

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

FINANCIAL STATEMENTS

Years Ended December 31, 2007 and 2006

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, 2007 and 2006, 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, 2007 and 2006, 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
July 29, 2008

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

Balance Sheets

December 31, 2007 and 2006

ASSETS	2007	2006
Cash, Including Interest Bearing Deposits	\$516,125	\$380,261
Assessments Receivable	32,325	32,012
Collection and Legal Fees Receivable	26,203	16,624
Allowance for Uncollectible Accounts	(9,500)	(9,500)
Prepaid Insurance	11,290	9,710
TOTAL ASSETS	\$576,443	\$429,107
 LIABILITIES AND MEMBERS' EQUITY		
 LIABILITIES		
Accounts Payable	\$2,414	\$11,698
Payroll Taxes Payable		1,453
Income Tax Payable	2,438	1,577
Assessments Received in Advance	72,068	2,980
TOTAL LIABILITIES	76,920	17,708
MEMBERS' EQUITY	499,523	411,399
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$576,443	\$429,107

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Statements of Revenues and Expenses
and Changes in Members' Equity
Years Ended December 31, 2007 and 2006

REVENUES	<u>2007</u>	<u>2006</u>
Member Assessments	\$727,160	\$727,160
Collection and Legal Fees	14,838	22,185
Transfer and Refinance Fees	8,100	2,575
Interest Income	32,572	26,987
Insurance Claim Proceeds	28,576	
Club Dues	25,908	23,989
Club Social Hall Rental	33,247	18,199
Club Snack Bar Income	4,196	6,454
Club Apartment Rent	8,600	8,400
Tennis Court Fees	2,300	2,976
Other Revenue		7,249
TOTAL REVENUES	<u>885,497</u>	<u>846,174</u>
 EXPENSES		
Club / Recreation Center (Schedule 1)	352,321	326,194
Maintenance and Services (Schedule 2)	320,519	302,326
General and Administrative (Schedule 3)	<u>124,533</u>	<u>146,198</u>
TOTAL EXPENSES	<u>797,373</u>	<u>774,718</u>
Excess/(Deficiency) of Revenues Over Expenses	88,124	71,456
Members' Equity - Beginning of Year	<u>411,399</u>	<u>339,943</u>
MEMBERS' EQUITY - END OF YEAR	<u><u>\$499,523</u></u>	<u><u>\$411,399</u></u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Schedules of Expenses
Years Ended December 31, 2007 and 2006

Schedule 1	<u>2007</u>	<u>2006</u>
Club / Recreation Center		
Access Cards	6,787	5,136
Air Conditioning / Heat	10,196	
Cable TV	782	749
Clubhouse and Grounds	57,650	52,455
Electric	54,431	53,239
Electrical and Lighting	2,276	6,720
Fitness Center	30,444	24,380
Gas	589	642
Insurance	32,882	28,409
Parking Lot Repairs	3,000	
Payroll	36,879	35,380
Pool Furniture		1,099
Pool Operations	57,582	68,911
Property Survey		2,200
Snack Bar Ice Machine	2,506	
Snack Bar Purchases	6,070	6,896
Social Activities	9,668	11,845
Storage Building		5,709
Structural Inspection		1,845
Telephone	4,206	3,155
Tennis Court Maintenance / Operations	29,773	12,616
Water	6,600	4,808
	<u>352,321</u>	<u>326,194</u>

See accountant's report.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Schedules of Expenses
Years Ended December 31, 2007 and 2006

Schedule 2	2007	2006
Common Area Maintenance / Services		
Curb Numbering	\$15,365	
Electric and Street Lights	5,646	\$6,715
Entrances	4,078	7,930
Landscape and Grounds	68,614	70,826
Mosquito Fogging	11,249	10,258
Security Patrol	213,731	202,713
Water and Sewer	1,836	3,884
	<hr/>	<hr/>
	320,519	302,326

Schedule 3
General and Administrative

Accounting and Audit	4,000	4,000
Bad Debts	8,515	6,370
Bank Charges	656	735
Collection Fees	13,766	10,829
Community Management	46,935	47,161
Income Tax	7,438	3,077
Legal Collections	29,342	17,096
Legal Deed Restrictions	7,849	50,056
Legal Other	2,272	4,126
Miscellaneous	2,420	1,792
Postage and Office	1,330	954
Property Taxes	10	2
	<hr/>	<hr/>
	124,533	146,198

See accountant's report.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Statements of Cash Flow
Years Ended December 31, 2007 and 2006
Increase/(Decrease) in Cash

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (Deficiency) of Revenues Over Expenses	\$88,124	\$71,456
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:		
(Increase) decrease in:		
Assessments Receivable	(9,892)	(9,280)
Income Tax Refund Receivable		154
Prepaid Insurance	(1,580)	(1,653)
Increase (decrease) in:		
Accounts Payable	(9,284)	860
Payroll Taxes Payable	(1,453)	230
Income Tax Payable	861	1,577
Assessments Received in Advance	69,088	(147,494)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>135,864</u>	<u>(84,150)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
NET CASH PROVIDED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	<u>135,864</u>	<u>(84,150)</u>
CASH AT BEGINNING OF YEAR	<u>380,261</u>	<u>464,411</u>
CASH AT END OF YEAR	<u><u>\$516,125</u></u>	<u><u>\$380,261</u></u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$0	\$0
Income Tax Paid	6,577	1,500

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Notes to Financial Statements
December 31, 2007

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. For 2007 these were \$371.00. 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, 2007

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 completed initial forecasts of likely improvements for the newly acquired club recreational facilities and estimated that the additional \$175.00 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. Currently, it is anticipated that this long term planning committee will bring recommended options to the Association board in late 2008. 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.

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, 2007, the Association filed its return as a homeowners association. Nonexempt income, such as interest, is subject to tax after deducting expenses attributable to the production of nonexempt income.

The Association filed for tax exemption under Internal Revenue Code Section 501 c (4) applicable to civic associations. The application is pending approval with the Internal Revenue Service as of July 29, 2008.