

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.

**Financial Statements as of December 31, 2011 and 2010
and for the Years Then Ended
and Independent Auditors' Report
and Supplementary Information**

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.

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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, 2011 and 2010 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. as of December 31, 2011 and 2010, 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 audit was 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 2011 in Schedule I and detail of major operational expenses for 2011 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.

Silva Gurtner & Abney, LLC

March 26, 2012

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,169,047	\$ 1,572,332
Dues, assessments, and other receivables, net	27,138	29,764
Investments	200,000	200,000
Prepaid expenses and deposits	49,472	52,204
	1,445,657	1,854,300
CONSTRUCTION IN PROGRESS	1,822,998	986,358
PROPERTY, PLANT, AND EQUIPMENT, net	583,751	625,406
TOTAL ASSETS	\$ 3,852,406	\$ 3,466,064
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 525,995	\$ 190,392
Due to affiliated entity	54,516	52,590
Unearned dues	58,406	28,898
Deposits	18,400	28,200
	657,317	300,080
MEMBERS' EQUITY		
Designated for property, plant, and equipment	625,406	625,406
Designated for future major repairs and replacements	2,569,683	2,540,578
	3,195,089	3,165,984
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 3,852,406	\$ 3,466,064

See accompanying independent auditors' report and notes to financial statements.

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011		2010	
	Operating Funds	Designated Funds	Total	Total
REVENUES				
Member dues and assessments	\$ 2,750,510	\$ -	\$ 2,750,510	\$ 2,745,255
Interest income	2,504	-	2,504	4,206
Other	22,764	-	22,764	22,156
Total revenues	2,775,778	-	2,775,778	2,771,617
EXPENSES				
Waste water system	377,387	-	377,387	369,599
Water system	194,488	-	194,488	171,548
Garbage and trash collection	462,298	-	462,298	463,991
Grounds maintenance	133,676	-	133,676	116,140
Roads and drainage	549,137	-	549,137	161,189
Security	460,658	-	460,658	461,217
Depreciation	41,655	-	41,655	42,756
Other operational and general expenses	527,374	-	527,374	536,695
Total expenses	2,746,673	-	2,746,673	2,323,135
EXCESS REVENUES OVER EXPENSES	29,105	-	29,105	448,482
MEMBERS' EQUITY - Beginning of year	-	3,165,984	3,165,984	2,717,502
Allocation to designated balance for future major repairs and replacements	(29,105)	29,105	-	-
MEMBERS' EQUITY - End of year	\$ -	\$ 3,195,089	\$ 3,195,089	\$ 3,165,984

See accompanying independent auditors' report and notes to financial statements.

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess revenues over expenses	\$ 29,105	\$ 448,482
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:		
Depreciation	41,655	42,756
Changes in operating assets and liabilities:		
Dues, assessments, and other receivables	2,626	49,761
Prepaid expenses and deposits	2,732	9,784
Accounts payable	335,603	(216,078)
Due to affiliated entity	1,926	626
Unearned dues	29,508	788
Deposits	(9,800)	(1,000)
Net cash provided by operating activities	433,355	335,119
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction and purchases of property, plant, and equipment	(836,640)	(75,910)
Net cash used in investing activities	(836,640)	(75,910)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(403,285)	259,209
CASH AND CASH EQUIVALENTS - Beginning of year	1,572,332	1,313,123
CASH AND CASH EQUIVALENTS - End of year	\$ 1,169,047	\$ 1,572,332
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid for income taxes	\$ 9,050	\$ 7,744

See accompanying independent auditors' report and notes to financial statements.

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the 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 Debt 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, 2011 and 2010, the Association had recorded an allowance for doubtful accounts of \$13,825 and \$11,925, respectively. Bad debt expense as of the year ended December 31, 2011 and 2010, respectively, is \$14,793 and \$8,096 and is included in other operational and general expenses on the statements of revenues, expenses and changes in members’ equity.

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

Property, Plant, 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 was 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, including road overlays, 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.).

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Cash Equivalents – For purposes of the statements 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.

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 – 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.

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. Costs attributed to periodic overlays are expensed as incurred. Management has also not 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. Costs attributed to maintenance of waste water and water systems are capitalized.

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.

NOTE C – CONCENTRATION OF CREDIT RISK

The Association has concentrated its credit risk for cash by maintaining deposits in financial institutions within the geographic region of Mandeville, Louisiana. The current balances covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) are \$250,000 for interest bearing accounts and unlimited amounts for non-interest bearing accounts. As of December 31, 2011, the Association was under the \$250,000 limit for all interest bearing accounts. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE D – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following at December 31:

	2011	2010
Water wells	\$ 590,037	\$ 590,037
Waste water plant addition	394,836	394,836
Equipment	12,943	12,943
Buildings	16,478	16,478
	<hr/>	<hr/>
Net depreciable assets	1,014,294	1,014,294
Accumulated depreciation	(430,543)	(388,888)
	<hr/>	<hr/>
Total property, plant, and equipment, net	<u>\$ 583,751</u>	<u>\$ 625,406</u>

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. Related expenses are allocated in determining net taxable income. Management has evaluated its tax positions and has determined that there are no uncertainties in income taxes that require adjustments to or disclosures in the financial statements.

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 \$510,035 and \$499,245 for 2011 and 2010, respectively. The Association was also charged \$35,582 and \$34,249, respectively, for equipment rented from the Company, and \$67,177 and \$63,028, respectively, for office rent, telephone usage, and other reimbursable expenses for the years ended December 31, 2011 and 2010. In addition, the Association paid the Company a monthly fee of \$5,579 in 2011 and 2010 for management services provided.

NOTE G – 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, 2011 and 2010 for the same purpose. The effects of the appropriation have been reported in the statements of revenues, expenses and changes in members' equity as allocation to designated balance for future major repairs and replacements.

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE H – 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 I – HURRICANE KATRINA

On August 29, 2005, Beau Chene was severely impacted by Hurricane Katrina. For the year ended December 31, 2009, the Association had recorded \$51,014 as a receivable from FEMA. This amount offset an equal amount previously recorded on the books for monies owed to the debris removal contractor for contract retention. The contract retention amount will not be owed to the debris removal contractor unless FEMA reimburses the Association for the same amount. Management determined, during the year ended December 31, 2010, that the receivable was no longer collectible. Thus, management removed the receivable and related payable from the financial statements for the year ended December 31, 2010.

NOTE J – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 26, 2012, and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTARY INFORMATION

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.
COMPARISON OF OPERATIONS – ACTUAL TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2011
SCHEDULE I

	Actual	Budget	Over/ (Under) Budget
REVENUES			
Membership dues and assessments	\$ 2,750,510	\$ 2,748,579	\$ 1,931
Interest income	2,504	3,000	(496)
Other	22,764	18,975	3,789
Total revenues	2,775,778	2,770,554	5,224
EXPENSES			
Waste water system	377,387	441,200	(63,813)
Water system	194,488	231,000	(36,512)
Garbage and trash collection	462,298	472,342	(10,044)
Grounds maintenance	133,676	126,000	7,676
Roads and drainage	549,137	636,700	(87,563)
Security	460,658	469,800	(9,142)
Depreciation	41,655	37,464	4,191
Other operational and general expenses	527,374	537,734	(10,360)
Total expenses	2,746,673	2,952,240	(205,567)
EXCESS OF REVENUES OVER EXPENSES	\$ 29,105	\$ (181,686)	\$ 210,791

See accompanying independent auditors' report.

BEAU CHENE HOMEOWNERS ASSOCIATION, INC.
DETAIL OF MAJOR OPERATIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011
SCHEDULE II

	Waste Water System	Water System	Garbage and Trash Collection	Grounds Maintenance	Roads and Drainage	Security	Total
Contract services	\$ 108,931	\$ 38,166	\$ 323,083	\$ 70,906	\$ 5,066	\$ 449,295	\$ 995,447
Equipment rental	-	-	-	38,582	-	-	38,582
Maintenance and repairs	142,463	73,262	-	7,863	544,071	3,083	770,742
Water treatment	-	54,648	-	-	-	-	54,648
Permit/dump fees	7,627	4,355	139,215	-	-	-	151,197
Signs and mailboxes	-	-	-	16,325	-	-	16,325
Utilities	66,352	24,057	-	-	-	8,280	98,689
Other	52,014	-	-	-	-	-	52,014
	<u>\$ 377,387</u>	<u>\$ 194,488</u>	<u>\$ 462,298</u>	<u>\$ 133,676</u>	<u>\$ 549,137</u>	<u>\$ 460,658</u>	<u>2,177,644</u>
Depreciation							41,655
Other operational and general expenses							<u>527,374</u>
TOTAL EXPENSES							<u>\$ 2,746,673</u>

See accompanying independent auditors' report.