

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

281-744-5968  
KMCPA19627@AOL.COM

March 10, 2013

To the Board of Directors  
Memorial Northwest  
Homeowners Association

We have audited the Association's financial statements for the year ended December 31, 2012, and have issued our report thereon dated March 10, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 1, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies are described in Note 3 to the financial statements. No new accounting policies were adopted and the application of other existing policies was not changed during 2012. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. There are no significant estimates contained in the financial statements for the year ended December 31, 2012.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 10, 2013.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Page Two

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information Accompanying the Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Association's Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Kevin F. McKenna, P.C.".

Kevin F. McKenna, P.C.

**Memorial Northwest Homeowners Association**  
**Journal Register**  
**For Period 01/01/2012 - 12/31/2012**

Acct No.	AccountDescription Memo	Transdate	Rev Date	Debit	Credit
<b>Source: OSWTB</b>					
<b>JE No. 1</b>					
1500	Prepaid Insurance	12/31/2012		\$16,210.00	
5510	Homeowners Equity	12/31/2012			\$16,210.00
To record prepaid insurance balance per audit of 12/31/2011.					
<b>JE No. 1 Totals:</b>				<b>\$16,210.00</b>	<b>(\$16,210.00)</b>
<b>JE No. 2</b>					
8030	Insurance	12/31/2012		\$16,210.00	
1500	Prepaid Insurance	12/31/2012			\$16,210.00
To record expense for prepaid insurance balance per audit of 12/31/2011.					
<b>JE No. 2 Totals:</b>				<b>\$16,210.00</b>	<b>(\$16,210.00)</b>
<b>JE No. 3</b>					
5510	Homeowners Equity	12/31/2012		\$1,873.00	
8050	Payroll Tax	12/31/2012			\$1,873.00
To reverse payroll tax accrual recorded per audit of 12/31/2011.					
<b>JE No. 3 Totals:</b>				<b>\$1,873.00</b>	<b>(\$1,873.00)</b>
<b>JE No. 4</b>					
5510	Homeowners Equity	12/31/2012		\$33,922.00	
8080	Tennis Court Maint. & Repair	12/31/2012			\$3,440.00
8105	fitness Center Equip.	12/31/2012			\$10,623.00
7080	Sprinklers	12/31/2012			\$8,148.00
7080	Sprinklers	12/31/2012			\$338.00
8010	Electric Community Center	12/31/2012			\$2,345.00
7025	Community Management	12/31/2012			\$4,029.00
6345	Transfer Fees	12/31/2012			\$625.00
6335	Collection Fees	12/31/2012			\$178.00
8035	Office	12/31/2012			\$42.00
8125	Legal/Professional	12/31/2012			\$120.00
8080	Tennis Court Maint. & Repair	12/31/2012			\$1,452.00
8015	Water Community Center	12/31/2012			\$1,112.00
7015	Water	12/31/2012			\$450.00
7075	Pest Control	12/31/2012			\$1,020.00
To reverse accounts payable recorded per audit of 12/31/2011.					
<b>JE No. 4 Totals:</b>				<b>\$33,922.00</b>	<b>(\$33,922.00)</b>
<b>JE No. 5</b>					
5510	Homeowners Equity	12/31/2012		\$481.00	
8030	Insurance	12/31/2012			\$432.00
7020	Bank Charges	12/31/2012			\$49.00
To reclassify expenses recorded per audit of 12/31/2011, management recorded in Jan. 2011.					
<b>JE No. 5 Totals:</b>				<b>\$481.00</b>	<b>(\$481.00)</b>
<b>JE No. 6</b>					
5510	Homeowners Equity	12/31/2012		\$109,220.00	
3310	Uncollected Assessments	12/31/2012		\$66,772.00	
3320	Prepaid Owner Assessments	12/31/2012		\$5,177.00	
6310	Homeowner Assessments	12/31/2012			\$191,943.00
7021	Bad Debts	12/31/2012		\$6,268.00	
6320	Late Fees	12/31/2012		\$4,506.00	
To record adjustment to accrual basis for revenue, assessments received in advance and bad debts at 12/31/2012.					
<b>JE No. 6 Totals:</b>				<b>\$191,943.00</b>	<b>(\$191,943.00)</b>

**Memorial Northwest Homeowners Association**  
**Journal Register**  
**For Period 01/01/2012 - 12/31/2012**

Acct No.	AccountDescription Memo	Transdate	Rev Date	Debit	Credit
<b>JE No. 7</b>					
7021	Bad Debts	12/31/2012		\$63,000.00	
1350	Allowance for Bad Debts	12/31/2012			\$63,000.00
	To record adjustment to allowance for bad debts as of 12/31/2012.				
<b>JE No. 7 Totals:</b>				<b>\$63,000.00</b>	<b>(\$63,000.00)</b>
<b>JE No. 8</b>					
7045	Security	12/31/2012		\$720.00	
1000	Cash Morgan Stanley	12/31/2012			\$720.00
	To record check 6024 per December bank recociliation.				
<b>JE No. 8 Totals:</b>				<b>\$720.00</b>	<b>(\$720.00)</b>
<b>JE No. 9</b>					
8025	Telephone	12/31/2012		\$228.00	
1000	Cash Morgan Stanley	12/31/2012			\$228.00
	To record A T & T drafts per December bank reconciliation.				
<b>JE No. 9 Totals:</b>				<b>\$228.00</b>	<b>(\$228.00)</b>
<b>JE No. 10</b>					
1000	Cash Morgan Stanley	12/31/2012		\$8,960.00	
3320	Prepaid Owner Assessments	12/31/2012			\$8,960.00
	To record deposit of 12/21/2012 per December bank reconciliation. Deposit was after cutoff.				
<b>JE No. 10 Totals:</b>				<b>\$8,960.00</b>	<b>(\$8,960.00)</b>
<b>JE No. 11</b>					
1500	Prepaid Insurance	12/31/2012		\$14,669.00	
8030	Insurance	12/31/2012			\$14,669.00
	To record adjustment for prepaid insurance balance at 12/31/2012.				
<b>JE No. 11 Totals:</b>				<b>\$14,669.00</b>	<b>(\$14,669.00)</b>
<b>JE No. 12</b>					
7010	Electric	12/31/2012		\$178.00	
7010	Electric	12/31/2012		\$328.00	
8085	Tennis Court Operation	12/31/2012		\$504.00	
7065	Misc. Grounds Maint.	12/31/2012		\$500.00	
7065	Misc. Grounds Maint.	12/31/2012		\$2,363.00	
7080	Sprinklers	12/31/2012		\$836.00	
8116	Website	12/31/2012		\$105.00	
8010	Electric Community Center	12/31/2012		\$2,207.00	
8115	General maint.	12/31/2012		\$180.00	
7015	Water	12/31/2012		\$405.00	
8015	Water Community Center	12/31/2012		\$694.00	
7025	Community Management	12/31/2012		\$4,029.00	
7058	Legal Collections	12/31/2012		\$2,184.00	
7075	Pest Control	12/31/2012		\$2,890.00	
8050	Payroll Tax	12/31/2012		\$1,319.00	
8050	Payroll Tax	12/31/2012		\$6.00	
	To record accounts payable as of 12/31/2012.				
3010	Accounts Payable	12/31/2012			\$18,728.00
	To record accounts payable as of 12/31/2012.				
<b>JE No. 12 Totals:</b>				<b>\$18,728.00</b>	<b>(\$18,728.00)</b>
<b>JE No. 13</b>					
7010	Electric	12/31/2012		\$0.00	
7036	Audit Fees	12/31/2012		\$4,874.00	
8125	Legal/Professional	12/31/2012			\$4,874.00

**Memorial Northwest Homeowners Association**  
**Journal Register**  
**For Period 01/01/2012 - 12/31/2012**

Acct No.	AccountDescription Memo	Transdate	Rev Date	Debit	Credit
	To reclassify audit fee for 2011.				
		<b>JE No. 13 Totals:</b>		<b>\$4,874.00</b>	<b>(\$4,874.00)</b>
<b>JE No. 14</b>					
7065	Misc. Grounds Maint.	12/31/2012		\$938.00	
7070	Landscape Common Area To reclassify mulch expense.	12/31/2012			\$938.00
		<b>JE No. 14 Totals:</b>		<b>\$938.00</b>	<b>(\$938.00)</b>
<b>JE No. 15</b>					
8082	Clubhouse Demolition	12/31/2012		\$42,971.00	
8083	Storage Rental	12/31/2012		\$1,550.00	
8081	Capital Expenditures To reclassify expense categories.	12/31/2012			\$44,521.00
		<b>JE No. 15 Totals:</b>		<b>\$44,521.00</b>	<b>(\$44,521.00)</b>
<b>JE No. 16</b>					
8083	Storage Rental	12/31/2012		\$3,879.00	
8120	Misc. Community Cntr Expense To reclassify storage expense for fitness equipment.	12/31/2012			\$3,879.00
		<b>JE No. 16 Totals:</b>		<b>\$3,879.00</b>	<b>(\$3,879.00)</b>
	<b>OS Working Trial Balance Totals:</b>			<b>\$421,156.00</b>	<b>(\$421,156.00)</b>

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Year Ended December 31, 2012**

**TABLE OF CONTENTS**

	<b>Page Number</b>
Independent Auditor's Report .....	1-2
Balance Sheet .....	3
Statement of Revenues and Expenses and Changes in Fund Balance .....	4
Statement of Cash Flow .....	5
Notes to Financial Statements .....	6-7
<b>SUPPLEMENTARY INFORMATION</b>	
Schedules of Expenses .....	8-9

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

281-744-5968  
KMCPA19627@AOL.COM

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, 2012, and the related statements of revenues, 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, 2012, 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.




## Report on Supplementary Information

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.

## Other Matter

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.

  
Spring, Texas  
March 10, 20123

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Balance Sheet  
December 31, 2012

**ASSETS**

Cash and Cash Equivalents	\$810,345
Assessments Receivable	67,983
Collection and Legal Fees Receivable	71,164
Allowance for Uncollectible Accounts	(113,000)
Prepaid Insurance	14,669

**TOTAL ASSETS** \$851,161

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITIES**

Accounts Payable	\$18,728
Assessments Received in Advance	204,092

**TOTAL LIABILITIES** 222,820

**MEMBERS' EQUITY** 628,341

**TOTAL LIABILITIES AND MEMBERS' EQUITY** \$851,161

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Statement of Revenues and Expenses  
and Changes in Members' Equity  
Year Ended December 31, 2012

**REVENUES**

Member Assessments	\$784,000
Collection and Legal Fees	46,854
Transfer and Refinance Fees	8,138
Club Dues	20,530
Tennis Court Fees	7,422
Interest Income	90
Other Revenue	<u>2,512</u>

**TOTAL REVENUES** 869,546

**EXPENSES**

Club / Recreation Center	241,483
Common Area Maintenance / Services	327,313
General and Administrative	<u>181,383</u>

**TOTAL EXPENSES** 750,179

**Excess/(Deficiency) of  
Revenues Over Expenses** 119,367

Members' Equity - Beginning of Year 508,974

**MEMBERS' EQUITY - END OF YEAR** \$628,341

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Statement of Cash Flow  
Year Ended December 31, 2012  
Increase/(Decrease) in Cash

**CASH FLOWS FROM OPERATING ACTIVITIES**

Excess (Deficiency) of Revenues Over Expenses	\$119,367
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:	
(Increase) decrease in:	
Assessments and Fees Receivable	564,553
Prepaid Insurance	1,541
Increase (decrease) in:	
Accounts Payable	(17,598)
Allowance for Uncollectible Accounts	63,000
Assessments Received in Advance	204,092
Deferred Income	<u>(783,200)</u>
NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES	151,755

**CASH FLOWS FROM INVESTING ACTIVITIES**

NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES

**CASH FLOWS FROM FINANCING ACTIVITIES**

NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES

**NET INCREASE (DECREASE) IN CASH** 151,755

CASH AT BEGINNING OF YEAR 658,590

**CASH AT END OF YEAR** \$810,345

**SUPPLEMENTAL DISCLOSURES**

Interest paid	\$0
Income Tax Paid	\$0

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Notes to Financial Statements  
December 31, 2012

**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 March 10, 2013, the date the financial statements were available to be issued.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** – The financial statements have been prepared on the accrual basis of accounting, in accordance with United States generally accepted accounting principles.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Cash and Cash Equivalents** - 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.

**Accounts Receivable** - Accounts receivable are stated at cost, less an allowance for amounts which are in excess of net realizable value, which approximates fair market value. Management evaluates the collectability of delinquent accounts based upon the owner's payment history, collection efforts and other factors, and establishes an allowance for doubtful accounts.

**Property and Equipment** - Real property and common areas (primarily pool, tennis courts, future clubhouse and landscape) and related improvements to such property are not capitalized in the Association's financial statements because disposition of those properties is restricted and they are not used to generate significant revenues from members on the basis of usage or from nonmembers.

**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. 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, 2012

**NOTE 4 – UNINSURED CASH BALANCES**

The Association maintains a money market investment account in which funds are protected by the Securities Investor Protection Corporation (SIPC) up to \$250,000.00. At December 31, 2012, the Association's funds in the money market account exceeded SIPC protection by \$61,491.00.

**NOTE 5 – FEDERAL AND STATE TAXES**

The Association was granted an exemption from federal income tax under section 501 © (4) of the Internal Revenue Code. The Association is also exempt from state and local sales tax. The Association is required to file Form 990, Return of Organization Exempt From Income Tax.

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 income tax returns for the years 2009, 2010, and 2011 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 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 plan to fund those needs; therefore, when funds are required for major repairs and replacements, the Association may 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.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Schedules of Expenses  
Year Ended December 31, 2012

**Club / Recreation Center**

Cable TV	\$888
Clubhouse Demolition	42,971
Electric	28,597
Fitness Center Operations	3,212
Gas	210
Grounds and General Maintenance	38,610
Insurance (Property and Liability)	36,139
Maintenance Supplies	5,284
Miscellaneous	2,774
Payroll	31,229
Pool Operations and Maintenance	11,400
Social Activities	456
Storage Rental	5,429
Swim Team	5,460
Telephone	3,343
Tennis Court Operations / Maintenance	18,555
Water	6,926
	<hr/>
	241,483

See accountant's report.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Schedules of Expenses  
Year Ended December 31, 2012

**Common Area Maintenance / Services**

Electric and Street Lights	\$4,370
Landscape and Grounds	79,286
Mosquito Fogging	19,522
Security Patrol	217,296
Water and Sewer	6,839
	<hr/>
	327,313

**General and Administrative**

Accounting and Audit	4,874
Bad Debts	69,268
Bank Charges	298
Collection Fees	8,036
Community Management	48,547
Insurance (Directors and Officers)	9,800
Legal Collections	29,415
Legal Deed Restrictions	1,472
Legal Other	1,910
Miscellaneous	1,888
Postage and Office	4,720
Website	1,155
	<hr/>
	181,383

See accountant's report.