

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**

**FINANCIAL STATEMENTS
December 31, 2013**

(With Independent Auditor's Report Thereon)

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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, 2013, and the related statements of revenues and 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, 2013, 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.

Keith F. McKenna, P.C.

Spring, Texas
May 19, 2014

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Balance Sheet
December 31, 2013

Assets

Cash and cash equivalents		\$694,002
Receivables:		
Member assessments	61,868	
Collection and legal fees	68,479	
Less: Allowance for uncollectible accounts	<u>(93,000)</u>	
Net receivables		37,347
Prepaid insurance		14,037
Property and equipment:		
Community center	848,905	
Furniture and fixtures	36,122	
Less: Accumulated depreciation	<u>(11,840)</u>	
Net property and equipment		<u>873,187</u>
Total Assets		<u><u>\$1,618,573</u></u>

Liabilities and Member's Equity

Liabilities

Accounts payable	\$16,500
Assessments received in advance	219,990
Loan payable	<u>495,605</u>
Total Liabilities	732,095
Members' Equity	<u>886,478</u>
Total Liabilities and Members' Equity	<u><u>\$1,618,573</u></u>

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Statement of Revenues and Expenses
and Changes in Members' Equity
Year Ended December 31, 2013

Revenues

Member assessments	\$861,520
Collection and legal fees	54,012
Club dues	23,146
Tennis court fees	6,900
Transfer and refinance fees	6,537
Community center rentals	3,400
Other revenue	662
Interest income	15

Total Revenues 956,192

Expenses

Club / recreation center	266,109
Common area maintenance / services	294,379
General and administrative	137,567

Total Expenses 698,055

**Excess/(Deficiency) of
Revenues Over Expenses** 258,137

Members' Equity - Beginning of Year 628,341

Members' Equity - End of Year \$886,478

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Statement of Cash Flows
Year Ended December 31, 2013
Increase/(Decrease) in Cash

Cash Flows From Operating Activities

Excess (deficiency) of revenues over expenses	\$258,137
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:	
Depreciation expense	11,840
(Increase) decrease in:	
Assessments and fees receivable	8,800
Prepaid insurance	632
Increase (decrease) in:	
Accounts payable	(2,228)
Allowance for uncollectible accounts	(20,000)
Assessments received in advance	15,898
<i>Net Cash Provided/(Used) By Operating Activities</i>	<u>273,079</u>

Cash Flows From Investing Activities

Community center construction costs	(848,905)
Furniture, fixture and equipment purchases	(36,122)
<i>Net Cash Provided/(Used) By Investing Activities</i>	<u>(885,027)</u>

Cash Flows From Financing Activities

Loan proceeds	495,605
Loan principal repayments	
<i>Net Cash Provided/(Used) By Financing Activities</i>	<u>495,605</u>

Net Increase/(Decrease) in Cash and Cash Equivalents (116,343)

Cash and Cash Equivalents:

Beginning of Year	810,345
End of Year	<u><u>\$694,002</u></u>

SUPPLEMENTAL DISCLOSURES

Interest paid	\$16,751
Income Tax Paid	\$0

See accompanying notes to financial statements.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Notes to Financial Statements
December 31, 2013

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 May 19, 2014, the date the financial statements were available to be issued.

NOTE 3 – Summary of Significant Accounting Policies

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S.GAAP) 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. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the statement of cash flows, 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.

Assessments and fees Receivable – Assessments and fees receivable at the balance sheet date represent amounts due from property owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are six months or more delinquent. Management evaluates the collectability of delinquent accounts based upon the owners' payment history and other factors, and establishes an allowance for uncollectible accounts when collection is considered doubtful.

Assessments Received in Advance – Assessments received in advance of the year due are classified as a liability (deferred revenue) on the balance sheet.

Property and Equipment - Real property and common areas consist primarily of pool, tennis courts, community center and landscape. The community center was constructed in 2013 and is being depreciated over an estimated useful life of thirty years using the straight line method of depreciation.

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.

NOTE 4 – Concentration of Credit Risk

The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2013, the Association's had balances in excess of insured limits totaling \$112,512. The Association has not experienced any losses in such accounts.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Notes to Financial Statements
December 31, 2013

NOTE 5 – Federal and State Taxes

The Association is exempt from federal income tax under Internal Revenue Code Section 501 (c) (4). Form 990-Return of Organization Exempt From Income Tax is required to be filed annually.

The Association is also exempt from state franchise tax and state and local sales tax on purchases in connection with its exempt purpose.

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 tax returns for 2010, 2011, and 2012 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 formal 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 formal plan to fund those needs; therefore, when funds are required for major repairs and replacements, the Association may, subject to member approval, 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.

Note 7 – Loan Payable

The Association obtained a loan to partially fund construction of the community center. The loan is payable interest only for the first nine months at 5.5%. Beginning January 2014, the loan is payable in monthly installments of \$5,990.16 including interest at 5.5%. The loan is secured by a deed of trust on 9.841 acres of land on which the community center is located and security interest on general assessments and special assessments (the "Assessments") to be paid by all owners of the lots located in Memorial Northwest. The loan matures December 22, 2023. Principal maturities of the loan are as follows:

2014	\$29,331
2015	46,057
2016	45,714
2017	48,018
2018	50,726
Thereafter	<u>275,759</u>
	\$495,605
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**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Schedules of Expenses
Year Ended December 31, 2013

Club / Recreation Center

Pool Operations and Maintenance	\$49,196
Swim Team	1,500
Grounds and General Maintenance	55,596
Depreciation - community center	11,840
Fitness Center Operations	6,649
Tennis Court Operations / Maintenance	14,432
Security	7,390
Payroll	38,923
Insurance (Property and Liability)	36,635
Maintenance Supplies	7,128
Electric	24,920
Water	8,543
Telephone	2,256
Social Activities	665
Cable TV	436
	<hr/>
	266,109

See accountant's report.

**MEMORIAL NORTHWEST
HOMEOWNERS ASSOCIATION**
Schedules of Expenses
Year Ended December 31, 2013

Common Area Maintenance / Services

Electric and Street Lights	\$2,583
Landscape and Grounds	56,909
Mosquito Fogging	9,630
Security Patrol	219,669
Water and Sewer	5,588
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	294,379

General and Administrative

Accounting and Audit	4,980
Bank Charges	515
Collection Fees	9,482
Community Management	48,447
Insurance (Directors and Officers)	9,425
Legal Collections	34,156
Legal Deed Restrictions	6,270
Legal Other	2,198
Loan interest	16,751
Miscellaneous	999
Postage and Office	2,256
Website	2,088
	<hr/>
	137,567

See accountant's report.

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

281-744-5968
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May 19, 2014

To the Board of Directors
Memorial Northwest
Homeowners Association

We have audited the Association's financial statements for the year ended December 31, 2013, and have issued our report thereon dated May 19, 2014. 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 May 9, 2014. 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 2013. 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. Significant estimates used in preparing the accompanying financial statements include the useful lives of fixed assets for the purpose of determining depreciation and the allowance for uncollectible accounts for the purpose of determining bad debts. It is at least reasonably possible that the estimates used will change within the next year.

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

Community Center Fixed Asset and Loan Recording

Construction costs and the associated loan funding of \$463,701.00 were not recorded on the Association's books. We have provided adjusting entries to record the transactions.

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 May 19, 2014.

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.

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,



Kevin F. McKenna, P.C.