

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

FINANCIAL STATEMENTS

Years Ended December 31, 2004 and 2003

TABLE OF CONTENTS

	Page Number
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

KEVIN F. McKENNA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

18706 CANDLEVIEW DRIVE

SPRING, TEXAS 77388

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
COMMUNITY ASSOCIATIONS
INSTITUTE

281/744-5968
281/355-8747 FAX
KMCPA 19627@AOL.COM

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, 2004 and 2003, and the related statements of revenues and expenses and changes in fund balances 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 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 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, 2004 and 2003, 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.

Kevin F. McKenna, P.C.

Spring, Texas
August 17, 2005



MEMORIAL NORTHWEST
 HOMEOWNERS ASSOCIATION
 Balance Sheets
 December 31, 2004 and 2003

ASSETS	2004	2003
Cash, Including Interest Bearing Deposits	\$289,877	\$348,193
Assessments Receivable	9,549	13,066
Collection and Legal Fees Receivable	14,744	15,273
Allowance for Uncollectible Accounts	(15,000)	(20,000)
Income Tax Refund Receivable	390	2,997
Prepaid Insurance	3,791	3,189
TOTAL ASSETS	\$303,351	\$362,718
 LIABILITIES AND MEMBERS' EQUITY		
 LIABILITIES		
Accounts Payable	\$3,152	\$3,982
Assessments Received in Advance		77,808
TOTAL LIABILITIES	3,152	81,790
MEMBERS' EQUITY	300,199	280,928
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$303,351	\$362,718

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Statements of Revenues and Expenses
and Changes in Members' Equity
Years Ended December 31, 2004 and 2003

REVENUES	<u>2004</u>	<u>2003</u>
Member Assessments	\$384,160	\$382,539
Collection and Legal Fees	24,003	32,918
Interest Income	3,919	3,735
Patrol Reimbursement		13,451
TOTAL REVENUES	<u>412,082</u>	<u>432,643</u>
 EXPENSES		
Maintenance and Services (Schedule 1)	274,175	329,577
Recreation Center (Schedule 2)	1,011	
Utilities (Schedule 3)	7,862	7,119
General and Administrative (Schedule 4)	<u>109,763</u>	<u>87,629</u>
TOTAL EXPENSES	<u>392,811</u>	<u>424,325</u>
Excess/(Deficiency) of Revenues Over Expenses	19,271	8,318
Members' Equity - Beginning of Year	<u>280,928</u>	<u>272,610</u>
MEMBERS' EQUITY - END OF YEAR	<u><u>\$300,199</u></u>	<u><u>\$280,928</u></u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Schedules of Expenses
Years Ended December 31, 2004 and 2003

Schedule 1	<u>2004</u>	<u>2003</u>
Maintenance and Services		
Curb Numbering		\$11,193
Electrical and Lighting	\$1,093	340
Entrances	13,865	30,314
Grounds Maintenance	2,359	1,888
Landscape Maintenance	48,086	44,654
Mosquito Fogging	8,785	8,505
Security Patrol	194,450	228,378
Signs	1,466	451
Sprinkler System	4,071	3,854
	<u>274,175</u>	<u>329,577</u>

Schedule 2
Recreation Center

Pool Pump	<u>1,011</u>	<u> </u>
	1,011	

See accountant's report.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Schedules of Expenses
Years Ended December 31, 2004 and 2003

Schedule 3	<u>2004</u>	<u>2003</u>
Utilities		
Street Lights	\$1,625	\$1,299
Electric	3,629	3,515
Water and Sewer	<u>2,608</u>	<u>2,305</u>
	7,862	7,119

Schedule 4		
General and Administrative		
Accounting and Audit	2,300	2,200
Bank Charges	280	350
Community Management	44,700	44,700
Income Tax	110	111
Insurance	10,772	8,668
Legal Collections	29,448	17,072
Legal Deed Restrictions	4,588	2,116
Legal Other	3,916	2,984
Miscellaneous	428	797
Postage and Office	6,516	1,961
Social Activities	<u>6,705</u>	<u>6,670</u>
	109,763	87,629

See accountant's report.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Statements of Cash Flow
Years Ended December 31, 2004 and 2003
Increase/(Decrease) in Cash

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (Deficiency) of Revenues Over Expenses	\$19,271	\$8,318
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:		
Depreciation		
(Increase) decrease in:		
Assessments Receivable	6,653	888
Prepaid Expenses	(602)	16,346
Increase (decrease) in:		
Accounts Payable	(830)	3,117
Allowance for Uncollectible Accounts	(5,000)	
Assessments Received in Advance	(77,808)	(7,184)
	<u>(58,316)</u>	<u>21,485</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
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	(58,316)	21,485
CASH AT BEGINNING OF YEAR	<u>348,193</u>	<u>326,708</u>
CASH AT END OF YEAR	<u><u>\$289,877</u></u>	<u><u>\$348,193</u></u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$0	\$0
Income Tax Paid	500	1,000

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Notes to Financial Statements
December 31, 2004

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.

Subsequent Event

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.

As part of the membership vote on 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.