

Mooreland Estates Homeowners Association, Inc.

**REPORT TO THE BOARD OF DIRECTORS
RESULTS OF DECEMBER 31, 2006 AUDIT**

June 28, 2007

To the Board of Directors
Mooreland Estates Homeowners Association, Inc.

I am pleased to provide you with the results of my audit of the financial statements of Mooreland Estates Homeowners Association, Inc. for the year ended December 31, 2006.

A direct line of communication between my firm, management and the Board of Directors is essential to the exercise of our respective responsibilities. My appointment involves a responsibility on my part to call to your attention any significant matters I believe require your consideration.

The accompanying report is intended solely for the use of management and the Board of Directors and presents information regarding our audit and certain other information I believe will be of assistance to you.

Sincerely,

Signed Copy on File with Management

Larry F. Bishop, CPA

Mooreland Estates Homeowners Association, Inc.

Responsibilities

Generally Accepted Auditing Standards

My audit of the financial statements of Mooreland Estates Homeowners Association, Inc. for year ended December 31, 2006 was conducted in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. 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. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. I believe that my audit accomplished that objective.

Scope of Audit

I planned my audit after performing an analysis of what I perceived to be the major audit and business risks associated with Mooreland Estates Homeowners Association, Inc. I developed my analysis based upon my knowledge of Mooreland Estates Homeowners Association, Inc., review of interim financial data and discussions with key members of management.

Mooreland Estates Homeowners Association, Inc.

Internal Control

In planning and performing my audit considered Mooreland Estates Homeowners Association, Inc.'s internal control structure to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. I advised management about the appropriateness of these policies and their application. Significant accounting policies used by Mooreland Estates Homeowners Association, Inc. are described in Note 1 to the financial statements. No new policies were adopted and the application of existing policies were not changed.

Management Judgements and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgement. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed me that they used all the relevant facts available to them at the time to make the best Judgments about accounting estimates, and I considered this information in the scope of my audit.

Mooreland Estates Homeowners Association, Inc.

Items of Concern Noted While Performing the Audit

In early 2006, four units at Mooreland Estates suffered a total loss in a fire. These units were covered by insurance, and the Association received the first check from the insurance company in the amount of \$412,766.00. This money was deposited into a separate bank account at Tennessee Commerce Bank. The account has a balance of \$363,038.47 at December 31, 2006. This account is being used only for the replacement of these units, and is not included in cash reported on the Balance Sheet at December 31, 2006. In 2006, demolition and other preliminary costs were paid for from this account, totaling \$60,801.43. Interest of \$11,073.90 was earned and added to this bank account in 2006. At December 31, 2006, reconstruction of these units had not been started. A contract to rebuild these units was entered into with Restoration Solutions, Inc. in May, 2007. The amount of the contract is \$689,696.53. Management believes the insurance will cover the costs that remain.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
MOORELAND ESTATES
HOMEOWNERS ASSOCIATION, INC.**

DECEMBER 31, 2006

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LARRY F. BISHOP, C.P.A.
Certified Public Accountant

3971 River Ridge Drive
Lewisburg, TN. 37091
(615) 371-1671

Board of Directors
Mooreland Estates Homeowners Association, Inc.
Brentwood, Tennessee

Independent Auditor's Report

I have audited the accompanying balance sheet of Mooreland Estates Homeowners Association, Inc. as of December 31, 2006, and the related statements of revenues, expenses, and changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mooreland Estates Homeowners Association, Inc. as of December 31, 2006, 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.

As discussed in Note D, the Association has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented the estimates of future costs of major repairs and replacements that will be required in the future that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of the basic financial statements.

"Signed Copy on file with management"

Larry F. Bishop, CPA
June 28, 2007

MOORELAND ESTATES HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET
December 31, 2006

ASSETS

Current Assets:	16,571.58
Cash - operations	

Reserve, replacement and unrestricted accounts.	<u>124,925.27</u>
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141,496.85

LIABILITIES AND MEMBERS' EQUITY

Current liabilities:	<u>0.00</u>
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Members' equity:	<u>141,496.85</u>
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Total members' equity	<u>141,496.85</u>
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See independent auditor's report and notes

MOORELAND ESTATES HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN MEMBERS' EQUITY
For The Year Ended December 31, 2006

Revenues:		
	Maintenance Fees and Assessments	413,490.33
	Interest Income	3366.60
	Late charges	5,443.00
	Clubhouse rent and renovation	2,790.58
	Other income	<u>4,838.50</u>
	Total Revenue	<u>429,929.01</u>
Expenses:		
	Utilities and Trash Removal	126,712.46
	Pest Control	1,416.00
	Repairs and Maintenance	68,679.66
	Lawn Care	29,646.00
	Landscaping	4,476.15
	Office Expenses	5,195.79
	Management Fee	23,787.00
	Legal and Professional	4,895.57
	Insurance	38,024.00
	Pool Expense	16,511.35
	Miscellaneous	<u>11,850.77</u>
	Total Operating Expenses	<u>331,194.75</u>
	Excess Revenues Over Expenses from Operations	<u>98,734.26</u>
Reserve Expenses:		
	Roofs	59,220.00
	Painting	<u>77,903.91</u>
	Total Reserve Expenses	<u>137,123.91</u>
	Net Expenses over Revenue	(38,389.65)
	Members' Equity at Beginning of Year	<u>179,886.50</u>
	Members' Equity at End of Year	<u>141,496.85</u>

See independent auditor's report and notes

MOORELAND ESTATES HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2006

Net Cash flows from operating activities:

Net expenses over revenue	<u>-38,389.65</u>
Net increase (decrease) in cash from operating activities	<u>-38,389.65</u>

Cash flows from investing activities:

Transfers to reserve and replacement account	<u>-93,366.60</u>
Net cash used for investing activities	<u>-93,366.60</u>
Net increase (decrease) in cash	-131,756.25
Cash - beginning of period	<u>148,327.83</u>
Cash - end of period	<u>16,571.58</u>

See auditor's report and notes

MOORELAND ESTATES HOMEOWNERS ASSOCIATION, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Note A – Organization:

Mooreland Estates Homeowners Association, Inc. was incorporated in the State of Tennessee. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 149 residential units in Williamson County, Tennessee.

The Association has exemption from federal income tax under the provisions of Section 528 of the Internal Revenue Code. Only income other than exempt function income is subject to federal income tax, and this income is subject to related deductions before computing the tax.

A Board of Directors elected and/or appointed in accordance with the by-laws governs the Association. Actual day-to-day operations are contracted with an independent management company, who handles all collections, disbursements, bookkeeping, maintenance and repairs, and other management duties.

Note B – Summary of Significant Accounting Policies:

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents are defined as demand deposit in the operating account at banks.

Maintenance Fees and Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisition, and major repairs and replacements. Special assessments may be made in accordance with the provisions as set forth in the by-laws, if any, for funding of major repairs and replacements. Legal counsel may be employed to help in the collection of delinquent accounts. Any excess fees/assessments at year-end are retained by the Association for use in future years. A special assessment of \$800.00 per unit was made in 2005 to apply to the Capital Budget. Through December 31, 2006, 116,708.02 has been collected.

MOORELAND ESTATES HOMEOWNERS ASSOCIATION, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

Note C – Uninsured Cash Balances:

The Association maintains the following bank accounts:

Checking Account, Tennessee Commerce Bank	16,571.58
Money Market, Tennessee Commerce Bank	<u>124,925.27</u>
	<u>141,496.85</u>

The Federal Deposit Insurance Corporation insures these accounts up to \$100,000.00 at each bank.

Note D – Future Repairs and Replacements:

The Association has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect of future assessments has not been determined at this time.

Though the Association has not conducted the above mentioned study, the Association does maintain a five year capital plan and that plan is reviewed and updated each year by a committee of members. The Association funds the next year's capital budget during the present year. By doing so, the entire capital budget is available at the beginning of the year. The capital budget for the year January through December 2006 was \$122,700.00.

Note E – Reserve Account Transactions:

Beginning balance, January 1, 2006	31,558.67
Transfers in	<u>93,366.60</u>
Ending balance, December 31, 2006	<u>124,925.27</u>

MOORELAND ESTATES HOMEOWNERS ASSOCIATION, INC.
NOTES TO AUDITED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE F – CONTINGENT LIABILITIES

In early 2006, four units at Mooreland Estates suffered a total loss in a fire. These units were covered by insurance, and the Association received the first check from the insurance company in the amount of \$412,766.00. This money was deposited into a separate bank account at Tennessee Commerce Bank. The account has a balance of \$363,038.47 at December 31, 2006. This account is being used only for the replacement of these units and is not included in cash reported on the Balance Sheet at December 31, 2006. In 2006, demolition and other preliminary costs were paid for from this account, totaling \$60,801.43. Interest of \$11,073.90 was earned and added to this bank account in 2006. At December 31, 2006, reconstruction of these four units had not been started. A contract to rebuild these units was entered into with Restoration Solutions, Inc. in May, 2007. The amount of the contract is \$689,696.53. Management believes the insurance will cover the costs that remain.