

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2009 and 2008**

## TABLE OF CONTENTS

	<b>Page Number</b>
Independent Auditor's Report .....	1
Balance Sheets .....	2
Statements of Revenues and Expenses and Changes in Fund Balance .....	3
Schedules of Expenses .....	4-5
Statements of Cash Flow .....	6
Notes to Financial Statements .....	7-8

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Memorial Northwest Homeowners Association as of December 31, 2009 and 2008, and the related statements of revenues and expenses and changes in members' equity 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 Memorial Northwest Homeowners Association 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 Association has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.

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.



Spring, Texas  
May 19, 2010

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

Balance Sheets

December 31, 2009 and 2008

<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
Cash, Including Interest Bearing Deposits	\$456,123	\$609,674
Assessments Receivable	53,262	49,090
Collection and Legal Fees Receivable	41,989	37,357
Allowance for Uncollectible Accounts	(15,000)	(9,500)
Prepaid Insurance	17,891	13,717
<b><i>TOTAL ASSETS</i></b>	<b><u>\$554,265</u></b>	<b><u>\$700,338</u></b>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
 <b>LIABILITIES</b>		
Accounts Payable	\$5,100	\$10,437
Assessments Received in Advance	151,746	141,809
<b><i>TOTAL LIABILITIES</i></b>	<b>156,846</b>	<b>152,246</b>
<b>MEMBERS' EQUITY</b>	<b><u>397,419</u></b>	<b><u>548,092</u></b>
<b><i>TOTAL LIABILITIES AND MEMBERS' EQUITY</i></b>	<b><u>\$554,265</u></b>	<b><u>\$700,338</u></b>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Statements of Revenues and Expenses  
and Changes in Members' Equity  
Years Ended December 31, 2009 and 2008

<b>REVENUES</b>	<b>2009</b>	<b>2008</b>
	<hr/>	<hr/>
Member Assessments	\$784,000	\$784,000
Collection and Legal Fees	22,731	27,977
Transfer and Refinance Fees	11,650	11,650
Interest Income	599	32,271
Sales Tax Refund	2,840	
Club Dues	26,044	25,138
Club Social Hall Rental	14,662	23,648
Club Snack Bar Income	7,628	3,847
Club Apartment Rent	3,200	8,400
Tennis Court Fees	3,600	4,625
	<hr/>	<hr/>
<b>TOTAL REVENUES</b>	876,954	921,556
<b>EXPENSES</b>		
Club / Recreation Center (Schedule 1)	567,665	380,036
Maintenance and Services (Schedule 2)	319,379	352,285
General and Administrative (Schedule 3)	140,583	140,666
	<hr/>	<hr/>
<b>TOTAL EXPENSES</b>	1,027,627	872,987
<b>Excess/(Deficiency) of Revenues Over Expenses</b>	(150,673)	48,569
Members' Equity - Beginning of Year	548,092	499,523
	<hr/>	<hr/>
<b>MEMBERS' EQUITY - END OF YEAR</b>	<u>\$397,419</u>	<u>\$548,092</u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Schedules of Expenses  
Years Ended December 31, 2009 and 2008

<b>Schedule 1</b>	<b>2009</b>	<b>2008</b>
<b>Club / Recreation Center</b>		
Cable TV	\$1,892	\$1,010
Clubhouse and Grounds	65,304	74,884
Electric	44,587	55,433
Fitness Center Operations and Maintenance	11,088	9,769
Gas	543	688
Hurricane Cleanup		18,422
Insurance (Property and Liability)	30,649	26,870
Payroll	45,231	40,207
Pool Operations and Maintenance	93,140	97,202
Snack Bar Purchases	6,342	5,445
Social Activities	15,030	12,963
Swim Team	2,407	2,852
Telephone	4,588	5,155
Tennis Court Operations and Maintenance	4,760	20,056
Tennis Court Refurbishment	232,531	
Water	9,573	9,080
	<u>567,665</u>	<u>380,036</u>

See accountant's report.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Schedules of Expenses  
Years Ended December 31, 2009 and 2008

<b>Schedule 2</b>	<u>2009</u>	<u>2008</u>
<b>Common Area Maintenance / Services</b>		
Electric and Street Lights	\$3,719	\$4,601
Entrances	7,054	5,129
Landscape and Grounds	68,757	81,006
Hurricane Cleanup		24,708
Mosquito Fogging	7,122	11,590
Security Patrol	227,578	223,929
Water and Sewer	5,149	1,322
	<u>319,379</u>	<u>352,285</u>

**Schedule 3**  
**General and Administrative**

Accounting and Audit	4,000	4,000
Bad Debts	14,146	7,523
Bank Charges	1,072	1,577
Collection Fees	11,967	11,523
Community Management	46,935	46,935
Insurance (Directors and Officers)	19,560	12,801
Legal Collections	22,908	21,003
Legal Deed Restrictions	5,548	23,867
Legal Other	2,246	1,288
Miscellaneous	2,353	1,196
Postage and Office	1,045	3,194
Property Taxes	7	9
Tax Exempt Filing Fee		750
Tax Exempt Professional Fee	8,796	5,000
	<u>140,583</u>	<u>140,666</u>

See accountant's report.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

Statements of Cash Flow  
Years Ended December 31, 2009 and 2008  
Increase/(Decrease) in Cash

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess (Deficiency) of Revenues Over Expenses	(\$150,673)	\$48,569
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:		
(Increase) decrease in:		
Assessments Receivable	(8,804)	(27,919)
Prepaid Insurance	(4,174)	(2,427)
Increase (decrease) in:		
Accounts Payable	(5,337)	8,023
Allowance for Uncollectible Accounts	5,500	
Income Tax Payable		(2,438)
Assessments Received in Advance	9,937	69,741
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>(153,551)</u>	<u>93,549</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH</b>	(153,551)	93,549
CASH AT BEGINNING OF YEAR	<u>609,674</u>	<u>516,125</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$456,123</u></u>	<u><u>\$609,674</u></u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$0	\$0
Income Tax Paid	\$0	2,438

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Notes to Financial Statements  
December 31, 2009

**NOTE 1 – THE ASSOCIATION AND ITS SIGNIFICANT ACCOUNTING POLICIES**

The Association

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 2,000 residential homesites, and to promote the health, safety and welfare of the residents within the subdivision, located in Spring, TX.

On January 28, 2005, Memorial Northwest Homeowners Association acquired the real property and improvements of Memorial Northwest Swim & Racquet Club, Inc. The property consists of 9.77 acres of land with improvements including swimming pool, tennis courts, clubhouse, playground and parking lot. The transaction was in essence a donation by the Memorial Northwest Swim & Racquet Club, Inc. of all of their real property, improvements and a small amount of cash to the Homeowners Association, who in turn paid off about \$20,000 of outstanding short term obligations of the Swim & Racquet club.

As part of the general membership vote to approve the acquisition, an increase in annual dues of \$175.00 for operation of the recreational facility was approved.

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 incurred.

Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require 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. Certain prior year amounts have been reclassified to conform to the current year presentation.

Member Assessments

Association members are subject to annual assessments. The member assessment was \$400.00 for 2009 and 2008. Assessments receivable at the balance sheet date represent fees due from owners. Assessments received in advance of the year due are classified as a liability on the balance sheet.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Notes to Financial Statements  
December 31, 2009

**NOTE 1 - THE ASSOCIATION AND ITS SIGNIFICANT ACCOUNTING POLICIES**

Major Repairs and Replacements

The Association assumed responsibility for the previously mentioned recreation facilities effective January 28, 2005. The Association's other pre existing common property includes subdivision entrance monuments and landscaping.

The Association has not conducted a detailed study to estimate the remaining useful lives and replacement costs of the common property components (such as entrance monuments) that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.

The Association completed initial forecasts of likely improvements for the newly acquired club recreational facilities and estimated that the additional \$175,000 is sufficient to run and appropriately maintain the existing facility. Substantial initial catch-up maintenance and improvements were made and the facility has been in operation as an Association recreational facility since 2005. In early 2006, the Association nominated a long term planning committee to evaluate long term Association needs and develop options to refurbish, rebuild or construct a new recreational facility and make recommendations to the Association board. The long term planning committee brought forward options to the Association board in 2008. However, due to the global financial crisis and resulting poor economic conditions in the 2<sup>nd</sup> half of 2008 and continuing in 2009, the board has been pursuing a phased approach option which is being further developed. The Association board will then hold open meetings for homeowner input and subsequently review and amend as appropriate. After a sufficient period of time to engage the neighborhood, the Association board will then bring to the general membership a combined recommendation for major improvements and / or new construction and the associated assessment increases to fund the recommended changes.

As an interim step, in 2009 it was decided to replace two tennis courts whose foundations could not be repaired and make other renovations to the tennis area for a total cost of about \$233,000. These repairs were funded from cash reserves.

Income Taxes

The Association is exempt from Federal income tax under Section 501 (c) 4 of the Internal Revenue Code. The Association is required to file Form 990, Return of Organization Exempt From Income Tax.

The Association filed an application for the above tax exempt status under Internal Revenue Code Section 501 (c) (4) applicable to civic associations with the Internal Revenue Service July 29, 2008. The tax exemption was approved as of March 30, 2009 and the association was also granted the ability to file for refunds for the previous 3 tax years 2005, 2006 and 2007.