

**GRACY MEADOW
OWNERS' ASSOCIATION, INC.
REPORT ON EXAMINATION
YEAR ENDED DECEMBER 31, 2014**

STEPHEN M. TILSON, PC

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Gracy Meadow Owners' Association, Inc.
Austin, Texas

We have audited the accompanying balance sheet of Gracy Meadow Owners' Association, Inc. as of December 31, 2014 and the related statements of revenue, expenses, and changes in net assets, 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 Gracy Meadow Owner's Association, Inc. as of December 31, 2014, 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 Financial Accounting Standards Board. 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

July 27, 2015
Austin, Texas

GRACY MEADOW OWNERS' ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2014

ASSETS

CURRENT ASSETS

CASH - OPERATING - WAB	\$	16,281	
CASH - RESERVE - WAB		171,687	
CASH - RESERVE - COMMERCE NATIONAL BANK		157,658	
ACCOUNTS RECEIVABLE - DUES		2,007	
ACCOUNTS RECEIVABLE - INSURANCE		5,906	
ACCOUNTS RECEIVABLE - OTHER		1,394	
PREPAID INSURANCE		10,267	
TOTAL CURRENT ASSETS		10,267	\$ 365,199
TOTAL ASSETS			\$ 365,199

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

ACCOUNTS PAYABLE	\$	12,404	
FEDERAL INCOME TAX PAYABLE		235	
PREPAID ASSESSMENTS		7,068	
TOTAL CURRENT LIABILITIES		7,068	\$ 19,707
TOTAL LIABILITIES			\$ 19,707

NET ASSETS

UNRESTRICTED NET ASSETS	\$	266,686	
EXCESS OF REVENUES OVER EXPENSES		78,806	
TOTAL NET ASSETS		78,806	\$ 345,492
TOTAL LIABILITIES AND NET ASSETS			\$ 365,199

See accountant's report.

GRACY MEADOW OWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
YEAR ENDED DECEMBER 31, 2014

REVENUES

ASSESSMENTS		\$ 204,321
INSURANCE ASSESSMENT		38,282
LEGAL REIMBURSEMENT		1,305
INTEREST INCOME		1,920
LATE FEES		930
COLLECTION FEE		390
NSF FEE		25
TOTAL REVENUES		\$ 247,172

EXPENSES

ADMINISTRATIVE EXPENSES

OFFICE SUPPLIES / COPIES	\$ 758	
POSTAGE / DELIVERY	469	
PRINTING - COUPONS / STATEMENTS	289	
MEETING EXPENSE	510	
LEGAL	2,146	
ACCOUNTING AND AUDIT	2,750	
MANAGEMENT FEES	15,744	
NEWSLETTER / DIRECTORY	112	
		\$ 22,777

UTILITY EXPENSES

ELECTRIC	\$ 3,769	
WATER & SEWER	10,407	
		\$ 14,176

PROPERTY EXPENSES

MAINTENANCE / REPAIRS	\$ 15,800	
IRRIGATION REPAIR	9,304	
EXTERMINATION	4,690	
LANDSCAPE MAINTENANCE	49,411	
MISCELLANEOUS PROPERTY EXPENSES	400	
TREE TRIM / REPLACEMENT / TREATMENT	11,469	
ROOF MAINTENANCE / REPAIR	740	
		\$ 91,814

TAXES, INSURANCE & INTEREST

INSURANCE - PROPERTY / LIABILITY/D&O	\$ 38,579	
INSURANCE - UMBRELLA LIABILITY	784	
TAXES - FEDERAL INCOME	235	
		\$ 39,598

TOTAL EXPENSES		\$ 168,366
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EXCESS OF REVENUES OVER EXPENSES		\$ 78,806
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NET ASSETS

UNRESTRICTED NET ASSETS - 12/31/13		\$ 266,686
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UNRESTRICTED NET ASSETS - 12/31/14		\$ 345,492
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GRACY MEADOW OWNERS' ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

OPERATING ACTIVITIES:

EXCESS OF REVENUES OVER EXPENSES	\$	78,806
CHANGES IN OPERATING ASSETS AND LIABILITIES		
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE - ASSESSMENTS		(260)
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE - INSURANCE		(888)
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE - OTHER		(902)
(INCREASE) DECREASE IN PREPAID INSURANCE		19,234
INCREASE (DECREASE) IN ACCOUNTS PAYABLE		10,957
INCREASE (DECREASE) IN FEDERAL INCOME TAX PAYABLE		235
INCREASE (DECREASE) IN PREPAID ASSESSMENTS		3,314
		110,496
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	\$	110,496

INVESTING ACTIVITIES:

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

NET CASH PROVIDED BY (USED BY) FINANCING ACTIVITIES	\$	-
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NET INCREASE (DECREASE) IN CASH	\$	110,496
CASH AND EQUIVALENTS AT 12/31/13		235,129
CASH AND EQUIVALENTS AT 12/31/14	\$	345,626

SUPPLEMENTAL DISCLOSURE:

INCOME TAX PAID	\$	-
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See accountant's report.

GRACY MEADOW OWNERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Association was incorporated in July 1983 under the Texas Non-profit Corporation Act for the purpose of operating, managing, maintaining and administering the affairs of Gracy Meadow Owners' Association, Inc. The development consists of 102 condominium units and is located in Austin, Travis County, Texas.

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 at the date of the financial statements. Accordingly, actual results could differ from those estimates.

Basis of Accounting

These audited financial statements have been prepared on the accrual basis method of accounting. Using this method of accounting, revenues and accounts receivable 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.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital expenditures, and major repairs and replacements. Assessments receivable at December 31, 2014 represent assessments due from homeowners. Prepaid assessments at December 31, 2014 represent assessments paid in advance by homeowners.

Common Property

Real property and common areas acquired from the developer and related improvements to such property are not recorded on Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. It is the Association's responsibility to preserve and maintain the common properties.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are defined as cash in the operating, and reserve accounts.

Investments

Investments consist of money market funds with readily determinable fair values and are stated in the financial statements at fair market value.

GRACY MEADOW OWNERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. FEDERAL INCOME TAXES

The Association has elected to be taxed under Internal Revenue Code Section 528 which allows the Association to exclude exempt function income from gross income. Exempt function income consists of owner assessments or other fees the Association receives from members as owners of the Association's services. Taxable income arises from amounts received from nonmembers of the Association including interest earned on reserve funds. The Association had a federal income tax liability of \$235 for the year ended December 31, 2014.

The Association is required to file either Form 1120, U.S. Corporation Income Tax Return, or Form 1120-H, U.S. Income Tax Return for Homeowners Associations. These tax returns are subject to examination by the Internal Revenue Service for a three year period from the later of the original due date of the return or the date the tax return was filed. As a result, the Association's federal income tax returns for 2011, 2012 and 2013 are open to examination by the Internal Revenue Service as of December 31, 2014.

3. FUTURE MAJOR REPAIRS AND REPLACEMENT

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$329,345 at December 31, 2014, are generally not available for operating purposes. Interest earned on such funds is allocated to the reserves.

The current funding program is based on a study performed by the board of directors during 2013. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts reserved for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to member's approval, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until the funds are available.

4. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through July 27, 2015, the date the financial statements were available to be issued, and no events have occurred from the balance sheet date through that date that would impact the financial statements.

SUPPLEMENTARY INFORMATION

**GRACY MEADOW OWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2014**

The Association's board of directors updated its reserve analysis in October 2013 to estimate the replacement costs and useful lives of the components of common property. Replacement costs were based on estimates obtained to repair or replace components and are revised periodically. Replacement costs 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, 2014
PAINTING	2-17	\$ 293,011	
ROOF REPLACEMENTS	6	626,000	
DRIVEWAY REPAIRS	0-16	63,388	
PATIO FENCE CLEANING	3-13	24,746	
		\$ 1,007,145	\$ 329,345

See accountant's report.