

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008 AND 2007**

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# Silva & Associates, LLC

Certified Public Accountants

Brent A. Silva, CPA  
Kenneth J. Abney, CPA, MS Acct-Tax

Craig A. Silva, CPA  
Thomas A. Gurtner, CPA

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members  
Beau Chene Homeowners Association, Inc.  
Mandeville, Louisiana

We have audited the accompanying balance sheets of Beau Chene Homeowners Association, Inc. (the "Association") as of December 31, 2008 and 2007 and the related statements of revenues, 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 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 Beau Chene Homeowners Association, Inc. at December 31, 2008 and 2007, 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The comparison of operations – actual to budget for 2008 in Schedule I and details of major operational expenses for 2008 in Schedule II are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the 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 taken as a whole.

The supplementary information on future major repairs and replacements in Schedule III is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Silva & Associates, LLC*

March 18, 2009

4330 Dumaine Street  
New Orleans, LA 70119  
Phone: (504) 833-2436  
Fax: (504) 484-0807

[www.silva-cpa.com](http://www.silva-cpa.com)

4565 Lasalle St., Ste 300  
Mandeville, LA 70471  
Phone: (985) 626-8299  
Fax: (985) 626-9767

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2008 AND 2007**

|   | 2008         | 2007         |
|---|--------------|--------------|
| <b>ASSETS</b>   |              |              |
| <b>Current Assets</b>   |              |              |
| Cash and cash equivalents   | \$ 1,031,479 | \$ 865,311   |
| Dues, assessments, and other receivables, net   | 80,016       | 64,267       |
| Investments   | 200,000      | 200,000      |
| Prepaid expenses and deposits   | 51,814       | 45,756       |
| <b>Total Current Assets</b>   | 1,363,309    | 1,175,334    |
| Construction in progress  | 817,051      | 806,772      |
| Property, plant, and equipment, net of accumulated<br>depreciation of \$303,376 and \$260,208, respectively | 710,918      | 754,086      |
| <b>Total Assets</b>   | \$ 2,891,278 | \$ 2,736,192 |
| <b>LIABILITIES AND MEMBERS' EQUITY</b>  |              |              |
| <b>Current Liabilities</b>  |              |              |
| Accounts payable  | \$ 170,424   | \$ 116,476   |
| Due to affiliated entity  | 50,952       | 45,775       |
| Unearned dues   | 55,061       | 77,306       |
| Deposits  | 33,200       | 39,200       |
| <b>Total Current Liabilities</b>  | 309,637      | 278,757      |
| <b>Members' Equity</b>  |              |              |
| Designated for property, plant, and equipment   | 710,918      | 754,086      |
| Designated for future major repairs and replacements  | 1,870,723    | 1,703,349    |
| <b>Total Members' Equity</b>  | 2,581,641    | 2,457,435    |
| <b>Total Liabilities and Members' Equity</b>  | \$ 2,891,278 | \$ 2,736,192 |

The accompanying notes are an integral part of these statements.

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENTS OF REVENUES, EXPENSES, AND**  
**CHANGES IN MEMBERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

|  | 2008               |                     |                     | 2007                |
|--|--------------------|---------------------|---------------------|---------------------|
|  | Operating<br>Funds | Designated<br>Funds | Total               |                     |
| <b>Revenues</b>  |                    |                     |                     |                     |
| Member dues and assessments  | \$ 2,741,702       | \$ -                | \$ 2,741,702        | \$ 2,728,414        |
| Interest income  | 17,055             | -                   | 17,055              | 34,529              |
| Other  | 13,493             | -                   | 13,493              | 12,951              |
| <b>Total Revenues</b>  | <b>2,772,250</b>   | <b>-</b>            | <b>2,772,250</b>    | <b>2,775,894</b>    |
| <b>Expenses</b>  |                    |                     |                     |                     |
| Waste water system   | 377,783            | -                   | 377,783             | 376,633             |
| Water system   | 150,300            | -                   | 150,300             | 162,357             |
| Garbage and trash collection   | 462,234            | -                   | 462,234             | 434,921             |
| Grounds maintenance  | 126,063            | -                   | 126,063             | 108,877             |
| Roads and drainage   | 465,805            | -                   | 465,805             | 335,652             |
| Security   | 448,140            | -                   | 448,140             | 458,392             |
| Depreciation   | 43,169             | -                   | 43,169              | 42,757              |
| Hurricane clean-up costs,<br>net of reimbursements                               | 67,559             | -                   | 67,559              | -                   |
| Other operational and general expenses   | 506,991            | -                   | 506,991             | 466,425             |
| <b>Total Expenses</b>  | <b>2,648,044</b>   | <b>-</b>            | <b>2,648,044</b>    | <b>2,386,014</b>    |
| <b>Excess of Revenues<br/>Over Expenses</b>                                      | <b>124,206</b>     | <b>-</b>            | <b>124,206</b>      | <b>389,880</b>      |
| <b>Members' Equity</b>   |                    |                     |                     |                     |
| Beginning of year  | -                  | 2,457,435           | 2,457,435           | 2,067,555           |
| Allocation to designated balance<br>for future major repairs and<br>replacements | (124,206)          | 124,206             | -                   | -                   |
| <b>End of year</b>   | <b>\$ -</b>        | <b>\$ 2,581,641</b> | <b>\$ 2,581,641</b> | <b>\$ 2,457,435</b> |

The accompanying notes are an integral part of these statements.

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

|   | 2008         | 2007       |
|---|--------------|------------|
| Cash Flows From Operating Activities  |              |            |
| Excess of revenues over expenses  | \$ 124,206   | \$ 389,880 |
| Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities: |              |            |
| Depreciation  | 43,169       | 42,757     |
| (Increase)/decrease in assets:  |              |            |
| Dues, assessments, and other receivables  | (15,749)     | (1,915)    |
| Prepaid expenses and deposits   | (6,058)      | (25,516)   |
| Increase/(decrease) in liabilities:   |              |            |
| Accounts payable  | 53,948       | (28,146)   |
| Due to affiliated entity  | 5,177        | 3,171      |
| Unearned dues   | (22,245)     | (91,190)   |
| Deposits  | (6,000)      | 8,800      |
| Net cash provided by operating activities   | 176,448      | 297,841    |
| Cash Flows From Investing Activities  |              |            |
| Construction and purchases of property and equipment  | (10,280)     | (41,707)   |
| Net cash used in investing activities   | (10,280)     | (41,707)   |
| Cash Flows From Financing Activities  | -            | -          |
| Net increase in cash and cash equivalents   | 166,168      | 256,134    |
| Cash and Cash Equivalents   |              |            |
| Beginning of year   | 865,311      | 609,177    |
| End of year   | \$ 1,031,479 | \$ 865,311 |
| Supplemental Disclosure   |              |            |
| Income taxes paid   | \$ 6,525     | \$ 10,912  |

The accompanying notes are an integral part of these statements.

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Organization

Beau Chene Homeowners Association, Inc. (the “Association”) is a non-profit corporation organized to own, operate and maintain the streets, wastewater system, water system, and other community facilities located within the residential community known as “Beau Chene,” in St. Tammany Parish, Louisiana. This community consists of 1,554 residential lots and condominium units, the owners of which constitute the membership of the Association.

Member Dues and Assessments

Association members are subject to monthly dues and other assessments to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. Dues and assessments receivable at the balance sheet date represent amounts due from members. Unearned dues represent amounts paid by members in advance of their due date.

Allowance for Doubtful Accounts and Bad Debts Expense

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. As of December 31, 2008 and 2007, the Association had recorded an allowance for doubtful accounts of \$8,121 and \$6,177, respectively.

Investments

The Association invests in certificates of deposit with local financial institutions. The maturity dates of these investments are generally one year. It is the Association’s intention to hold these investments to maturity.

Property and Equipment

The Association owns the streets, wastewater system, water system, and other community facilities located within the residential community it serves. The initial cost of these assets has been incurred by The Earnest Corporation, the developer of Beau Chene, which transferred them to the Association. In accordance with prevalent industry practice, the Association’s policy is to not record the value of these contributed assets. Expenditures for major repairs and replacements of the common elements of property for which the Association is responsible are charged to operations as they are incurred. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Depreciation is computed based on the straight-line method over the estimated useful lives of all assets of which the water wells and waste water systems were determined to be twenty-five years, and all other assets to be five years (i.e., equipment, diesel storage, gate cameras, etc.).

Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. All cash equivalents, excluding operating balances, earn interest at market rates.

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of 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.

NOTE B – CONCENTRATIONS OF CREDIT RISK

Concentration of Cash on Deposit and Uninsured Cash Balances

The Association has concentrated its credit risk for cash by maintaining deposits in financial institutions within the geographic region of Mandeville, Louisiana that may at times exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC). The maximum loss that would have resulted from that risk totaled \$768,621 and \$623,958 at December 31, 2008 and 2007, respectively, for the excess of the deposit liabilities reported by the banks over the amounts that would have been covered by federal insurance. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

NOTE C – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The by-laws of the Association authorize the Board of Directors to establish, collect, and use member dues for the general operations of the Association and for anticipated major repairs and replacements. The Board of Directors has conducted a study to estimate the cost of an asphalt overlay of the streets of the community. The study consisted of obtaining estimates from licensed contractors who inspected the property. Management has refined these estimates based on past experience with overlay projects. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements (Schedule III) is based on this study, which management believes represents current prices as of December 31, 2008.

Management of the Association has not conducted a study of the estimated useful lives and replacement costs of the streets but believes, based on maintenance experience since 1974, that the streets have an indefinite life if proper maintenance, which includes periodic overlays, is performed. Nor has management conducted a study of the estimated useful lives and replacement costs of the waste water and water systems, since they attempt to maintain these systems in a “like new” condition through routine annual maintenance expenditures included in the annual budget.

Actual expenditures for the street overlay may vary from the estimated future expenditures, and the variations may be material. The cost of asphalt, a primary component of the overlay projects, is based upon the price of crude oil, which is difficult to predict. Therefore, amounts appropriated for this purpose may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board of Directors of the Association may increase dues up to 10% annually or delay major repairs and replacements until funds are available.



**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE D – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at December 31, 2008 and 2007:

|                            | 2008       | 2007       |
|----------------------------|------------|------------|
| Water wells                | \$ 590,037 | \$ 590,037 |
| Waste water plant addition | 394,836    | 394,836    |
| Equipment                  | 12,943     | 12,943     |
| Buildings                  | 16,478     | 16,478     |
|                            | 1,014,294  | 1,014,294  |
| Accumulated depreciation   | (303,376)  | (260,208)  |
|                            | \$ 710,918 | \$ 754,086 |

**NOTE E – INCOME TAXES**

The Association is a membership organization, as defined in the Internal Revenue Code. As such, its membership income is exempt from taxation if certain elections are made, and it pays income tax only on its non-membership income such as interest earned and advertising fees. The Association also may elect annually to be taxed as a Homeowners Association. Under that election, it would be taxed only on its nonexempt function income, such as interest earned, at a flat rate of 30%.

**NOTE F – RELATED PARTY TRANSACTIONS**

The Association contracts with The Earnest Corporation (the “Company”), which was the developer of Beau Chene, on an annual basis to provide administrative, management, accounting, maintenance, and other services. The Company charged the Association for contract labor services plus an overhead percentage for payroll taxes and other indirect costs of \$477,942 and \$440,788 for 2008 and 2007, respectively. The Association was also charged \$41,076 and \$41,266, respectively, for equipment rented from the Company, and \$56,128 and \$53,183 respectively, for office rent, telephone usage, and other reimbursable expenses. In addition, the Association pays the Company a monthly fee of \$5,417 for management services provided.

**NOTE G – MARINA BEAU CHENE DEVELOPMENT PROJECT**

On February 4, 2005, the Association and Marina Developers, LLC (the “Developer”) signed a preliminary agreement to develop a maximum of 53 lots in the Marina portion of the Beau Chene subdivision. On March 9, 2006, an amendment was signed changing the number of lots to be developed to 42. As of December 31, 2007, all lots held by Marina Developers, LLC were sold.

**NOTE H – DESIGNATED MEMBERS’ EQUITY**

It is the Association’s policy to designate the excess of revenues over expenses in any year to fund future major repairs and replacements. The Association’s Board of Directors has designated the excess of revenues over expenses for the years ended December 31, 2008 and 2007 for the same purpose. The effects of the appropriation have been reported in the financial statements.

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE I – CONTINGENCIES**

Certain claims, suits, and complaints arising in the ordinary course of operations have been filed or are pending against the Association. In the opinion of management, all such matters are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Association if disposed of unfavorably. Additionally, the Association maintains liability insurance, which would mitigate any exposure it might have in connection with these matters.

**NOTE J – HURRICANES KATRINA AND GUSTAV**

On August 29, 2005, Beau Chene was severely impacted by Hurricane Katrina. For the years ended December 31, 2008 and 2007, the Association has recorded \$50,014 as receivable from FEMA. This amount offsets an equal amount previously recorded on the books for monies owed to the debris removal contractor for contract retention. This receivable was recorded as per management. The contract retention amount will not be owed to the debris removal contractor unless FEMA reimburses the Association for the same amount.

On September 1, 2008, Beau Chene was impacted by Hurricane Gustav. For the year ended December 31, 2008, the Association incurred \$67,559 in costs associated with Hurricane Gustav.

**SUPPLEMENTARY INFORMATION**

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**COMPARISON OF OPERATIONS - ACTUAL TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**  
**SCHEDULE I**

|  | <u>Actual</u>            | <u>Budget</u>           | <u>Over/<br/>(Under)<br/>Budget</u> |
|--|--------------------------|-------------------------|-------------------------------------|
| <b>Revenues</b>                                    |                          |                         |                                     |
| Membership dues and assessments                    | \$ 2,741,702             | \$ 2,725,000            | \$ 16,702                           |
| Interest income                                    | 17,055                   | 35,000                  | (17,945)                            |
| Other  | <u>13,493</u>            | <u>20,550</u>           | <u>(7,057)</u>                      |
| <b>Total revenues</b>                              | <b>2,772,250</b>         | <b>2,780,550</b>        | <b>(8,300)</b>                      |
| <b>Expenses</b>                                    |                          |                         |                                     |
| Waste water system                                 | 377,783                  | 405,735                 | (27,952)                            |
| Water system                                       | 150,300                  | 199,300                 | (49,000)                            |
| Garbage and trash collection                       | 462,234                  | 538,000                 | (75,766)                            |
| Grounds maintenance                                | 126,063                  | 121,848                 | 4,215                               |
| Roads and drainage                                 | 465,805                  | 471,500                 | (5,695)                             |
| Security   | 448,140                  | 458,460                 | (10,320)                            |
| Depreciation                                       | 43,169                   | 37,464                  | 5,705                               |
| Hurricane clean-up costs,<br>net of reimbursements | 67,559                   | -                       | 67,559                              |
| Other operational and general expenses             | <u>506,991</u>           | <u>484,688</u>          | <u>22,303</u>                       |
| <b>Total expenses</b>                              | <b><u>2,648,044</u></b>  | <b><u>2,716,995</u></b> | <b><u>(68,951)</u></b>              |
| <b>Excess of revenues over expenses</b>            | <b><u>\$ 124,206</u></b> | <b><u>\$ 63,555</u></b> | <b><u>\$ 60,651</u></b>             |

See independent auditors' report.

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**DETAILS OF MAJOR OPERATIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**  
**SCHEDULE II**

|  | Waste<br>Water<br>System | Water<br>System   | Garbage<br>and<br>Trash<br>Collection | Grounds<br>Maintenance | Roads and<br>Drainage | Security          | Totals              |
|--|--------------------------|-------------------|---------------------------------------|------------------------|-----------------------|-------------------|---------------------|
| Contract services                                  | \$ 105,865               | \$ 33,411         | \$ 297,291                            | \$ 55,345              | \$ 4,857              | \$ 436,419        | \$ 933,188          |
| Equipment rental                                   | 1,231                    | 666               | -                                     | 41,074                 | 163                   | -                 | 43,134              |
| Maintenance and repairs                            | 145,116                  | 32,891            | -                                     | 12,405                 | 460,785               | 4,007             | 655,204             |
| Water treatment                                    | -                        | 51,314            | -                                     | -                      | -                     | -                 | 51,314              |
| Permit/dump fees                                   | 50,413                   | 4,291             | 164,943                               | -                      | -                     | -                 | 219,647             |
| Signs and mailboxes                                | -                        | -                 | -                                     | 16,007                 | -                     | -                 | 16,007              |
| Utilities  | 75,158                   | 27,727            | -                                     | -                      | -                     | 7,714             | 110,599             |
| Other  | -                        | -                 | -                                     | 1,232                  | -                     | -                 | 1,232               |
|  | <u>\$ 377,783</u>        | <u>\$ 150,300</u> | <u>\$ 462,234</u>                     | <u>\$ 126,063</u>      | <u>\$ 465,805</u>     | <u>\$ 448,140</u> | <u>\$ 2,030,325</u> |
| Depreciation                                       |                          |                   |                                       |                        |                       |                   | 43,169              |
| Hurricane clean-up costs,<br>net of reimbursements |                          |                   |                                       |                        |                       |                   | 67,559              |
| Other operational and<br>general expenses          |                          |                   |                                       |                        |                       |                   | <u>506,991</u>      |
| Total expenses                                     |                          |                   |                                       |                        |                       |                   | <u>\$ 2,648,044</u> |

See independent auditors' report.

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON FUTURE**  
**REPAIRS AND REPLACEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**  
**SCHEDULE III**  
**(UNAUDITED)**

The Board of Directors has conducted a study to estimate the cost of an asphalt overlay of the streets of the community. The study consisted of obtaining estimates from licensed contractors who inspected the property. Management has refined these estimates based on past experience with overlay projects. Estimated current replacement costs have been revised since the date of the study but do not take into account the effects of inflation between the date the cost estimates were revised and the anticipated dates by which the streets will require repair. Also, estimated current replacement costs do not take into account changes in the cost of asphalt, a primary component of overlay projects, which is based upon the price of crude oil and therefore, is difficult to predict.

The following is based on the study which management believes represents current prices and presents estimates of the amounts to be expended by year in overlaying the streets:

| <u>Year</u>  | <u>Estimated Current<br/>Resurfacing Cost</u> | <u>Roads to be Resurfaced</u>      |
|--------------|---|------------------------------------|
| 2009         | \$ 403,000                                    | Sections 1 & 2, Phase 3 -1         |
| 2010         | 488,000                                       | Section 1 (Marina Beau Chene)      |
| 2011         | 270,800                                       | Section 4, Part B                  |
| 2014         | 534,900                                       | Section 3, Phases 1 & 2            |
| 2015         | 512,600                                       | Section 1 & 2, Phase 1             |
| 2016         | 486,600                                       | Sections 1 & 2, Phase 2            |
| 2020         | 196,400                                       | Parcels 25 & 39 & Marina Section 2 |
| 2022         | <u>359,700</u>                                | Section 4, Part A                  |
| <b>Total</b> | <b><u>\$ 3,252,000</u></b>                    |                                    |

At December 31, 2008, \$1,870,723 of the members' equity has been designated for these anticipated future major repairs.

Management of the Association has not conducted a study of the estimated useful lives and replacement costs of the streets but believes, based on maintenance experience since 1974, that the streets have an indefinite life if proper maintenance, which includes periodic overlays, is performed. Nor has management conducted a study of the estimated useful lives and replacement costs of the waste water and water systems, since they attempt to maintain these systems in a "like new" condition through routine annual maintenance.

The Board of Directors approved the 2008 budget which included an addition of a sewer plant with an estimated cost of approximately \$423,800. For the years ended December 31, 2008 and 2007, the Association spent \$10,280 and \$41,707, respectively, on the project. The Board of Directors has approved the 2009 budget, which includes \$527,300 of costs necessary to complete the project and renovate the existing waste water system.