

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**

**Financial Statements as of December 31, 2012 and 2011  
and for the Years Then Ended  
and Independent Auditors' Report**

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**

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# Silva Gurtner & Abney

Certified Public Accountants & Consultants

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Beau Chene Homeowners Association, Inc. (the Association), which are comprised of the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in members' equity and cash flows for the years then ended, and the related notes to financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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**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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*Silva Gurtner & Alney, LLC*

February 20, 2013

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**BALANCE SHEETS**  
**AS OF DECEMBER 31, 2012 AND 2011**

<b>ASSETS</b>	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,149,187	\$ 1,169,047
Dues, assessments, and other receivables, net	32,349	27,138
Investments	200,000	200,000
Prepaid expenses and deposits	<u>42,480</u>	<u>49,472</u>
Total current assets	1,424,016	1,445,657
 <b>CONSTRUCTION IN PROGRESS</b>	 -	 1,822,998
 <b>PROPERTY, PLANT, AND EQUIPMENT, net</b>	 <u>2,369,866</u>	 <u>583,751</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 3,793,882</u></u>	 <u><u>\$ 3,852,406</u></u>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 273,740	\$ 525,995
Due to affiliated entity	43,046	54,516
Unearned dues	35,737	58,406
Deposits	<u>15,300</u>	<u>18,400</u>
Total current liabilities	367,823	657,317
 <b>MEMBERS' EQUITY</b>		
Board designated		
Property, plant, and equipment	625,406	625,406
Future major repairs and replacements	<u>2,800,653</u>	<u>2,569,683</u>
Total members' equity	<u>3,426,059</u>	<u>3,195,089</u>
 <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	 <u><u>\$ 3,793,882</u></u>	 <u><u>\$ 3,852,406</u></u>

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 YEAR ENDED DECEMBER 31, 2012**

	Operating Funds	Designated Funds	Total
<b>REVENUES</b>			
Member dues and assessments	\$2,960,629	\$ -	\$ 2,960,629
Interest income	1,351	-	1,351
Other	28,080	-	28,080
Total revenues	2,990,060	-	2,990,060
 <b>EXPENSES</b>			
Waste water system	463,460	-	463,460
Water system	233,085	-	233,085
Garbage and trash collection	470,711	-	470,711
Grounds maintenance	115,930	-	115,930
Roads and drainage	369,703	-	369,703
Security	433,597	-	433,597
Depreciation	113,468	-	113,468
Other operational and general expenses	559,136	-	559,136
Total expenses	2,759,090	-	2,759,090
<b>EXCESS REVENUES OVER EXPENSES</b>	<b>230,970</b>	<b>-</b>	<b>230,970</b>
<b>MEMBERS' EQUITY - Beginning of year</b>	<b>-</b>	<b>3,195,089</b>	<b>3,195,089</b>
Allocation to designated balance for future major repairs and replacements	(230,970)	230,970	-
<b>MEMBERS' EQUITY - End of year</b>	<b>\$ -</b>	<b>\$ 3,426,059</b>	<b>\$ 3,426,059</b>

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 YEAR ENDED DECEMBER 31, 2011**

	Operating Funds	Designated Funds	Total
<b>REVENUES</b>			
Member dues and assessments	\$2,750,510	\$ -	\$ 2,750,510
Interest income	2,504	-	2,504
Other	22,764	-	22,764
Total revenues	2,775,778	-	2,775,778
<b>EXPENSES</b>			
Waste water system	377,387	-	377,387
Water system	194,488	-	194,488
Garbage and trash collection	462,298	-	462,298
Grounds maintenance	133,676	-	133,676
Roads and drainage	549,137	-	549,137
Security	460,658	-	460,658
Depreciation	41,655	-	41,655
Other operational and general expenses	527,374	-	527,374
Total expenses	2,746,673	-	2,746,673
EXCESS REVENUES OVER EXPENSES	29,105	-	29,105
MEMBERS' EQUITY - Beginning of year	-	3,165,984	3,165,984
Allocation to designated balance for future major repairs and replacements	(29,105)	29,105	-
MEMBERS' EQUITY - End of year	<u>\$ -</u>	<u>\$ 3,195,089</u>	<u>\$ 3,195,089</u>

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, 2012 AND 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess revenues over expenses	\$ 230,970	\$ 29,105
Adjustments to reconcile excess revenues over expenses to net cash provided by operating activities:		
Depreciation	113,468	41,655
Changes in operating assets and liabilities:		
Dues, assessments, and other receivables	(5,211)	2,626
Prepaid expenses and deposits	6,992	2,732
Accounts payable	(252,255)	335,603
Due to affiliated entity	(11,470)	1,926
Unearned dues	(22,669)	29,508
Deposits	(3,100)	(9,800)
Net cash provided by operating activities	56,725	433,355
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction and purchases of property, plant, and equipment	(76,585)	(836,640)
Net cash used in investing activities	(76,585)	(836,640)
<b>CHANGE IN CASH AND CASH EQUIVELANTS</b>	<b>(19,860)</b>	<b>(403,285)</b>
CASH AND CASH EQUIVALENTS - Beginning of year	1,169,047	1,572,332
CASH AND CASH EQUIVALENTS - End of year	<b>\$ 1,149,187</b>	<b>\$ 1,169,047</b>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Cash paid for income taxes	<b>\$ 9,050</b>	<b>\$ 9,050</b>

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



**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**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, 2012 and 2011, the Association had recorded an allowance for doubtful accounts of \$15,760 and \$13,825, respectively. Bad debt expense as of the year ended December 31, 2012 and 2011, is \$7,320 and \$14,793, respectively, 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.).

***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.

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

*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, 2012, the Association did not exceed 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, 2012 AND 2011**

**NOTE D – PROPERTY, PLANT, AND EQUIPMENT**

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

	<u>2012</u>	<u>2011</u>
Water wells	\$ 1,539,818	\$ 590,037
Waste water plant addition	1,344,617	394,836
Equipment	12,943	12,943
Buildings	<u>16,478</u>	<u>16,478</u>
Net depreciable assets	2,913,856	1,014,294
Accumulated depreciation	<u>(543,990)</u>	<u>(430,543)</u>
Total property, plant, and equipment, net	<u>\$ 2,369,866</u>	<u>\$ 583,751</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 \$505,608 and \$510,035, respectively, for 2012 and 2011. The Association was also charged \$39,236 and \$35,582, respectively, for equipment rented from the Company, and \$68,516 and \$67,177, respectively, for office rent, telephone usage, and other reimbursable expenses for the years ended December 31, 2012 and 2011. In addition, the Association paid the Company a monthly fee of \$5,579 in 2012 and 2011 for management services provided. The amounts due to the Company at December 31, 2012 and 2011 were \$43,046 and \$54,516, respectively.

**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, 2012 and 2011 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, 2012 AND 2011**

**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 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, February 13, 2013, 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, 2012**  
**SCHEDULE I**

	<u>Actual</u>	<u>Budget</u>	<u>Over/ (Under) Budget</u>
<b>REVENUES</b>			
Membership dues and assessments	\$ 2,960,629	\$ 2,748,579	\$ 212,050
Interest income	1,351	3,000	(1,649)
Other	28,080	18,975	9,105
<b>Total revenues</b>	<b>2,990,060</b>	<b>2,770,554</b>	<b>219,506</b>
<b>EXPENSES</b>			
Waste water system	463,460	441,200	22,260
Water system	233,085	231,000	2,085
Garbage and trash collection	470,711	472,342	(1,631)
Grounds maintenance	115,930	126,000	(10,070)
Roads and drainage	369,703	636,700	(266,997)
Security	433,597	469,800	(36,203)
Depreciation	113,468	37,464	76,004
Other operational and general expenses	559,136	537,734	21,402
<b>Total expenses</b>	<b>2,759,090</b>	<b>2,952,240</b>	<b>(193,150)</b>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b><u>\$ 230,970</u></b>	<b><u>\$ (181,686)</u></b>	<b><u>\$ 412,656</u></b>

See accompanying independent auditors' report.

**BEAU CHENE HOMEOWNERS ASSOCIATION, INC.**  
**DETAIL OF MAJOR OPERATIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**SCHEDULE II**

	Waste Water System	Water System	Garbage and Trash Collection	Grounds Maintenance	Roads and Drainage	Security	Total
Contract services	\$ 122,852	\$ 42,073	\$ 336,673	\$ 43,316	\$ 1,177	\$ 423,118	\$ 969,209
Equipment rental	-	-	-	29,650	-	-	29,650
Maintenance and repairs	236,048	112,038	-	27,051	368,526	3,180	746,843
Water treatment	-	56,840	-	-	-	-	56,840
Permit/dump fees	7,295	4,363	134,038	-	-	-	145,696
Signs and mailboxes	-	-	-	15,913	-	-	15,913
Utilities	55,220	17,771	-	-	-	7,299	80,290
Other	42,045	-	-	-	-	-	42,045
	<u>\$ 463,460</u>	<u>\$ 233,085</u>	<u>\$ 470,711</u>	<u>\$ 115,930</u>	<u>\$ 369,703</u>	<u>\$ 433,597</u>	2,086,486
Depreciation							113,468
Other operational and general expenses							559,136
<b>TOTAL EXPENSES</b>							<u><u>\$ 2,759,090</u></u>

See accompanying independent auditors' report.