

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

FINANCIAL STATEMENTS

Years Ended December 31, 2005 and 2004

KEVIN F. MCKENNA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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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, 2005 and 2004, 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, 2005 and 2004, 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.

Kevin F. McKenna, P.C.

Spring, Texas
June 2, 2006

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Balance Sheets

December 31, 2005 and 2004

ASSETS	2005	2004
Cash, Including Interest Bearing Deposits	\$464,411	\$289,877
Assessments Receivable	29,774	13,408
Collection and Legal Fees Receivable	9,582	10,885
Allowance for Uncollectible Accounts	(9,500)	(15,000)
Income Tax Refund Receivable	154	390
Prepaid Insurance	8,057	3,791
TOTAL ASSETS	\$502,478	\$303,351
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accounts Payable	\$10,838	\$3,152
Payroll Taxes Payable	1,223	
Assessments Received in Advance	150,474	
TOTAL LIABILITIES	162,535	3,152
MEMBERS' EQUITY	339,943	300,199
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$502,478	\$303,351

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Statements of Revenues and Expenses
and Changes in Members' Equity
Years Ended December 31, 2005 and 2004

REVENUES	<u>2005</u>	<u>2004</u>
Member Assessments	\$729,127	\$384,160
Collection and Legal Fees	19,743	18,325
Transfer and Refinance Fees	8,475	4,015
Interest Income	10,229	3,919
Club Social Hall Rental	9,217	
Club Snack Bar Income	6,669	
Club Apartment Rent	6,300	
Club Pool and Tennis Courts	9,457	
Club Access Cards	1,150	
Other Revenue	5,966	1,663
TOTAL REVENUES	<u>806,333</u>	<u>412,082</u>
 EXPENSES		
Maintenance and Services (Schedule 1)	312,632	274,175
Club / Recreation Center (Schedule 2)	260,789	1,011
Utilities (Schedule 3)	51,299	7,862
General and Administrative (Schedule 4)	153,736	109,763
TOTAL EXPENSES	<u>778,456</u>	<u>392,811</u>
Excess/(Deficiency) of Revenues Over Expenses	27,877	19,271
Members' Equity - Beginning of Year	300,199	280,928
Net Asset Transfer - Memorial Northwest Swim and Racquet Club, Inc.	11,867	
MEMBERS' EQUITY - END OF YEAR	<u><u>\$339,943</u></u>	<u><u>\$300,199</u></u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Schedules of Expenses

Years Ended December 31, 2005 and 2004

Schedule 1	2005	2004
Maintenance and Services		
Electrical and Lighting	\$12,550	\$1,093
Entrances		13,865
Landscape and Grounds	87,838	50,445
Mosquito Fogging	11,411	8,785
Security Patrol	198,386	194,450
Signs	355	1,466
Sprinkler System	2,092	4,071
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	312,632	274,175

Schedule 2

Club / Recreation Center

(Exclusive costs only; does not include allocation of joint costs)

Access Cards	14,254	
Clubhouse Maintenance and Repair	51,498	
Concrete Walkways	7,575	
Fence	2,543	
Fitness Equipment	12,843	
Painting	19,780	
Payroll	28,481	
Pool Furniture	20,417	
Pool Operations	71,383	1,011
Snack Bar Ice Machine	2,734	
Snack Bar Purchases	2,972	
Tennis Court View Deck	10,320	
Tennis Court Maintenance and Repair	13,859	
Title Expenses	431	
Title Insurance	1,699	
	<hr/>	<hr/>
	260,789	1,011

See accountant's report.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Schedules of Expenses

Years Ended December 31, 2005 and 2004

Schedule 3	2005	2004
Utilities		
Cable TV	\$581	
Club Electric	32,979	
Electric	3,895	\$3,629
Gas	1,097	
Street Lights	1,777	1,625
Telephone	3,087	
Water and Sewer	7,883	2,608
	<hr/>	<hr/>
	51,299	7,862

**Schedule 4
General and Administrative**

Accounting and Audit	2,300	2,300
Bank Charges	290	280
Community Management	52,307	44,700
Income Tax	596	110
Insurance	24,111	10,772
Club Stock Refunds	2,650	
Legal Collections	28,198	29,448
Legal Deed Restrictions	3,260	4,588
Legal Other	1,655	3,916
Miscellaneous	3,354	428
Property Taxes	14,941	
Property Tax Consultant	3,764	
Payroll and Sales Tax	4,367	
Postage and Office	3,031	6,516
Social Activities	8,912	6,705
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	153,736	109,763

See accountant's report.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Statements of Cash Flow
Years Ended December 31, 2005 and 2004
Increase/(Decrease) in Cash

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (Deficiency) of Revenues Over Expenses	\$27,877	\$19,271
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:		
Net Asset Transfer - Memorial Northwest Swim and Racquet Club, Inc.	11,867	
(Increase) decrease in:		
Assessments Receivable	(14,827)	6,653
Prepaid Expenses	(4,266)	(602)
Increase (decrease) in:		
Accounts Payable	8,909	(830)
Allowance for Uncollectible Accounts	(5,500)	(5,000)
Assessments Received in Advance	150,474	(77,808)
	<u>174,534</u>	<u>(58,316)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	174,534	(58,316)
CASH FLOWS FROM INVESTING ACTIVITIES		
	<u> </u>	<u> </u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
	<u> </u>	<u> </u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
	<u> </u>	<u> </u>
NET INCREASE (DECREASE) IN CASH	174,534	(58,316)
CASH AT BEGINNING OF YEAR	<u>289,877</u>	<u>348,193</u>
CASH AT END OF YEAR	<u>\$464,411</u>	<u>\$289,877</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$0	\$0
Income Tax Paid	750	500

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Notes to Financial Statements
December 31, 2005

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 to provide funds for operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from owners. The Association pursues collection of delinquent accounts through management and legal counsel. An allowance for bad debts as of December 31, 2005 totals \$9,500 based on management's estimate of potentially uncollectible accounts.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Notes to Financial Statements
December 31, 2005

NOTE 1 - THE ASSOCIATION AND ITS SIGNIFICANT ACCOUNTING POLICIES

Future 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 has completed initial forecasts of likely improvements for the newly acquired club recreational facilities and estimated that the additional \$175.00 is sufficient to offset these likely improvements. In early 2006, the Association nominated a long term planning committee who will evaluate long term Association needs, develop options to refurbish or rebuild the recreational facility and make recommendations to the Board. If additional funds are needed, the Association has the right to increase regular assessments within the constraints of the By-Laws, levy special assessments with homeowners' approval or it may delay major repair repairs and replacements until funds are available.

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, 2005, the Association filed its return as a regular corporation. Membership income and expenses are not taxable, however, nonmembership income, such as interest, is subject to tax after deducting expenses attributable to the production of nonmembership income.