

**Cinco Residential Property Association, Inc.
(A Texas Non-Profit Corporation)**

Financial Statements

December 31, 2006 and December 31, 2005

Canady & Canady P.C.
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Independent Auditor's Report

To the Board of Directors and Members
Cinco Residential Property Association, Inc.

We have audited the accompanying balance sheets of Cinco Residential Property Association, Inc. as of December 31, 2006 and December 31, 2005, and the related statements of revenues, expenses and changes in fund balances 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 generally accepted auditing standards 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 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 Cinco Residential Property Association, Inc. as of December 31, 2006 and December 31, 2005, 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 8 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 23, 2007

Cinco Residential Property Association, Inc.
Balance Sheets
December 31, 2006 and December 31, 2005

	Operating Fund	Replacement Fund	Total	Total
Assets				
Cash	\$ 4,899,282	\$ 1,579,278	\$ 6,478,560	\$ 6,104,443
Assessment receivable (net of allowance for doubtful accounts \$53,000)	111,673		111,673	223,347
Receivable from developer	9,200		9,200	
Prepaid insurance	81,622		81,622	93,130
Property and equipment (net of accumulated depreciation \$660,453)	157,250		157,250	176,968
Due from reserve	<u>933,444</u>		<u>933,444</u>	<u>591,536</u>
Total Assets	<u>\$ 6,192,471</u>	<u>\$ 1,579,278</u>	<u>\$ 7,771,749</u>	<u>\$ 7,189,424</u>
Liabilities and Fund Balances				
Accounts payable	\$ 309,052	\$	\$ 309,052	\$ 168,570
Assessments received in advance	3,532,285		3,532,285	3,448,191
Federal income taxes payable	31,438		31,438	14,135
Due to operating		<u>933,444</u>	<u>933,444</u>	<u>591,536</u>
	3,872,775	933,444	4,806,219	4,222,432
Fund balances	<u>2,319,696</u>	<u>645,834</u>	<u>2,965,530</u>	<u>2,966,992</u>
Total Liabilities and Fund Balances	<u>\$ 6,192,471</u>	<u>\$ 1,579,278</u>	<u>\$ 7,771,749</u>	<u>\$ 7,189,424</u>

See accompanying notes and accountants report.

Cinco Residential Property Association, Inc.
Statements of Revenues, Expenses and Changes in Fund Balances
For the Years ended December 31, 2006 and December 31, 2005

	Operating Fund	Replacement Fund	Total	Total
Revenues				
Maintenance assessments	\$ 6,071,974	\$ 172,866	\$ 6,244,840	\$ 5,822,836
Late fees and other	267,178		267,178	261,284
Interest	203,425		203,425	98,470
Transfer fees	151,110		151,110	130,968
Newsletter income	<u>13,531</u>		<u>13,531</u>	<u>20,716</u>
Total Revenues	<u>6,707,218</u>	<u>172,866</u>	<u>6,880,084</u>	<u>6,334,274</u>
Expenses				
Landscaping	2,659,506		2,659,506	2,398,881
Utilities	1,095,387		1,095,387	948,297
General repairs & maintenance	321,188	330,862	652,050	378,965
Management fees	555,838		555,838	534,222
Pool	553,389		553,389	514,572
Security	369,891		369,891	298,642
Insurance	224,283		224,283	191,077
Legal and professional	198,140		198,140	240,862
Transfer fees	108,193		108,193	96,271
Bad debt expense	100,486		100,486	40,978
Office expense	97,959		97,959	77,863
Lake maintenance	44,123		44,123	39,304
Community events	39,377		39,377	36,404
Playground equipment	38,432		38,432	15,711
Newsletter	30,068		30,068	26,389
Federal income tax	49,358		49,358	17,885
Pest control	24,169		24,169	20,522
Depreciation	19,618		19,618	25,809
Taxes – property and other	16,140		16,140	143,840
Tennis courts	<u>5,139</u>		<u>5,139</u>	<u>4,299</u>
Total Expenses	<u>6,550,684</u>	<u>330,862</u>	<u>6,881,546</u>	<u>6,050,793</u>
Excess (deficit) of revenues over expenses	156,534	(157,996)	(1,462)	283,481
Fund balance- Beginning of year	<u>2,163,162</u>	<u>803,830</u>	<u>2,966,992</u>	<u>2,683,511</u>
Fund balance- End of year	<u>\$ 2,319,696</u>	<u>\$ 645,834</u>	<u>\$ 2,965,530</u>	<u>\$ 2,966,992</u>

See accompanying notes and accountants report

Cinco Residential Property Association, Inc.
Statements of Cash Flows
For the Years ended December 31, 2006 and December 31, 2005

	Operating Fund	Replacement Fund	Total	Total
Cash Flows From Operating Activities				
Excess of revenues over expenses	\$ 156,534	(\$157,996)	(\$1,462)	\$ 283,481
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Allowance for bad debt	12,022		12,022	40,978
Depreciation	19,618		19,618	25,809
(Increase) decrease in:				
Assessment receivable	99,652		99,652	11,006
Receivable from developer	(9,200)		(9,200)	
Prepaid expenses	11,608		11,608	(11,856)
Federal income tax receivable				4,800
Due from reserve	(341,908)		(341,908)	(148,582)
Increase (decrease) in:				
Accounts payable	140,482		140,482	12,943
Assessments received in advance	84,094		84,094	89,861
Federal income taxes payable	17,303		17,303	14,135
Due to operating	<u> </u>	<u>341,908</u>	<u>341,908</u>	<u>148,582</u>
Net cash provided by Operating Activities	<u>190,205</u>	<u>183,912</u>	<u>374,117</u>	<u>471,157</u>
Net increase in cash and cash equivalents	190,205	183,912	374,117	471,157
Cash and cash equivalents at beginning of year	<u>4,709,077</u>	<u>1,395,366</u>	<u>6,104,443</u>	<u>5,633,286</u>
Cash and cash equivalents at end of year	<u>\$ 4,899,282</u>	<u>\$ 1,579,278</u>	<u>\$ 6,478,560</u>	<u>\$ 6,104,443</u>
Supplemental disclosure				
Income taxes paid	\$35,805	\$ 0	\$ 35,805	\$ 11,250

See accompanying notes and accountants report.

Cinco Residential Property Association, Inc.
Notes to Financial Statements
December 31, 2006 and December 31, 2005

Note 1 - Organization

Cinco Residential Property Association, Inc. (the Association) is a Texas non-profit corporation incorporated in 1990. The purpose of the Association is to provide for the maintenance and preservation of the properties subject to the declaration of Covenants, Conditions and Restrictions applicable to the Association. The development consists of 8,711 residential units or lots located on approximately 3,000 acres in Harris County and Fort Bend County, Texas. Westbrook Cinco L.O. (developer) owns 524 lots as December 31, 2006.

Note 2 - Summary of Significant Accounting Policies

Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. This assessment fee is recognized as it accrues. Income received in advance is deferred and amortized over the period to which it relates.

Federal Income Tax

In 2006 and 2005, the Association elected to file as a homeowners' association in accordance with Internal Revenue Service Code 528. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. The Association's investment income and other nonexempt income were subject to tax.

Property

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

Fund Accounting

The Association uses fund accounting which requires funds allocated for future major repairs and replacements be classified separately from funds available for general operations.

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.

Cinco Residential Property Association, Inc.
Notes to Financial Statements
December 31, 2006 and December 31, 2005

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Certificates of deposits and all highly liquid financial instruments purchased with an initial maturity of three months or less is considered to be cash equivalents.

Note 3- Assessments Receivable

Assessments receivable represents fees billed prior to December 31, 2006 and December 31, 2005.

Note 4 - Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. As of December 31, 2006 and 2005, \$645,834 and \$803,830, respectively, are in the replacement fund. The Association conducted a study in January 2004 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding such repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. 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 to meet future needs for major repairs and replacements, the Association has the right, subject to member approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on the future assessments has not been determined at this time.

Note 5 – Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. At December 31, 2006 and December 31, 2005, property not capitalized consists of approximately 150 acres of sidewalks, access roads, parks, lagoons, and greenbelts. According to the Association's governing documents, the developer can approve conveyances of any common real property to the Association. The Declaration of Protective Covenants for the development restricts disposition of any common area property by requiring the consent of association voting members representing sixty-seven percent of all owners and the developer.

Cinco Residential Property Association, Inc.
Notes to Financial Statements
December 31, 2006 and December 31, 2005

Note 5 – Property and Equipment (continued)

Property and equipment acquired by the Association are recorded at cost and consists of the following:

	<u>2006</u>	<u>2005</u>
Machinery and equipment	\$ 223,539	\$ 223,639
Furniture and fixtures	189,890	189,890
Security buildings and improvements	339,798	339,798
Transportation equipment	60,372	60,372
Computer software	<u>4,104</u>	<u>4,104</u>
	817,703	817,803
Less depreciation	<u>(660,453)</u>	<u>(640,835)</u>
	<u>\$ 157,250</u>	<u>\$ 176,968</u>

Note 6 – Related Party Transactions

Assessment revenue from the developer totaled \$405,445 in 2006 and \$455,576 in 2005. The Association did not receive any payments from the developer. The developer may elect annually either to pay regular assessments on its units or pay the Association the difference between assessments collected on the units and the actual expenditures of the Association.

Note 7 – Cash Balances

The Association maintains cash balances at several financial institutions. Accounts at a member of the Securities Investor Protection Corporation (SIPC) protect securities in the Association accounts up to \$500,000 and includes up to \$100,000 for cash. Also the member maintains a Net Equity Excess SIPC program, which provides coverage to the Association for the total amount of their cash and fully paid for securities. Therefore, there are no uninsured balances at the member SIPC firm. Accounts of the banking institution are secured by the Federal Deposit Insurance Corporation up to the amount of \$100,000. The cash balances of approximately \$4 million at December 31, 2006 and 2005 represents several bank accounts held at one financial institution. These balances are also provided excess coverage by these financial institutions.

Cinco Residential Property Association, Inc.
Supplementary Information on Future Major Repairs
and Replacements
December 31, 2006
(Unaudited)

The Association's board of directors conducted a study in January 2004 to estimate the remaining useful lives and the 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 have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following table is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	Designated Repairs/Replacements December 31, 2006
Cinco Residential Prop. Assoc.			
Beach club furniture/bldg	0 - 18	\$ 362,088	\$ 87,509
Recreation centers	0 - 22	781,100	188,776
Lake improvements	0 - 28	537,900	130,000
Management office	0 - 18	90,800	21,945
Playground / trails	0 - 18	369,300	89,252
Bayou Park Estates	0 - 14	82,700	19,987
Bayou Forest	0 - 14	149,500	36,131
South Lake	0 - 17	179,640	43,416
North Lake	0 - 9	119,240	28,818
		<u>\$ 2,672,268</u>	<u>\$ 645,834</u>

