. Bad debts are provided on the allowance method (estimate not an actual loss) based on the Association's evaluation of outstanding receivable. The allowance for doubtful accounts was \$27,000 at June 30, 2009.

Clear Lake City Community Association, Inc.
Notes to the Financial Statements (continued)
June 30, 2009

Note 2 - Summary of Significant Accounting Policies (Continued)

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not reflected on the Association's financial statements. Those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes significant real and personal property to which it has title or other evidence of ownership at cost.

Note 3 – Investments

Certificates of deposits are recorded at cost, and are held in various financial institutions by UBS Financial Services. The Association's policy is to hold investments until maturity; therefore, there are no gains or losses recognized on the accompanying Statements of Revenues and Expenses. The aggregate fair value of the investments as of June 30, 2009 and 2008 are \$1,766,700 and \$1,870,632, respectively. The gross unrealized gain as of June 30, 2009 and 2008 are \$36,700 and \$1,434, respectively.

Note 4 – Tax Exempt Status and Federal Income Tax

The Association is exempt from federal income under section 501(c) (4) of the Internal Revenue Code. Tax exempt status is based upon the Association promoting the common good and well-being of the community and general public, primarily to bring about civic betterment and social improvement. For the year ended June 30, 2009, the Association filed a Return of Organization Exempt from Income Tax.

Note 5 – Retirement Plan

The Clear Lake City Community Association, Inc. maintains a SIMPLE IRA retirement plan described under IRC section 408(p). Employees of the Association are eligible to participate in the plan if they are expected to earn \$ 5,000 during the plan year or received \$ 5,000 during each of the two preceding calendar years. The Association provides a matching contribution up to 3% for 2009 and 2008 of the participant's compensation subject to certain limitations imposed by law. All contributions under the SIMPLE plan are fully vested and non-forfeitable. For the year ends ended June 30, 2009 and 2008, Employer retirement contributions were \$ 1,642 and \$ 3,575 as reported on the accompanying Statement of Revenues and Expenses, respectively.

Clear Lake City Community Association, Inc.
Notes to the Financial Statements (continued)
June 30, 2009

Note 6 – Property and Equipment

Major classifications of property, equipment and furniture at June 30, 2009 and 2008, and their respective lives are summarized below:

	June 30,		
	2009	2008	Useful life
Building and Improvements	\$ 4,269,706	\$ 4,176,151	3-39
Office equipment	74,818	72,766	3-20
Machinery and equipment	426,794	426,165	3-15
Furniture and fixtures	134,168	134,168	3-15
Recreation equipment	418	-	3-5
	4,905,904	4,809,250	
Less: accumulated depreciation	(4,048,292)	(3,963,851)	
	<u>\$ 857,612</u>	<u>\$ 845,399</u>	

Depreciation is calculated using straight line method. Depreciation expense for the years ended June 30, 2009 and 2008 totaled \$ 84,441 and \$ 136,066, respectively. Adjustment was made to prior year accumulated depreciation.

Note 7 – Future Major Repairs and Replacements

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements, but such determination can be made by the Board of Trustees. The purpose of the annual assessments are to (1) provide the working capital necessary to meet the Association's annual operating expenses and (2) maintain a reserve for repair or replacement of the capital components of the Association. Accumulated funds are held in separate cash and investment accounts and are generally not available for expenditures for normal operations.

Funds are being 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 to increase regular assessments in accordance with the declaration, and pass special assessments subject to community approval, or delay major repairs and replacements until funds are available.

Clear Lake City Community Association, Inc.
Notes to the Financial Statements (continued)
June 30, 2009

Note 8 – Finance Lease Asset

In April 2009, the Association entered into a finance lease agreement of a printer, the term of the lease included a bargaining purchase option of \$1.00. The present value of minimum lease obligation is \$5,557 for lease term 60 months, \$205.00 per month payable at the beginning of each month at the incremental borrowing rate of 3.25% (prime rate in April 2009). As of June 30, 2009 the accumulated amortization of the lease asset is \$370.00. The future minimum lease payments for each of the five succeeding fiscal years are as follow:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Future Minimum Lease Payment</u>
2010	137	1,069	1,206
2011	101	1,104	1,206
2012	65	1,141	1,206
2013	27	1,178	1,206
2014	1	200	201

Note 9 – Subsequent Event - Deposit Sign Construction

The Association made a deposit in fiscal year 2007 for sign construction for \$55,487. As of September 14, 2009, the Association determined that it is unlikely to collect the deposit, the amount is written off as loss on deposit of sign construction.

Supplemental Information

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To the Board of Trustees
Clear Lake City Community Association, Inc.
Houston, Texas

The supplementary information on future major repairs and replacements on page 11-16 is not a required part of the basic financial statements of Clear Lake City Community Association, Inc., but it 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 See Note 2 in the Notes to Financial Statements. However, we did not audit the information and express no opinion on it.

March 10, 2010

Clear Lake City Community Association, Inc.
Supplementary Information
On Future Major Repairs And Replacements
June 30, 2009
(Unaudited)

An independent engineer conducted a study on June 1, 2003 to estimate the remaining useful lives and the replacement costs of the components of the Association's common property. The following information is based on the study and presents significant information about the components of common property. At the June 30, 2009 fiscal year-end, the Association's reserve fund balance was \$ 1,000,000.

	Estimated remaining life (Years)	Estimated replacement cost
Applewhite Sports and Recreation Center		
Resurface roofs	3	\$ 200,000
Replace gymnasium floor	5	61,445
Paint exterior walls	3	10,000
Reseal asphalt parking	4	27,260
Replace pole mounted lighting	10	3,000
Replace cooling tower	7	10,000
Office Area		
Replace HVAC unites	8	64,000
Replace waterheater	7	615
Replace drinking fountain	6	410
Replace bathroom fixtures	5	1,300
Replace flooring, carpet/tile	4	18,720
Paint exterior walls	3	3,000
Pavilion Room		
Replace HVAC unites	6	4,000
Replace waterheater	5	615
Replace bathroom fixtures	7	1,300
Replace flooring, wood	9	20,000
Indoor Pool		
Replace heaters	5	1,200
Replace boilers	1	5,000
Pump equipment - Separator Tank	3	2,500
Pump equipment - Pump/Motor	1	1,500

Clear Lake City Community Association, Inc.
Supplementary Information
On Future Major Repairs And Replacements
June 30, 2009
(Unaudited)

	Estimated remaining life (Years)	Estimated replacement cost
Applewhite Sports and Recreation Center		
Indoor Pool - Continued		
Pump equipment - filter	13	\$ 1,200
Pool resurfacing	9	31,000
Dive stands	2	13,000
Guard stand	2	2,500
Diving board	3	3,000
Basketball Courts		
Replace HVAC equipment	2	56,000
Replace basketball backboards	6	1,500
Replace bleachers	12	20,000
Replace drinking fountains	9	500
Replace bathroom fixtures	4	1,300
Weight Room		
Replace universal weight set	3	6,000
Replace bench press	4	4,000
Replace stairsteppers	5	8,000
Replace treadmills	6	8,000
Replace HVAC unit	10	3,100
Replace television	4	700
Replace flooring	5	2,340
Outdoor Pools		
Pool equipment - Pump/Motor	2	6,000
Pool equipment - Separator Tank	4	1,600
Pool equipment - Filtration System	5	2,000
Pump equipment - Filter Cartridges	1	1,600
Guard stands	5	7,500
Dive stands	6	13,000
Diving boards	2	6,000
Shade structure	9	3,000

Clear Lake City Community Association, Inc.
 Supplementary Information
 On Future Major Repairs And Replacements
 June 30, 2009
 (Unaudited)

	Estimated remaining life (Years)	Estimated replacement cost
Applewhite Sports and Recreation Center		
Outdoor Pools - Continued		
Pool resurfacing	6	\$ 50,000
Replace slide	15	70,000
Replace bathroom fixtures	5	19,300
Replace wrought iron fence	5	12,144
Replace bleachers	8	8,000
Fullerton Park		
Replace playground equipment	13	100,000
Install stand	6	2,000
Replace benches/tables	11	9,000
Tennis courts - Windscreen	2	11,200
Tennis courts - Chain Link Fence	3	8,194
Tennis courts - Courts	5	28,000
Tennis courts - Benches	7	2,000
Tennis courts - Shed	12	1,500
Tennis Courts - Nets	2	3,200
Tennis Courts - Pulleys	4	3,200
Reseal asphalt parking	3	13,050
Rutledge Park		
Replacement playground equipment	16	25,000
Install sand	4	500
Replace benches/tables	8	2,000
Tennis courts - Windscreen	4	6,000
Tennis courts - Chain Link Fence	3	13,000
Tennis courts - Courts	5	14,000
Tennis courts - Benches	10	500
Tennis Courts - Nets	3	1,600
Tennis Courts - Pulleys	3	1,600

Clear Lake City Community Association, Inc.
Supplementary Information
On Future Major Repairs And Replacements
June 30, 2009
(Unaudited)

	Estimated remaining life (Years)	Estimated replacement cost
Rutledge Park (cont.)		
Pool equipment - Pump/Motor	2	\$ 1,500
Pool equipment - Separator Tank	5	400
Pool equipment - Filtration System	5	500
Pool equipment - Filter Cartridges	2	400
Pool equipment - Guard Stands	5	3,000
Pool equipment - Dive Stands	6	13,000
Pool equipment - Diving Boards	4	3,000
Pool equipment - Shade Structure	3	3,000
Pool resurfacing	9	26,000
Reseal asphalt parking	2	5,704
Replace asphalt parking	10	12,675
Replace wrought iron fence	8	13,000
Replace bathroom fixtures	13	1,500
Paint pool house exterior	4	480
Resurface pool house roof	6	1,600
Krueger Park		
Tennis courts - Windscreen	4	6,000
Tennis courts - Chain Link Fence	8	12,000
Tennis courts - Courts	6	8,850
Tennis courts - Benches	13	500
Tennis Courts - Nets	4	1,600
Tennis Courts - Pulleys	5	1,600
Pool equipment - Pump/Motor	2	1,500
Pool equipment - Separator Tank	6	400
Pool equipment - Filtration System	6	500
Pool equipment - Filter Cartridges	2	400
Pool equipment - Guard Stands	4	1,500
Pool equipment - Dive Stands	5	13,000
Pool equipment - Diving Boards	3	3,000
Pool equipment - Shade Structure	9	3,000

Clear Lake City Community Association, Inc.
Supplementary Information
On Future Major Repairs And Replacements
June 30, 2009
(Unaudited)

	Estimated remaining life (Years)	Estimated replacement cost
Krueger Park (cont.)		
Replace wrought iron fence	11	\$ 13,000
Pool resurfacing	9	26,000
Replace playground equipment	19	50,000
Install sand	8	1,000
Replace benches / tables	11	2,000
Resurface basketball courts	5	1,305
Replace basketball backboards	2	500
Paint pool house exterior	3	600
Resurface pool house roof	14	900
Replace concrete parking areas	2	4,500
Oakbrook West Park		
Replace playground equipment	17	50,000
Install sand	14	1,000
Replace benches / tables	9	3,000
Tennis courts - Windscreen	5	6,000
Tennis courts - Chain Link Fence	7	5,462
Tennis courts - Courts	5	14,000
Tennis courts - Benches	6	500
Tennis Courts - Nets	4	1,600
Tennis Courts - Pulleys	3	1,600
Pool equipment - Pump/Motor	3	1,500
Pool equipment - Separator Tank	6	400
Pool equipment - Filtration System	4	500
Pool equipment - Filter Cartridges	2	400
Pool equipment - Guard Stands	4	3,000
Pool equipment - Dive Stands	5	13,000
Pool equipment - Diving Boards	2	3,000
Pool equipment - Shade Structure	7	3,000

Clear Lake City Community Association, Inc.
Supplementary Information
On Future Major Repairs And Replacements
June 30, 2009
(Unaudited)

	Estimated remaining life (Years)	Estimated replacement cost
Oakbrook West Park		
Pool resurfacing	10	\$ 26,000
Replace chain fence - Wood	4	13,000
Replace bathroom fixtures	4	1,600
Paint pool house exterior	4	25
Resurface pool house roof	10	960
Replace concrete parking areas	4	4,500
Royal Park		
Replace concrete parking areas	2	4,500
Replace playground equipment	3	50,000
Replace benches / tables	12	4,000
Repair / paint gazebo	4	200
Replace gazebo	24	30,000
Drill Site		
Replace playground equipment	4	25,000
Install sand	4	500
Replace concrete parking areas	5	4,500
Replace maintenance truck	1	25,000
Miscellaneous expenses	1	20,000
		<u>\$ 1,600,854</u>