

FINANCIAL STATEMENTS

**BELLE MEADE HOME OWNERS  
ASSOCIATION, INC.**

Years Ended December 31, 2005 and 2004  
with Independent Auditors' Report

FLYNN & COMPANY, INC.  
*Certified Public Accountants*

Belle Meade Home Owners  
Association, Inc.

Financial Statements and  
Other Financial Information

Years Ended December 31, 2005 and 2004

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## Independent Auditors' Report

The Board of Trustees  
Belle Meade Home Owners Association, Inc.

We have audited the accompanying balance sheets of Belle Meade Home Owners Association, Inc., as of December 31, 2005 and 2004, and the related statements of revenues, expenses and changes in fund balance 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 the 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 Belle Meade Home Owners Association, Inc., as of December 31, 2005 and 2004, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

*Flynn & Company, Inc.*

May 30, 2006

**Belle Meade Home Owners Association, Inc.**  
**Balance Sheets**  
**December 31, 2005 and 2004**

	2005			2004
	Replacement Fund	Operating Fund	Total	Total
<b>Assets</b>				
Current Assets				
Cash	\$ 18,060	\$ 8,367	\$ 26,427	\$ 34,338
Certificate of deposit	<u>104,348</u>	<u>-</u>	<u>104,348</u>	<u>101,264</u>
Total Current Assets	122,408	8,367	130,775	135,602
Furniture, less \$2,069 of depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	\$ <u>122,408</u>	\$ <u>8,367</u>	\$ <u>130,775</u>	\$ <u>135,602</u>
<b>Liabilities and Fund Balance</b>				
Current Liabilities				
Deferred revenue	\$ -	\$ -	\$ -	\$ 7,294
Accounts payable	<u>-</u>	<u>3,523</u>	<u>3,523</u>	<u>2,412</u>
Total Current Liabilities		3,523	3,523	9,706
Fund Balance	<u>122,408</u>	<u>4,844</u>	<u>127,252</u>	<u>125,896</u>
Total Liabilities and Fund Balance	\$ <u>122,408</u>	\$ <u>8,367</u>	\$ <u>130,775</u>	\$ <u>135,602</u>

See Accompanying Notes

**Belle Meade Home Owners Association, Inc.**  
**Statements of Revenues, Expenses and Changes in Fund Balance**  
**Years Ended December 31, 2005 and 2004**

	2005		2004	
	Replacement Fund	Operating Fund	Total	Total
<b>Revenues</b>				
Homeowners assessments	\$ -	\$ 85,085	\$ 85,085	\$ 85,085
Interest income	3,194	-	3,194	3,858
Other income	-	<u>985</u>	<u>985</u>	<u>675</u>
Total Income	3,194	86,070	89,264	89,618
<b>Expenses</b>				
Maintenance and supplies:				
Landscaping	-	31,274	31,274	28,721
Building	-	1,987	1,987	1,015
Pool	-	13,413	13,413	12,898
Lake	-	2,803	2,803	2,791
Utilities	-	9,463	9,463	6,787
General insurance	-	2,320	2,320	4,596
Legal and audit	-	1,650	1,650	1,650
Postage, printing and supplies	-	660	660	653
Water and sewer	-	1,373	1,373	1,630
Federal and state income tax	-	1,540	1,540	954
Special project	-	21,340	21,340	15,889
Miscellaneous	-	<u>85</u>	<u>85</u>	<u>97</u>
Total Expenses	-	<u>87,908</u>	<u>87,908</u>	<u>77,681</u>
Net excess (deficit) of revenues over expenses	3,194	(1,838)	1,356	11,937
<b>Fund Balance (Deficit)</b>				
Beginning of year	134,214	(8,318)	125,896	113,959
Interfund transfer	<u>(15,000)</u>	<u>15,000</u>	-	-
End of year	\$ <u>122,408</u>	\$ <u>4,844</u>	\$ <u>127,252</u>	\$ <u>125,896</u>

See Accompanying Notes

**Belle Meade Home Owners Association, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2005 and 2004**

		2005		2004
	Replacement Fund	Operating Fund	Total	Total
<b>Cash Flows from Operating Activities</b>				
Net excess (deficit) of revenues over expenses	\$ 3,194	\$ (1,838)	\$ 1,356	\$ 11,937
Changes in current liabilities:				
Adjustment for deferred revenue	-	(7,294)	(7,294)	-
Increase(decrease) in accounts payable	-	1,111	1,111	(864)
Net cash provided by operating activities	3,194	(8,021)	(4,827)	11,073
Cash beginning of year	134,214	1,388	135,602	124,529
Interfund transfer	(15,000)	15,000	-	-
Cash end of year	\$ 122,408	\$ 8,367	\$ 130,775	\$ 135,602

**Supplemental Disclosure of Cash Flow Information**

Cash paid for income taxes:

2005: \$1,540

2004: \$ 954

See Accompanying Notes

**Belle Meade Home Owners Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

**1. Significant Accounting Policies**

**Organization**

The Association is responsible for the operation and maintenance of the common property of Belle Meade Home Owners Association, Inc. The complex consists of 221 completed homes located in Loveland, Ohio. The Association was incorporated in March 1991 as an Ohio homeowner's corporation. The accompanying financial statements have been prepared on the accrual basis of accounting.

**Fund Accounting**

The Association's documents provide certain guidelines governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

*Operating Fund*

This fund is used to account for financial resources available for the general operations of the Association.

*Replacement Fund*

This fund is used to accumulate financial resources designated for future major repairs and replacements.

**Member Assessments**

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. The annual per unit assessment was \$385 in 2005 and 2004. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are sixty days or more delinquent. The Association retains excess assessments for future use.

**Belle Meade Home Owners Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

**Cash and Cash Equivalents**

For purposes of presenting the statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Property and Equipment**

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. At December 31, 2005 and 2004, property not capitalized consists of a monument, pier, fencing, sprinkler system, gazebo, lake, parking area, pool and pool house. According to the Association's governing documents, two-thirds of all lot owners must approve disposition of any common real property. Property and equipment acquired by the Association are recorded at cost. Equipment on hand at December 31, 2005 and 2004 consists of pool furniture. Depreciation expense is computed on a straight-line basis over the useful lives of the assets. Maintenance repairs and minor renewals of properties are charged to expense as incurred. All assets are fully depreciated.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Belle Meade Home Owners Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2005 and 2004**

**2. Federal Income Tax**

The Association provides for federal income tax in accordance with rules applicable to corporations under Section 528 (Homeowners' Association Taxation) of the Internal Revenue Code. Section 528 exempts net income arising from defined exempt function activities; however, it does assess federal income tax on income derived from nonexempt function activities. Exempt function income essentially consists of amounts received from the Association's members solely as a function of their membership in the Association. Nonexempt function income results primarily from revenue from nonmembers and investment income. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular corporate rates. The Association elects to be taxed under Section 528 if the tax is less than the tax computed as a regular corporation, and all Section 528 qualifications have been met. For the year ended December 31, 2005 and 2004, the Association elected to be taxed under Section 528.

**3. Future Major Repairs and Replacements**

The Association's governing documents require funds to be accumulated for major repairs and replacements. Accumulated funds, which were \$122,408 and \$134,214 at December 31, 2005 and 2004, respectively, are generally not available for operating purposes. It is the Association's policy that interest earned on such funds is retained in the Replacement Fund.

The Board of Trustees completed a study in 1998 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association is funding such major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the Replacement Fund. Actual expenditures, however, may vary from the budgeted amounts and variations may be material, therefore, amounts accumulated in the Replacement Fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase the regular assessment or levy special assessments, or it may delay major repairs and replacements until funds are available.

## **OTHER FINANCIAL INFORMATION**

**Belle Meade Home Owners Association, Inc.**  
**Future Major Repairs and Replacements- UNAUDITED**  
**December 31, 2005**

The Board of Trustees completed a study in 1998 to estimate the remaining useful lives and replacement costs of the components of common property. The following table is based on the study:

Components of Reserves	Estimated Years of Life	Estimated Replacement Cost	Estimated Remaining Years of Life	2005 Year-end Reserve Requirement
Monument and pier	30	\$ 10,000	17	\$ 4,333
Lighting and signage	15	3,000	2	2,600
Front monument signs	10	4,500	7	1,350
Fencing	20	10,000	7	6,500
Fence painting	5	2,000	2	1,200
Sprinkler system	25	9,000	12	4,680
Gazebo	30	12,000	17	5,200
Lake fountain	10	6,000	4	3,600
Parking area:				
Sealcoating	6	1,375	0	1,375
Resurfacing	15	6,000	2	5,200
Playground	10	8,000	2	6,400
Pool House:				
Roof	20	5,000	7	3,250
Painting	4	4,500	1	3,375
Tuckpointing/Misc.	15	3,000	2	2,600
Bathroom/Interiors	5	10,000	0	10,000
Pool:				
Fence	20	6,000	7	3,900
Fence painting	4	1,000	1	750
Furniture	5	8,000	0	8,000
Equipment	15	12,500	2	10,833
Chemical/PH Regulators	10	8,000	6	3,200
Painting/Replacement	35	37,500	22	13,929
Concrete	35	13,650	22	5,070
Pool covers	10	4,000	4	2,400
Pool heater	5	3,000	0	3,000
Basketball hoop	10	<u>2,000</u>	4	<u>1,200</u>
Totals		\$ <u>190,025</u>		\$ 113,945
Replacement Fund Balance				<u>(122,408)</u>
Replacement Fund Deficiency				\$ <u>(8,463)</u>