

FINANCIAL STATEMENTS

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

Years Ended December 31, 2006 and 2005
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, 2006 and 2005

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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, 2006 and 2005, 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, 2006 and 2005, 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 10, 2007

Belle Meade Home Owners Association, Inc.
Balance Sheets
December 31, 2006 and 2005

	2006			2005
	Replacement Fund	Operating Fund	Total	Total
Assets				
Current Assets				
Cash	\$ 24,288	\$ 4,069	\$ 28,357	\$ 26,427
Certificate of deposit	<u>101,827</u>	<u>-</u>	<u>101,827</u>	<u>104,348</u>
Total Current Assets	126,115	4,069	130,184	130,775
Furniture, less \$2,069 of depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	\$ <u><u>126,115</u></u>	\$ <u><u>4,069</u></u>	\$ <u><u>130,184</u></u>	\$ <u><u>130,775</u></u>
Liabilities and Fund Balance				
Current Liabilities				
Deferred revenue	\$ -	\$ -	\$ -	\$ -
Accounts payable	<u>-</u>	<u>19,347</u>	<u>19,347</u>	<u>3,523</u>
Total Current Liabilities	-	-	-	3,523
Fund Balance	<u>126,115</u>	<u>(15,278)</u>	<u>110,837</u>	<u>127,252</u>
Total Liabilities and Fund Balance	\$ <u><u>126,115</u></u>	\$ <u><u>4,069</u></u>	\$ <u><u>130,184</u></u>	\$ <u><u>130,775</u></u>

See Accompanying Notes

Belle Meade Home Owners Association, Inc.
Statements of Revenues, Expenses and Changes in Fund Balance
Years Ended December 31, 2006 and 2005

	2006			2005
	Replacement Fund	Operating Fund	Total	Total
Revenues				
Homeowners assessments	\$ -	\$ 85,085	\$ 85,085	\$ 85,085
Interest income	3,707	-	3,707	3,194
Other income	<u>-</u>	<u>5,627</u>	<u>5,627</u>	<u>985</u>
Total Income	3,707	90,712	94,419	89,264
 Expenses				
Maintenance and supplies:				
Landscaping	-	32,516	32,516	31,274
Building	-	4,458	4,458	1,987
Pool	-	10,564	10,564	13,413
Lake	-	2,786	2,786	2,803
Utilities	-	10,382	10,382	9,463
General insurance	-	4,670	4,670	2,320
Professional fees	-	5,950	5,950	1,650
Postage, printing and supplies	-	342	342	660
Water and sewer	-	1,829	1,829	1,373
Federal and state income tax	-	1,306	1,306	1,540
Special project	-	35,585	35,585	21,340
Miscellaneous	<u>-</u>	<u>446</u>	<u>446</u>	<u>85</u>
Total Expenses	<u>-</u>	<u>110,834</u>	<u>110,834</u>	<u>87,908</u>
 Net excess (deficit) of revenues over expenses	 3,707	 (20,122)	 (16,415)	 1,356
 Fund Balance (Deficit)				
Beginning of year	<u>122,408</u>	<u>4,844</u>	<u>127,252</u>	<u>125,896</u>
End of year	\$ <u>126,115</u>	\$ <u>(15,278)</u>	\$ <u>110,837</u>	\$ <u>127,252</u>

See Accompanying Notes

Belle Meade Home Owners Association, Inc.
Statements of Cash Flows
Years Ended December 31, 2006 and 2005

	2006			2005
	Replacement Fund	Operating Fund	Total	Total
Cash Flows from Operating Activities				
Net excess (deficit) of revenues over expenses	\$ 3,707	\$ (20,122)	\$ (16,415)	\$ 1,356
Changes in current liabilities:				
Adjustment for deferred revenue	-	-	-	(7,294)
Increase(decrease) in accounts payable	<u>-</u>	<u>15,824</u>	<u>15,824</u>	<u>1,111</u>
Net cash provided by (used in) operating activities	3,707	(4,298)	(591)	(4,827)
Cash beginning of year	122,408	8,367	130,775	135,602
Interfund transfer	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash end of year	<u>\$ 126,115</u>	<u>\$ 4,069</u>	<u>\$ 130,184</u>	<u>\$ 130,775</u>

Supplemental Disclosure of Cash Flow Information

Cash paid for income taxes:

2006: \$1,306

2005: \$1,540

See Accompanying Notes

Belle Meade Home Owners Association, Inc.
Notes to Financial Statements
December 31, 2006 and 2005

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 2006 and 2005. 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, 2006 and 2005

Cash and Cash Equivalents

For purposes of presenting the statements of cash flows, the Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Association maintains its cash in bank deposit accounts, which, at times, may exceed federally-insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and 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, 2006 and 2005, 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, 2006 and 2005 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, 2006 and 2005

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, 2006 and 2005, 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 \$126,115 and \$122,408 at December 31, 2006 and 2005, 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, 2006

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:

<u>Components of Reserves</u>	<u>Estimated Years of Life</u>	<u>Estimated Replacement Cost</u>	<u>Estimated Remaining Years of Life</u>	<u>2006 Year-end Reserve Requirement</u>
Monument and pier	15	\$ 9,000	15	\$ 0
Lighting and signage	15	3,300	1	3,080
Front monument signs	10	4,950	6	1,980
Fencing	20	11,000	6	7,700
Fence painting	3	2,200	2	733
Sprinkler system	25	2,500	11	1,400
Gazebo	30	20,000	29	667
Lake fountain	10	6,600	3	4,620
Parking area:				
Sealcoating	3	2,100	2	700
Resurfacing	15	6,600	1	6,160
Playground	10	8,800	1	7,920
Pool House:				
Roof	20	5,500	6	3,850
Painting	4	4,950	3	1,238
Tuckpointing/Misc.	15	3,300	15	0
Bathroom/Interiors	8	11,000	7	7,000
Pool:				
Fence	20	6,600	6	4,620
Fence painting	3	1,100	2	367
Furniture	7	8,800	1	7,543
Equipment	15	6,700	11	2,398
Chemical/PH Regulators	10	7,000	5	3,500
Painting/Replacement	15	26,500	15	3,267
Concrete	35	20,000	21	8,000
Pool covers	10	4,400	3	3,080
Pool heater	5	5,000	4	1,000
Basketball hoop	10	2,200	3	1,540
HOA owned sidewalk	35	4,000	21	1,600
Pool gazebo roof	15	<u>5,000</u>	9	<u>2,000</u>
Totals		\$ <u>199,100</u>		\$ 85,963
Replacement Fund Balance				<u>(126,115)</u>
Replacement Fund Deficiency				\$ <u>(40,152)</u>