

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION

Year ended December 31, 2011

O'NEAL & HOLMES, L.L.P.

A Registered Limited Liability Partnership

I N D E X

INDEPENDENT AUDITOR'S REPORT	Page 3
Balance Sheet	Page 4
Statement of Revenues and Expenses	Page 5
Statement of Changes in Property Owners' Equity	Page 6
Statement of Cash Flows	Page 7
Notes to Financial Statements	Pages 8-10
SUPPLEMENTARY INFORMATION:	
Supplementary Information - Schedule of Operating and Administrative Expenses	Page 11

INDEPENDENT AUDITOR'S REPORT

Board of Directors
MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION

We have audited the accompanying balance sheet of MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION as of December 31, 2011, 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 audits.

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 audits 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 MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION as of December 31, 2011, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of operating and administrative expenses [page 11] 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 to 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.

Management has omitted the information about future major 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.

Humble, Texas
July 25, 2012

O'NEAL & HOLMES, L.L.P.
A Registered Limited Liability Partnership

MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION

BALANCE SHEET

December 31, 2011

ASSETS

CURRENT ASSETS

Cash	7261
Marketable securities, note 1	651,329
Assessments receivable, net of allowance for doubtful accounts of \$50,000/\$0, note 1	653,700
Prepaid expenses	16,210

Total current assets 1,328,500

FIXED ASSETS, NOTE 1 -

TOTAL ASSETS \$ 1,328,500

LIABILITIES AND PROPERTY OWNERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 36,326
Deferred income, note 1	783,200

Total current liabilities 819,526

COMMITMENTS, NOTE 2 -

PROPERTY OWNERS' EQUITY, NOTE 1 508,974

TOTAL LIABILITIES AND PROPERTY OWNERS' EQUITY \$ 1,328,500

The accompanying notes are an integral
part of the financial statements.

MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES

For The Year Ended December 31, 2011

Revenues

Maintenance fees, interest charges and other revenue, note 1	\$ 805,639
Transfer fees	10,925
Community Center income	48,619
Total revenue	<u>865,183</u>

Less:

Operating and administrative expenses, note 1	865,564
Income (loss) from operations	<u>(381)</u>
Interest and investment income	73

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES \$ (308)

The accompanying notes are an integral part of the financial statements.

MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION

STATEMENT OF CHANGES IN PROPERTY OWNERS' EQUITY

For The Year Ended December 31, 2011

Property Owners' equity at January 1,	\$ 509,282
Excess (Deficiency) of revenues over expenses	(308)
Property Owners' equity at December 31,	<u>\$ 508,974</u>

The accompanying notes are an integral
part of the financial statements.

**MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS**

For The Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess (Deficiency) of Revenues over Expenses	\$ (308)
Adjustment to reconcile excess of revenues over (under) expenses to net cash provided by operating activities:	
(Increase) Decrease in assessments receivable	14,918
(Increase) Decrease in prepaid expenses	(1,692)
Increase (Decrease) in accounts payable	31,965
Increase (Decrease) in deferred income	(800)
	<hr/>
Total Adjustments	44,391
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CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	44,083
CASH FLOWS FROM INVESTING ACTIVITIES:	
(Increase) Decrease in marketable securities	(51,371)
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CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	(51,371)
CASH FLOWS FROM FINANCING ACTIVITIES:	
	<hr/>
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES	0
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NET INCREASE (DECREASE) IN CASH	(7,288)
CASH AT BEGINNING OF YEAR	14,549
CASH AT END OF YEAR	\$ <u>7,261</u>

SUPPLEMENTAL DISCLOSURES:

Federal income taxes paid during the year	\$ -0-
Interest expense paid during the year	\$ -0-

The accompanying notes are an integral part of the financial statements.

MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION (Association) is a Texas nonprofit corporation organized to provide for the recreation, health and welfare of its members and to promote and preserve the value of their property, and to improve, beautify, maintain and manage the Association common property. The homeowner association is located in Spring, TX in Harris County, Texas and contains approximately 1,958 billable lots. The Association was incorporated in the State of Texas on July 2, 1973. The affairs of the Association are managed by a Board of Directors who are elected by members of the Association. A summary of the Association's significant accounting policies follows:

.. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 25, 2012, the date the financial statements were available to be issued.

.. RECREATION ASSETS and RESERVE FUNDING

In accordance with AICPA recommended guidelines, common area real property fixed assets donated by the developer have not been recorded on the Association's financial records, and no allowance for depreciation has been made. The Association's policy is to currently expense common real and personal property fixed assets.

The Association does not have a reserve funding program for future major repairs and replacements. (Such a program is not required by the Association's deed covenants nor Texas state statutes.) Accordingly, the Association may not have the funds available to meet future repair and replacement needs. If additional funds are needed, however, the Association has the right, subject to membership approval, to increase regular assessments or levy special assessments or it may delay major repairs and replacements until funds are available.

.. CASH FLOWS

Cash flows are reported using the indirect method of presentation. All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

.. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is based on managements past experience in collecting its accounts and the association's historical foreclosure rate.

.. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

.. BASIS OF ACCOUNTING

The accompanying financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles. Revenues are recognized when earned and expenses are recognized as incurred.

.. DEFERRED INCOME

The Association has adopted a policy of recognizing maintenance fee assessments receivable in the year in which the fees are billed. Revenue is recognized in the year in which the revenue is earned. Unearned revenue represents assessment fees payable January 1, that were billed prior to December 31.

.. FEDERAL INCOME TAX

The Association was granted tax exempt status on March 30, 2009. Accordingly, no tax liability has been accrued for the year ended December 31, 2011.

Although exempt from Federal Income Taxes, the Association adopted the provisions of ASC 740 on January 1, 2007. ASC 740 clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return. The Interpretation also provides guidance on the measurement, recognition, classification, and disclosure of tax positions, along with accounting for the related interest and penalties. Adoption of ASC 740 did not have a material effect on the Association's accompanying financial statements. The Association's policy is to include tax related penalties and interest in the related tax expense category.

The Association had no unrecognized tax benefits as of the January 1, 2007 adoption date or as of December 31, 2011. The Association expects no significant increases or decreases in unrecognized tax benefits due to change in tax positions within one year of December 31, 2011. The Association has no tax related penalties or interest for the year ended December 31, 2011. As of December 31, 2011, the tax exempt information return for the calendar years ending December 2008 through 2011 remain subject to Federal examination. The Association is exempt from Texas State Franchise Tax. As of December 31, 2011, the Association's exempt status for the calendar years ending December 31, 2007 through 2011 is technically subject to Texas State examination.

.. ADVERTISING COSTS

The Association does not have any capitalized advertising costs at December 31, 2011. The Association's policy is to charge expense for advertising costs as incurred. There was no advertising expense for the year ended December 31, 2011.

.. MAINTENANCE FEES

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Basic provisions of billings provided for in the deed covenants are as follows:

The annual assessment may be increased by the Board of Directors, effective January 1 of each year, by an amount equal to a ten percent (10%) increase over the prior years annual assessment, without a vote of the Members of the Association. The maximum annual assessment may be increased above that established by the above-mentioned percentage increase only if approved by majority vote of the eligible voting Members, at a meeting duly called for this purpose.

The annual assessment for 2012 and 2011 was \$400 per residential lot.

In addition to the annual assessment, the Association may levy, in any assessment year, a special assessment for the purpose of raising additional funds to carry out the purposes of the Association. The special assessment may be assessed on the approval of a two-thirds vote of a quorum of the membership.

.. MARKETABLE SECURITIES and FAIR VALUE MEASUREMENTS

Marketable debt and equity securities are considered as *available-for-sale* and are reported at fair market value. There are no material unrealized gains and losses at December 31, 2011, and accordingly, no comprehensive income reporting is necessary. The Association did not have any material fair value measurement adjustments. The fair market value and cost basis equaled \$651,329 at December 31, 2011. There was no material unrealized gains or loss.

The Association maintained its operating fund in stocks and mutual funds managed by Morgan Stanley SmithBarney. MorganStanley SmithBarney is a member of the Securities Investor Protection Corporation (SIPC). SIPC protects brokerage accounts when a brokerage firm is closed due to bankruptcy or other financial difficulties and customer assets are missing from the accounts. SIPC protects up to \$500,000 in securities, including a limit of \$250,000 on claims for cash awaiting reinvestment. Additionally, MorganStanley SmithBarney provides excess SIPC coverage from a private insurer, providing unlimited coverage on non-cash securities, increasing the cash coverage to \$1.9 million. Neither the SIPC coverage nor the extended coverage protect against losses due to market fluctuations.

NOTE 2 COMMITMENTS

The Association has entered into various maintenance and service contracts which are generally subject to cancellation based on non-performance by either party or upon a certain number of days notice.

SUPPLEMENTARY INFORMATION

MEMORIAL NORTHWEST HOMEOWNERS ASSOCIATION

**SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATING AND ADMINISTRATIVE EXPENSES**

For The Year Ended December 31, 2011

Administrative expense	\$ 12,818
Accounting and audit services	4,100
Architectural expense	30,000
Fitness center operations and maintenance	13,255
General repairs and maintenance	14,458
Grounds and general maintenance - community center	93,301
Grounds and sprinkler maintenance	94,797
Insurance expense	46,750
Legal services	20,497
Management fees	54,993
Miscellaneous community center expenses	26,291
Payroll expenses - community center	40,557
Pest control	15,374
Pool operation and maintenance	73,422
Power and gas - community center	45,195
Power - common areas	4,662
Property Taxes	7
Security expense	216,176
Television and telephone expense	6,719
Tennis court operations and maintenance	28,117
Water and sewer - community center	17,741
Water and sewer - common areas	6,334
	<u>\$ 865,564</u>