

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

**FINANCIAL STATEMENTS
December 31, 2014**

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
and Members
**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Report on the Financial Statements

We have audited the accompanying financial statements of Memorial Northwest Homeowners Association (a Texas nonprofit Corporation), which comprise the balance sheet as of December 31, 2014, and the related statements of revenue and expenses and changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Memorial Northwest Homeowners Association as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted supplementary information on future repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenses on pages 8-9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



June 30, 2015

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Balance Sheet

December 31, 2014

Assets

Cash and cash equivalents		\$818,768
Receivables:		
Member assessments	69,769	
Collection and legal fees	62,497	
Less: Allowance for uncollectible accounts	<u>(65,000)</u>	
Net receivables		67,266
Prepaid insurance		15,416
Property and equipment:		
Community center	887,958	
Furniture and fixtures	36,122	
Less: Accumulated depreciation	<u>(48,121)</u>	
Net property and equipment		<u>875,959</u>
Total Assets		<u><u>\$1,777,409</u></u>

Liabilities and Member's Equity

Liabilities

Accounts payable		\$9,991
Assessments received in advance		171,500
Loan payable		<u>490,674</u>
Total Liabilities		672,165
Members' Equity		<u>1,105,244</u>
Total Liabilities and Members' Equity		<u><u>\$1,777,409</u></u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Statement of Revenue and Expenses
and Changes in Members' Equity
Year Ended December 31, 2014

Revenue

Member assessments	\$881,100
Collection and legal fees	47,876
Transfer and refinance fees	9,187
Club dues	19,955
Tennis court fees	7,700
Community center rentals	17,379
Other revenue	6,041
Interest income	88
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Total Revenue 989,326

Expenses

Club / recreation center	341,876
Common area maintenance / services	301,740
General and administrative	126,944
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Total Expenses 770,560

**Excess/(Deficiency) of
Revenue Over Expenses** 218,766

Members' Equity - Beginning of Year 886,478

Members' Equity - End of Year \$1,105,244

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Statement of Cash Flows
Year Ended December 31, 2014

Cash Flows From Operating Activities

Cash collected for assessments and fees	\$850,567
Cash interest and dividends received	88
Other cash receipts related to operations	60,262
Cash paid for operating expenses	(714,269)
Interest paid on loans	<u>(27,898)</u>

Net Cash Provided/(Used) By Operating Activities 168,750

Cash Flows From Investing Activities

Community center construction costs	<u>(39,053)</u>
<i>Net Cash Provided/(Used) By Investing Activities</i>	(39,053)

Cash Flows From Financing Activities

Loan proceeds	39,053
Loan principal repayments	<u>(43,984)</u>
<i>Net Cash Provided/(Used) By Financing Activities</i>	(4,931)

Net Increase/(Decrease) in Cash and Cash Equivalents 124,766

Cash and Cash Equivalents:

<i>Beginning of Year</i>	<u>694,002</u>
<i>End of Year</i>	<u><u>\$818,768</u></u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Notes to Financial Statements
December 31, 2014

NOTE 1 – Nature of Organization

Memorial Northwest Homeowners Association is a Texas non-profit corporation that was chartered July 2, 1973. The purposes for which the corporation is organized are to provide maintenance of common areas, preservation, and architectural control of approximately 1,960 residential homesites, and to promote the health, safety and welfare of the residents within the subdivision, located in Spring, TX.

NOTE 2 – Date of Management’s Review

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 30, 2015, the date the financial statements were available to be issued.

NOTE 3 – Summary of Significant Accounting Policies

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S.GAAP) 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. Significant estimates used in preparing the accompanying financial statements include the allowance for uncollectible accounts receivable and the useful lives of fixed assets for the purpose of determining depreciation. It is at least reasonably possible that the estimates used could change within the next year.

Cash and Cash Equivalents - For purposes of the statement of cash flows, cash and cash equivalents include all unrestricted cash balances, all money market funds and highly liquid investments with original maturities of three months or less.

Assessments and fees Receivable – Assessments and fees receivable at the balance sheet date represent amounts due from property owners. The Association’s policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are six months or more delinquent. Management evaluates the collectability of delinquent accounts based upon the owners’ payment history and other factors, and establishes an allowance for uncollectible accounts when collection is considered doubtful.

Assessments Received in Advance – Assessments received in advance of the year due are classified as a liability (deferred revenue) on the balance sheet.

Property and Equipment - Real property and common areas consist primarily of pool, tennis courts, community center and landscape. The community center was constructed in 2013 and is being depreciated over an estimated useful life of thirty years using the straight line method of depreciation.

Member Assessments - Association members are subject to annual assessments to provide funds for operating expenses and repairs and replacements of common property. Any excess assessments at year end are retained by the Association for use in the succeeding year.

NOTE 4 – Concentration of Credit Risk

The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2014, the Association’s had balances in excess of insured limits totaling \$228,605. The Association has not experienced any losses in such accounts.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Notes to Financial Statements
December 31, 2014

NOTE 5 – Federal and State Taxes

The Association is exempt from federal income tax under Internal Revenue Code Section 501 (c) (4). Form 990-Return of Organization Exempt From Income Tax is required to be filed annually.

The Association is also exempt from state franchise tax and state and local sales tax on purchases in connection with its exempt purpose.

The Association’s federal income tax returns are subject to examination by the Internal Revenue Service for three years after the returns are filed, and the Association’s federal tax returns for 2011, 2012, and 2013 remain open to examination.

NOTE 6 – Future Major Repairs and Replacements

The Association is responsible for preserving and maintaining the common property. The Association’s governing documents do not require the accumulation of funds to finance future major repairs and replacements. The Association does not separately assess members for future major repairs and replacements.

The Association has not conducted a formal study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future. The board of directors has not developed a formal plan to fund those needs; therefore, when funds are required for major repairs and replacements, the Association may, subject to member approval, increase regular assessments, levy special assessments, borrow or delay repair repairs and replacements until funds are available. The effect on future assessments has not been determined.

Note 7 – Loan Payable

The Association obtained a loan to partially fund construction of the community center. The loan is payable interest only for the first nine months at 5.5%. Beginning January 2014, the loan is payable in monthly installments of \$5,990.16 including interest at 5.5%. The loan is secured by a deed of trust on 9.841 acres of land on which the community center is located and security interest on general assessments and special assessments (the “Assessments”) to be paid by all owners of the lots located in Memorial Northwest. The loan matures December 22, 2023. Principal maturities of the loan are as follows:

2015	\$45,714
2016	48,018
2017	50,726
2018	53,588
2019	56,611
Thereafter	<u>236,017</u>
	\$490,674
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**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Schedules of Expenses
Year Ended December 31, 2014

Club / Recreation Center

Pool Operations and Maintenance	\$56,240
Grounds and General Maintenance	72,275
Playground equipment	16,224
Depreciation - community center	36,281
Fitness Center Operations	9,528
Tennis Court Operations / Maintenance	19,788
Security	11,875
Payroll	38,882
Insurance (Property and Liability)	37,450
Maintenance Supplies	5,979
Electric	24,699
Water	5,477
Telephone/cable	4,192
Social Activities	2,986
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	341,876

See accountant's report.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Schedules of Expenses
Year Ended December 31, 2014

Common Area Maintenance / Services

Electric and Street Lights	\$4,148
Landscape and Grounds	65,039
Mosquito Fogging	12,558
Security Patrol	214,411
Water and Sewer	5,584
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	301,740

General and Administrative

Accounting and Audit	5,980
Bank Charges	1,098
Collection Fees	9,625
Community Management	48,347
Insurance (Directors and Officers)	9,885
Legal Collections	11,365
Legal Deed Restrictions	6,114
Legal Other	25
Loan interest	27,898
Miscellaneous	520
Postage and Office	1,431
Website	4,656
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	126,944

See accountant's report.