

**PROVIDENCE COMMUNITY
ASSOCIATION, INC.**

FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
and Members
**PROVIDENCE COMMUNITY
ASSOCIATION, INC.**

We have audited the accompanying balance sheets of Providence Community Association, Inc. as of December 31, 2009 and 2008, and the related statements of revenues and expenses and changes in fund balance 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.

We conducted our audits 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 audits provide 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 Providence Community Association, Inc. as of December 31, 2009 and 2008, 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 page 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted 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.

The schedule of expenses on pages 4-5 is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kevin F. McKenna, P.C.
Spring, Texas
August 24, 2010

PROVIDENCE COMMUNITY ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and Temporary Investments	\$366,474	\$401,264
Assessments Receivable	16,679	14,760
Legal and Collection Fees Receivable	14,355	5,851
Income Tax Refund Receivable	1,505	2,759
	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$399,013</u></u>	<u><u>\$424,634</u></u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accounts Payable	\$10,545	\$8,362
Assessments Received in Advance	65,755	77,471
	<u> </u>	<u> </u>
TOTAL LIABILITIES	76,300	85,833
MEMBERS' EQUITY		
Designated for Future Repairs and Replacements	76,500	69,500
Undesignated	246,213	269,301
	<u> </u>	<u> </u>
TOTAL MEMBERS' EQUITY	322,713	338,801
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$399,013</u></u>	<u><u>\$424,634</u></u>

See accompanying notes to financial statements.

PROVIDENCE COMMUNITY ASSOCIATION, INC.
STATEMENTS OF REVENUES AND EXPENSES
AND CHANGES IN MEMBERS' EQUITY
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
REVENUES		
Member Assessments	\$180,126	\$180,126
Collection and Legal Fees	16,350	8,769
Pool Registration	3,747	2,861
Interest Income	5,305	9,135
Other Revenues	<u>1,225</u>	<u>2,205</u>
TOTAL REVENUES	206,753	203,096
EXPENSES		
Maintenance and Services (Schedule 1)	30,932	36,378
Amenities (Schedule 2)	62,602	157,190
Utilities (Schedule 3)	53,356	52,363
General and Administrative (Schedule 4)	<u>75,951</u>	<u>60,517</u>
TOTAL EXPENSES	<u>222,841</u>	<u>306,448</u>
Excess/(Deficiency) of Revenues Over Expenses	(16,088)	(103,352)
Members' Equity - Beginning of Year	<u>338,801</u>	<u>442,153</u>
Members' Equity - End of Year	<u><u>\$322,713</u></u>	<u><u>\$338,801</u></u>

See accompanying notes to financial statements.

PROVIDENCE COMMUNITY ASSOCIATION, INC.
SCHEDULES OF EXPENSES
 Years Ended December 31, 2009 and 2008

Schedule 1	<u>2009</u>	<u>2008</u>
Maintenance and Services		
Community Activities	\$2,050	\$638
Fence		16,725
General Repairs and Supplies	10,690	2,226
Landscape Maintenance	13,450	13,225
Mosquito Fogging	1,673	1,734
Sprinkler System	<u>3,069</u>	<u>1,830</u>
	30,932	36,378

Schedule 2		
Amenities		
Clubhouse Maintenance	3,805	1,755
Landscape Improvements	5,958	4,229
Pool Management	47,780	37,333
Pool Remodeling		106,565
Pool Repairs and Supplies	4,205	5,238
Tennis Courts	854	
Playground		<u>2,070</u>
	<u>62,602</u>	<u>157,190</u>

See Accountant's Report.

PROVIDENCE COMMUNITY ASSOCIATION, INC.
SCHEDULES OF EXPENSES
 Years Ended December 31, 2009 and 2008

Schedule 3	2009	2008
Utilities		
Street Lights	\$28,728	\$30,026
Electric	17,956	17,837
Water	4,540	2,332
Telephone	1,974	1,798
Gas	158	370
	<u>53,356</u>	<u>52,363</u>

Schedule 4
General and Administrative

Accounting	1,600	1,500
Bad Debts	1,635	2,421
Collection	20,678	3,445
Community Management	26,039	27,971
Deed Restrictions	1,765	688
Income Tax	295	841
Insurance	19,235	18,350
Newsletter	720	720
Office	319	219
Postage	2,176	3,033
Printing and Copies	1,196	1,039
Property Tax	293	290
	<u>75,951</u>	<u>60,517</u>

See Accountant's Report.

PROVIDENCE COMMUNITY ASSOCIATION, INC.
STATEMENTS OF CASH FLOW
 Years Ended December 31, 2009 and 2008
 Increase (Decrease) in Cash

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities:		
Assessments and Fees Collected	\$176,449	\$186,529
Interest Received	5,305	9,135
Other Receipts	3,984	2,205
Cash Expenditures	(218,728)	(298,345)
Income Tax Paid	<u>(1,800)</u>	<u>(5,948)</u>
Net Increase/(Decrease) in Cash	(34,790)	(106,424)
Cash at Beginning of Year	<u>401,264</u>	<u>507,688</u>
Cash at End of Year	<u><u>\$366,474</u></u>	<u><u>\$401,264</u></u>
Adjustments to Reconcile Excess/(Deficiency) of Revenues over Expenses to Net Cash Provided by/(Used in) Operating Activities		
Excess/(Deficiency) of Revenues Over Expenses	(\$16,088)	(\$103,352)
Adjustments to Reconcile Excess/(Deficiency) of Revenues over Expenses to Net Cash Provided by/(Used In) Operating Activities:		
Decrease/(Increase) in Accounts Receivable	(9,169)	(11,012)
(Decrease)/Increase in Accounts Payable	2,183	4,914
(Decrease)/Increase in Prepaid Assessments	<u>(11,716)</u>	<u>3,026</u>
Net Cash Provided By/(Used In) Operating Activities	<u><u>(\$34,790)</u></u>	<u><u>(\$106,424)</u></u>

See accompanying notes to financial statements.

PROVIDENCE COMMUNITY ASSOCIATION, INC.
Notes to Financial Statements
December 31, 2009

NOTE 1 – THE ASSOCIATION AND ITS SIGNIFICANT ACCOUNTING POLICIES

The Association

Providence Community Association, Inc. is a Texas non-profit corporation that was chartered November 17, 1980. The Association was formed to provide for maintenance of common areas, preservation and architectural control of the 659 residential homesites in Providence subdivision, Sections One, Two, Three and Four located in Fort Bend County, Texas.

Basis of Presentation

The accompanying financial statements are presented using the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosure of contingent amounts in the Association's financial statements and the accompanying notes. Actual results could differ from those estimates.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not capitalized in the Association's financial statements because those properties are generally not subject to sale and are not used to generate significant revenue from members on the basis of usage or from nonmembers.

Member Assessments

Association members are subject to annual assessments to provide funds for operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from delinquent owners. Member assessments were \$275.00 per residential homesite for 2009 and 2008. Assessments received in advance of the year due are classified as a liability on the balance sheet.

PROVIDENCE COMMUNITY ASSOCIATION, INC.
Notes to Financial Statements
December 31, 2009

NOTE 1 – THE ASSOCIATION AND ITS ACCOUNTING POLICIES

Income Taxes

The Association may elect annually to file its income tax return as either a qualifying homeowners association under section 528 of the Internal Revenue Code or as a regular corporation subject to section 277 of the Code. A determination is made each year as to which method will result in the lowest income tax. For the year ended December 31, 2009, the Association filed its return as a regular corporation. Nonmembership income, such as interest, is subject to tax after deducting expenses attributable to the production of nonmembership income.

NOTE 2 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that the common area be maintained.

The board of directors updated their study in 2009 of estimated remaining lives and replacement costs of the common property components. The study is presented on page 9 as unaudited supplementary information on future major repairs and replacements.

Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, levy special assessments or it may delay major repair repairs and replacements until funds are available.

PROVIDENCE COMMUNITY ASSOCIATION, INC.
 Supplementary Information on Future
 Major Repairs and Replacements (Unaudited)
 December 31, 2009

The board of directors updated their study in 2009 to estimate the remaining useful lives and replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs do not take into account the effect of inflation between the date of the study and the date that the components will require repair or replacement.

The following table is taken from the study and presents information about the components of common property.

PROVIDENCE COMMUNITY ASSOCIATION
CAPTIAL RESERVE FUND
2010

ITEM	Year Replaced	Expected Life (years)	Years of Useful Life Remaining	Estimated Replacement Cost	Money in Reserve	To Add in 2010
CLUBHOUSE A/C	1998	8→10	0	\$7,000.00	\$6,000.00	\$1,000.00
CLUBHOUSE ROOF	1996	12→15	2	\$10,000.00	\$10,000.00	\$0.00
POOL REPLASTERING	2008	10	10	\$30,000.00	\$3,000.00	\$3,000.00
POOL FURNITURE	2004	5	0	\$6,000.00	\$6,000.00	\$0.00
TENNIS COURT FENCE	1981	19	0	\$6,000.00	\$6,000.00	\$0.00
POOL FENCE (ROUGHT IRON)	1997	12	1	\$10,000.00	\$10,000.00	\$0.00
TENNIS COURT RESURFACING	2006	5	2	\$11,500.00	\$11,500.00	\$0.00
STANBRIDGE PARK	2001	20	12	\$38,000.00	\$10,000.00	\$0.00
POOL DECK	2008	as needed	0	\$20,000.00	\$2,000.00	\$2,000.00
POOL AWNING & BENCHES	2001	5	0	\$30,000.00	\$10,000.00	\$0.00
COMMON AREA FENCE	2008	15	15	\$25,000.00	\$2,000.00	\$2,000.00
TOTAL				\$193,500.00	\$76,500.00	\$8,000.00