

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2010 and 2009**

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

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281-744-5968  
KMCPA19627@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, 2010 and 2009, 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, 2010 and 2009, 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  
June 1, 2011

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Balance Sheets  
December 31, 2010 and 2009

<b>ASSETS</b>	<u>2010</u>	<u>2009</u>
Cash, Including Interest Bearing Deposits	\$614,507	\$456,123
Assessments Receivable	50,467	53,262
Collection and Legal Fees Receivable	58,026	41,989
Allowance for Uncollectible Accounts	(50,000)	(15,000)
Prepaid Insurance	14,518	17,891
<b>TOTAL ASSETS</b>	<u>\$687,518</u>	<u>\$554,265</u>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
 <b>LIABILITIES</b>		
Accounts Payable	\$4,361	\$5,100
Assessments Received in Advance	173,875	151,746
<b>TOTAL LIABILITIES</b>	178,236	156,846
<b>MEMBERS' EQUITY</b>	<u>509,282</u>	<u>397,419</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u>\$687,518</u>	<u>\$554,265</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, 2010 and 2009

<b>REVENUES</b>	<u>2010</u>	<u>2009</u>
Member Assessments	\$784,000	\$784,000
Collection and Legal Fees	33,929	22,731
Transfer and Refinance Fees	5,200	11,650
Interest Income	69	599
Sales Tax Refund	36,882	2,840
Club Dues	24,360	26,044
Club Social Hall Rental	22,397	14,662
Club Snack Bar Income	10,322	7,628
Club Apartment Rent		3,200
Tennis Court Fees	5,200	3,600
<b>TOTAL REVENUES</b>	<u>922,359</u>	<u>876,954</u>
 <b>EXPENSES</b>		
Club / Recreation Center (Schedule 1)	357,031	567,665
Maintenance and Services (Schedule 2)	303,425	319,379
General and Administrative (Schedule 3)	150,040	140,583
<b>TOTAL EXPENSES</b>	<u>810,496</u>	<u>1,027,627</u>
<b>Excess/(Deficiency) of Revenues Over Expenses</b>	111,863	(150,673)
Members' Equity - Beginning of Year	397,419	548,092
<b>MEMBERS' EQUITY - END OF YEAR</b>	<u><u>\$509,282</u></u>	<u><u>\$397,419</u></u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Schedules of Expenses  
Years Ended December 31, 2010 and 2009

<b>Schedule 1</b>	<b>2010</b>	<b>2009</b>
<b>Club / Recreation Center</b>	<hr/>	<hr/>
Cable TV	\$1,853	\$1,892
Clubhouse and Grounds	93,800	65,304
Electric	41,182	44,587
Fitness Center Operations and Maintenance	2,543	11,088
Gas	399	543
Insurance (Property and Liability)	33,182	30,649
Payroll	42,181	45,231
Pool Operations and Maintenance	91,269	93,140
Snack Bar Purchases	6,364	6,342
Social Activities	8,210	15,030
Swim Team Equipment	11,498	2,407
Telephone	5,553	4,588
Tennis Court Operations and Maintenance	11,138	4,760
Tennis Court Refurbishment		232,531
Water	7,859	9,573
	<hr/>	<hr/>
	357,031	567,665

See accountant's report.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**

Schedules of Expenses

Years Ended December 31, 2010 and 2009

<b>Schedule 2</b>	<b>2010</b>	<b>2009</b>
<b>Common Area Maintenance / Services</b>		
Electric and Street Lights	\$4,603	\$3,719
Entrances		7,054
Landscape and Grounds	67,260	68,757
Mosquito Fogging	14,700	7,122
Security Patrol	211,011	227,578
Water and Sewer	5,851	5,149
	<u>303,425</u>	<u>319,379</u>

**Schedule 3**  
**General and Administrative**

Accounting and Audit	4,100	4,000
Bad Debts	43,116	14,146
Bank Charges	1,120	1,072
Collection Fees	6,307	11,967
Community Management	48,112	46,935
Insurance (Directors and Officers)	14,183	19,560
Legal Collections	23,295	22,908
Legal Deed Restrictions	4,879	5,548
Legal Other	2,018	2,246
Miscellaneous	519	2,353
Postage and Office	1,585	1,045
Property Taxes	7	7
Tax Exempt Professional Fee	799	8,796
	<u>150,040</u>	<u>140,583</u>

See accountant's report.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Statements of Cash Flow  
Years Ended December 31, 2010 and 2009  
Increase/(Decrease) in Cash

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess (Deficiency) of Revenues Over Expenses	\$111,863	(\$150,673)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:		
(Increase) decrease in:		
Assessments Receivable	(13,242)	(8,804)
Prepaid Insurance	3,373	(4,174)
Increase (decrease) in:		
Accounts Payable	(739)	(5,337)
Allowance for Uncollectible Accounts	35,000	5,500
Assessments Received in Advance	22,129	9,937
	<u>158,384</u>	<u>(153,551)</u>
<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		
	<u>158,384</u>	<u>(153,551)</u>
<b>CASH AT BEGINNING OF YEAR</b>	<u>456,123</u>	<u>609,674</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$614,507</u></u>	<u><u>\$456,123</u></u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$0	\$0
Income Tax Paid	\$0	\$0

See accompanying notes to financial statements.



**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Notes to Financial Statements  
December 31, 2010

**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 2010 and 2009. 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.

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.

**MEMORIAL NORTHWEST  
HOMEOWNERS ASSOCIATION**  
Notes to Financial Statements  
December 31, 2010

**NOTE 1 - THE ASSOCIATION AND ITS SIGNIFICANT ACCOUNTING POLICIES**

Major Repairs and Replacements

The Association assumed responsibility for the previously mentioned recreation facilities effective January 28, 2005. The Association's other preexisting 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 \$175,000 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 2006, the Association first evaluated long term Association needs and developed options to refurbish, rebuild or construct a new recreational facility. The long term planning committee brought forward options to the Association board in early 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 decided to pursue a phased approach option. As an interim step, in 2009 the Association replaced two tennis courts whose foundations could not be repaired and made other renovations to the tennis area for a total cost of about \$233,000. These repairs were funded from cash reserves.

In 2010, the Association board appointed a new Long Term Planning Committee to again evaluate options to refurbish or rebuild the recreational facilities. The Long Term Planning Committee developed a comprehensive plan and engaged an architectural firm who is completing a conceptual design. The Association 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.