

**MÉMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2008 and 2007**

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

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2008 and 2007**

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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, 2008 and 2007, 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, 2008 and 2007, 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  
May 12, 2009

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Balance Sheets  
December 31, 2008 and 2007

<b>ASSETS</b>	<u><b>2008</b></u>	<u><b>2007</b></u>
Cash, Including Interest Bearing Deposits	\$609,674	\$516,125
Assessments Receivable	49,090	32,325
Collection and Legal Fees Receivable	37,357	26,203
Allowance for Uncollectible Accounts*	(9,500)	(9,500)
Prepaid Insurance	13,717	11,290
<b><i>TOTAL ASSETS</i></b>	<u><u>\$700,338</u></u>	<u><u>\$576,443</u></u>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
 <b>LIABILITIES</b>		
Accounts Payable	\$10,437	\$2,414
Income Tax Payable		2,438
Assessments Received in Advance	141,809	72,068
<b><i>TOTAL LIABILITIES</i></b>	152,246	76,920
<b>MEMBERS' EQUITY</b>	<u>548,092</u>	<u>499,523</u>
<b><i>TOTAL LIABILITIES AND MEMBERS' EQUITY</i></b>	<u><u>\$700,338</u></u>	<u><u>\$576,443</u></u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

Statements of Revenues and Expenses  
and Changes in Members' Equity  
Years Ended December 31, 2008 and 2007

<b>REVENUES</b>	<b>2008</b>	<b>2007</b>
Member Assessments	\$784,000	\$727,160
Collection and Legal Fees	27,977	14,838
Transfer and Refinance Fees	11,650	8,100
Interest Income	32,271	32,572
Insurance Claim Proceeds		28,576
Club Dues	25,138	25,908
Club Social Hall Rental	23,648	33,247
Club Snack Bar Income	3,847	4,196
Club Apartment Rent	8,400	8,600
Tennis Court Fees	4,625	2,300
<b>TOTAL REVENUES</b>	<b>921,556</b>	<b>885,497</b>
<b>EXPENSES</b>		
Club / Recreation Center (Schedule 1)	380,036	352,321
Maintenance and Services (Schedule 2)	352,285	320,519
General and Administrative (Schedule 3)	140,666	124,533
<b>TOTAL EXPENSES</b>	<b>872,987</b>	<b>797,373</b>
<b>Excess/(Deficiency) of Revenues Over Expenses</b>	<b>48,569</b>	<b>88,124</b>
Members' Equity - Beginning of Year	499,523	411,399
<b>MEMBERS' EQUITY - END OF YEAR</b>	<b>\$548,092</b>	<b>\$499,523</b>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Schedules of Expenses  
Years Ended December 31, 2008 and 2007

<b>Schedule 1</b>	<b>2008</b>	<b>2007</b>
<b>Club / Recreation Center</b>	<hr/>	<hr/>
Access Cards		\$6,787
Air Conditioning / Heat	\$10,003	10,196
Cable TV	1,010	782
Chain Link Fence	7,300	
Clubhouse and Grounds	56,096	57,650
Electric	55,433	54,431
Electrical and Lighting	1,485	2,276
Fitness Center Operations and Maintenance	9,769	30,444
Gas	688	589
Hurricane Cleanup	18,422	
Insurance (Property and Liability)	26,870	32,882
Parking Lot Repairs		3,000
Payroll	40,207	36,879
Pool Operations and Maintenance	97,202	57,582
Snack Bar Ice Machine		2,506
Snack Bar Purchases	5,445	6,070
Social Activities	12,963	9,668
Swim Team	2,852	
Telephone	5,155	4,206
Tennis Court Operations and Maintenance	20,056	29,773
Water	9,080	6,600
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	380,036	352,321

See accountant's report.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

Schedules of Expenses

Years Ended December 31, 2008 and 2007

<b>Schedule 2</b>	<b>2008</b>	<b>2007</b>
<b>Common Area Maintenance / Services</b>		
Curb Numbering		\$15,365
Electric and Street Lights	\$4,601	5,646
Entrances	5,129	4,078
Landscape and Grounds	81,006	68,614
Hurricane Cleanup	24,708	
Mosquito Fogging	11,590	11,249
Security Patrol	223,929	213,731
Water and Sewer	1,322	1,836
	<hr/>	<hr/>
	352,285	320,519

**Schedule 3  
General and Administrative**

Accounting and Audit	4,000	4,000
Bad Debts	7,523	8,515
Bank Charges	1,577	656
Collection Fees	11,523	13,766
Community Management	46,935	46,935
Income Tax		7,438
Insurance (Directors and Officers)	12,801	
Legal Collections	21,003	29,342
Legal Deed Restrictions	23,867	7,849
Legal Other	1,288	2,272
Miscellaneous	1,196	2,420
Postage and Office	3,194	1,330
Property Taxes	9	10
Tax Exempt Filing Fee	750	
Tax Exempt Professional Fee	5,000	
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	140,666	124,533

See accountant's report.



**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

Statements of Cash Flow

Years Ended December 31, 2008 and 2007

Increase/(Decrease) in Cash

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess (Deficiency) of Revenues Over Expenses	\$48,569	\$88,124
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:		
(Increase) decrease in:		
Assessments Receivable	(27,919)	(9,892)
Income Tax Refund Receivable		
Prepaid Insurance	(2,427)	(1,580)
Increase (decrease) in:		
Accounts Payable	8,023	(9,284)
Payroll Taxes Payable		(1,453)
Income Tax Payable	(2,438)	861
Assessments Received in Advance	69,741	69,088
	<u>93,549</u>	<u>135,864</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
NET CASH PROVIDED BY INVESTING ACTIVITIES		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
<b>NET INCREASE (DECREASE) IN CASH</b>	93,549	135,864
CASH AT BEGINNING OF YEAR	<u>516,125</u>	<u>380,261</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$609,674</u></u>	<u><u>\$516,125</u></u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$0	\$0
Income Tax Paid	2,438	6,577

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Notes to Financial Statements  
December 31, 2008

**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 2008 and \$371.00 for 2007. 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, 2008

**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. 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.

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.