

**PROVIDENCE COMMUNITY
ASSOCIATION, INC.**

FINANCIAL STATEMENTS

Years Ended December 31, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, 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
March 18, 2009

PROVIDENCE COMMUNITY ASSOCIATION, INC.
BALANCE SHEETS
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and Temporary Investments	\$401,264	\$507,688
Assessments Receivable	14,760	7,608
Legal and Collection Fees Receivable	5,851	4,750
Income Tax Refund Receivable	<u>2,759</u>	
TOTAL ASSETS	<u><u>\$424,634</u></u>	<u><u>\$520,046</u></u>
 LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accounts Payable	\$8,362	\$1,100
Income Tax Payable		2,348
Assessments Received in Advance	<u>77,471</u>	<u>74,445</u>
TOTAL LIABILITIES	85,833	77,893
MEMBERS' EQUITY		
Designated for Future Repairs and Replacements	69,500	112,650
Undesignated	<u>269,301</u>	<u>329,503</u>
TOTAL MEMBERS' EQUITY	338,801	442,153
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$424,634</u></u>	<u><u>\$520,046</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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
REVENUES		
Member Assessments	\$180,126	\$180,126
Collection and Legal Fees	8,769	13,395
Pool Registration	2,861	2,492
Interest Income	9,135	17,289
Other Revenues	2,205	1,407
	<hr/>	<hr/>
TOTAL REVENUES	203,096	214,709
EXPENSES		
Maintenance and Services (Schedule 1)	36,378	21,449
Amenities (Schedule 2)	157,190	48,906
Utilities (Schedule 3)	52,363	52,629
General and Administrative (Schedule 4)	60,517	59,922
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TOTAL EXPENSES	306,448	182,906
Excess/(Deficiency) of Revenues Over Expenses	(103,352)	31,803
Members' Equity - Beginning of Year	442,153	410,350
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Members' Equity - End of Year	<u>\$338,801</u>	<u>\$442,153</u>

See accompanying notes to financial statements.

PROVIDENCE COMMUNITY ASSOCIATION, INC.
SCHEDULES OF EXPENSES
 Years Ended December 31, 2008 and 2007

Schedule 1	2008	2007
Maintenance and Services		
Community Activities	\$638	\$575
Fence	16,725	
General Repairs and Supplies	2,226	3,556
Landscape Maintenance	13,225	13,752
Mosquito Fogging	1,734	1,445
Sprinkler System	1,830	2,121
	<hr/>	<hr/>
	36,378	21,449

Schedule 2		
Amenities		
Clubhouse Maintenance	1,755	931
Landscape Improvements	4,229	2,970
Pool Management	37,333	31,814
Pool Remodeling	106,565	
Pool Repairs and Supplies	5,238	7,185
Tennis Courts		6,006
Playground	2,070	
	<hr/>	<hr/>
	157,190	48,906

See Accountant's Report.

PROVIDENCE COMMUNITY ASSOCIATION, INC.
SCHEDULES OF EXPENSES
 Years Ended December 31, 2008 and 2007

Schedule 3	<u>2008</u>	<u>2007</u>
Utilities		
Street Lights	\$30,026	\$29,114
Electric	17,837	16,949
Water	2,332	2,667
Telephone	1,798	1,802
Gas	370	2,097
	<u>52,363</u>	<u>52,629</u>

Schedule 4
General and Administrative

Accounting	1,500	1,500
Bad Debts	2,421	1,194
Collection	3,445	8,524
Community Management	27,971	23,486
Deed Restrictions	688	900
Income Tax	841	2,348
Insurance	18,350	17,373
Newsletter	720	720
Office	219	245
Postage	3,033	2,154
Printing and Copies	1,039	939
Property Tax	290	289
Swim Team Donation		250
	<u>60,517</u>	<u>59,922</u>

See Accountant's Report.

PROVIDENCE COMMUNITY ASSOCIATION, INC.
STATEMENTS OF CASH FLOW
Years Ended December 31, 2008 and 2007
Increase (Decrease) in Cash

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities:		
Assessments and Fees Collected	\$186,529	\$196,309
Interest Received	9,135	17,289
Other Receipts	2,205	1,407
Cash Expenditures	(298,345)	(180,558)
Income Tax Paid	(5,948)	(67)
Net Increase/(Decrease) in Cash	(106,424)	34,380
Cash at Beginning of Year	507,688	473,308
Cash at End of Year	<u>\$401,264</u>	<u>\$507,688</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	(\$103,352)	\$31,803
Adjustments to Reconcile Excess/(Deficiency) of Revenues over Expenses to Net Cash Provided by/(Used In) Operating Activities:		
Decrease/(Increase) in Accounts Receivable	(11,012)	(5,992)
(Decrease)/Increase in Accounts Payable	4,914	2,281
(Decrease)/Increase in Prepaid Assessments	3,026	6,288
Net Cash Provided By/(Used In) Operating Activities	<u>(\$106,424)</u>	<u>\$34,380</u>

See accompanying notes to financial statements.

PROVIDENCE COMMUNITY ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2008

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 2008 and 2007. 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, 2008

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, 2008, 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 – UNINSURED CASH DEPOSITS

Statement of Financial Accounting Standards No. 107 requires disclosure of concentration of credit risk associated with uninsured cash deposits at financial institutions. At December 31, 2008 and 2007, the Association had uninsured cash balances totaling \$151,214.73 and \$407,359.44.

NOTE 3 – 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 2006 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, 2008

The board of directors updated their study in 2008 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
2009

ITEM	Year Replaced	Expected Life (years)	Years of Useful Life Remaining	Estimated Replacement Cost	Money in Reserve	To Add in 2009
CLUBHOUSE A/C	1998	8→10	0	\$6,000.00	\$6,000.00	\$0.00
CLUBHOUSE ROOF	1996	12→15	2	\$10,000.00	\$10,000.00	\$0.00
POOL REPLASTERING	2008	10	10	\$30,000.00	\$0.00	\$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	1981	as needed	0	\$20,000.00	\$0.00	\$2,000.00
POOL AWNING & BENCHES	2001	5	0	\$30,000.00	\$10,000.00	\$0.00
COMMON AREA FENCE	2001	15	15	\$25,000.00	\$0.00	\$2,000.00
TOTAL				\$192,500.00	\$69,500.00	\$7,000.00