

**AUDUBON TRACE
CONDOMINIUM
ASSOCIATION, INC.**

FINANCIAL STATEMENTS

**Year Ended
June 30, 2017**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
 FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Revenues, Expenses, and Changes in Fund Balance	4
Statement of Cash Flows	5
Notes to Financial Statements	6

ROGER AND ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS
CONSULTANTS, ACCOUNTANTS, TAX ADVISORS
3637 CANAL STREET
NEW ORLEANS, LA 70119-6145
504 486-5917
Fax 504 486-5971

JOSEPH L. CABALLERO, PA (1891-1965)
LAURENT J. ROGER, CPA (1909-1990)
BRYANT G. MILLER, CPA (1927-1973)
LAURENT J. (CHUCK) ROGER, II, CPA, MBA (1945-1999)
MATTHEW D. ROGER, CPA, CFF, MS – Tx, APAC*

DANIEL C. IMBORNONE, CPA**

MEMBERS
AMERICAN INSTITUTE OF CPAs
SOCIETY OF LOUISIANA CPAs
LOUISIANA ASSOCIATION OF BUSINESS AND INDUSTRY
*MEMBER
AICPA TAX SECTION
AICPA FORENSIC & VALUATION SERVICES SECTION
LABI TAXATION & FINANCE COUNCIL
LABI SMALL BUSINESS COUNCIL
**ASSOCIATE CONSULTANT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Audubon Trace Condominium Association, Inc.
Jefferson, Louisiana

We have audited the accompanying financial statements of the Audubon Trace Condominium Association, Inc. (“the Association,” a Louisiana nonprofit corporation common interest realty association), which comprise the Balance Sheet as of June 30, 2017, and the related Statement of Revenues, Expenses, and Changes in Fund Balance, and Statement of Cash Flows, for the year then ended, and the related notes to the 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 (U.S. GAAP); 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, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 risks 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 the Association's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Audubon Trace Condominium Association, Inc. as of June 30, 2017, and the results of its operations and its cash flows for the year then ended in conformity with U.S. GAAP, with the following departure from U.S. GAAP.

As discussed in Note A(2)(e), U.S. GAAP require that capitalized assets be depreciated over their estimated economic useful lives, using primarily straight-line methods. The Association's Management has informed us that the Association has depreciated its capitalized assets based on Federal income tax cost recovery methods, primarily for cost-benefit considerations. Although the precise effect of this departure from U.S. GAAP on the accompanying financial statements has not been determined, such departure is immaterial to the financial statements taken as a whole.

Omission of Required Supplementary Information About Future Major Repairs and Replacements

As discussed in Note C, the Association's Management has not estimated remaining estimated economic useful lives and corresponding replacement costs of the common property and, therefore, has not presented cost estimate information concerning required future major repairs and replacements, which U.S. GAAP require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

ROGER AND ASSOCIATES, LLC

New Orleans, Louisiana
December 18, 2017

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
BALANCE SHEET
June 30, 2017

	<u>Operating Fund</u>	<u>Replacement & Reserve Fund</u>	<u>Operating & Reserve Fund</u>
ASSETS			
Cash	\$ 166,957	\$ 1,108,053	\$ 1,275,010
Dues receivable	54,689	-	54,689
Prepaid insurance	168,854	-	168,854
Liens receivable	45,862	-	45,862
Property & equipment, net of accumulated depreciation	<u>11,402</u>	<u>1,616</u>	<u>13,018</u>
TOTAL ASSETS	<u><u>\$ 447,764</u></u>	<u><u>\$ 1,109,669</u></u>	<u><u>\$ 1,557,433</u></u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 49,873	\$ -	49,873
Advanced unearned dues	<u>36,774</u>	<u>-</u>	<u>36,774</u>
TOTAL LIABILITIES	<u>86,647</u>	<u>-</u>	<u>86,647</u>
 FUND BALANCE	 <u>361,117</u>	 <u>1,109,669</u>	 <u>1,470,786</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 447,764</u></u>	<u><u>\$ 1,109,669</u></u>	<u><u>\$ 1,557,433</u></u>

See accompanying notes and independent auditor's report.

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2017

	Operating Fund		Replacement & Reserve Fund	Operating & Reserve Funds	
	\$	%		\$	%
REVENUES					
Owners' dues	\$ 708,890	75.1 %	\$ 438,271	\$ 1,147,161	98.6 %
Interest income	167	-	-	167	-
Other income	15,836	1.7	-	15,836	1.4
Transfer to operating from reserve	219,334	23.2	(219,334)	-	-
TOTAL REVENUES	944,227	100.0	218,937	1,163,164	100.0
EXPENSES					
Wages & payroll taxes	286,080	30.3	-	286,080	24.6
Employee benefits	48,649	5.2	-	48,649	4.2
Administrative	23,499	2.5	-	23,499	2.0
Payroll processing	1,561	0.2	-	1,561	0.1
Insurance	286,272	30.3	-	286,272	24.6
Legal & professional	9,633	1.0	-	9,633	0.8
Repairs & maintenance:					
Building	68,747	7.3	14,708	83,455	7.2
Driveways & streets	-	-	39,940	39,940	3.4
Grounds	105,609	11.2	-	105,609	9.1
Pool	6,092	0.6	-	6,092	0.5
Utilities	75,900	8.0	-	75,900	6.5
Depreciation	2,410	0.3	587	2,997	0.3
Automotive	4,980	0.5	-	4,980	0.4
Bad debts	7,882	0.8	-	7,882	0.7
Property taxes (non-recurring)	1,829	0.2	-	1,829	0.2
TOTAL EXPENSES	929,143	98.4	55,235	984,378	84.6
SURPLUS BEFORE INCOME TAXES	15,084	1.6 %	163,702	178,786	15.4 %
LESS: INCOME TAXES	-		-	-	
NET SURPLUS	15,084		163,702	178,786	
BEGINNING FUND BALANCE	346,033		945,967	1,292,000	
ENDING FUND BALANCE	\$ 361,117		\$ 1,109,669	\$ 1,470,786	

See accompanying notes and independent auditor's report.

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

	Operating Fund	Replacement & Reserve Fund	Operating & Reserve Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus	\$ 15,084	\$ 163,702	\$ 178,786
Adjustments to reconcile net surplus to net cash provided by operating activities:			
Depreciation	2,410	587	2,997
Decrease/(increase) in the following assets:			
Dues receivable	10,308	-	10,308
Prepaid insurance	29,741	-	29,741
Liens receivable	(10,111)	-	(10,111)
Increase in the following liabilities:			
Accounts payable	30,391	-	30,391
Advanced unearned dues	10,309	-	10,309
NET CASH PROVIDED BY OPERATIONS	88,132	164,289	252,421
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	-	-	-
NET CASH (USED) BY INVESTING ACTIVITIES	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Borrowings/(repayments) of debt	-	-	-
NET CASH FROM FINANCING ACTIVITIES	-	-	-
NET INCREASE IN CASH	88,132	164,289	252,421
CASH AND CASH EQUIVALENTS - JULY 1, 2016	78,825	943,764	1,022,589
CASH AND CASH EQUIVALENTS - JUNE 30, 2017	\$ 166,957	\$ 1,108,053	\$ 1,275,010
SUPPLEMENTAL DISCLOSURES			
Cash paid for interest	\$ -	\$ -	\$ -
Cash paid for corporate income taxes	\$ -	\$ -	\$ -

See accompanying notes and independent auditor's report.

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Audubon Trace Condominium Association, Inc. (the Association) is presented to assist in understanding its financial statements. The financial statements and notes thereto are representations of the Association's Management, who is responsible for their integrity and objectivity. The accounting policies conform to United States generally accepted accounting principles (U.S. GAAP) and have been consistently applied in the preparation of the financial statements, with the exception of a departure discussed in Note (A)(2)(e) below.

1. Organization, History, & Business Activity

The Association is a residential condominium common interest realty association (CIRA) incorporated June 27, 1984 under the Louisiana Nonprofit Corporation Law¹ to operate and maintain the common areas within the 237-unit development, such as the grounds, recreational facilities, and structural building components.

The Association represents the owners of residential condominium units in the development property "Audubon Trace," located upriver from world-renowned Ochsner Medical Center in Jefferson, Louisiana.

2. Basis of Financial Presentation

a. Fund Accounting

The Association employs "fund accounting," which requires that operating funds and those designated for future major repairs and replacements be classified separately for financial statement reporting purposes. Disbursements from operating funds are generally made at the discretion of the Board of Directors and the Property Manager, who collectively develop, implement, and monitor the Association's annual operating budget. Disbursements from replacement and reserve funds are generally made for designated purposes only, and are generally made in the nature of major repairs and replacements.

b. Statement of Cash Flows

Concerning the Statement of Cash Flows, the Association considers that all highly liquid debenture securities with maturities of six months or less are cash equivalents, which also include cash in bank accounts.

¹ La. R.S., Title 12, Ch.2, Secs. 201-269.

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

c. Financial Instruments

The Association employs the following methods and assumptions to estimate the fair value of financial instruments:

- i. Cash & cash equivalents: the carrying value approximates fair value because these instruments employ short maturities.
- ii. Short-term receivables & payables: the carrying value approximates fair value because these instruments also employ short maturities.

d. Owner Dues

The Association's condominium unit owners are subject to monthly regular dues that provide funds for the Association's general operating expenses, future capital expenditures, and major repairs and replacements. The Association retains any dues unspent at year end to finance future years' operations.

Dues receivable at the Balance Sheet date represent amounts due from unit owners. The Association engages legal counsel and places liens on units whose owners are ninety days or more delinquent concerning their dues. Since the Board of Directors believes that the Association will ultimately prevail regarding the successful collection of delinquent dues, no allowance for uncollectible dues is included on the Association's Balance Sheet.

The Association reports dues receivable secured by liens separately on its Balance Sheet as "Liens Receivable."

Effective July 1, 2013, dues include a portion to fund capital reserves.

e. Capitalized Assets & Depreciation

Property acquired from the developer, including any and all related improvements thereto, is not reflected on the Association's Balance Sheet because those assets are owned in common by the individual unit owners.

The Association has capitalized (at cost) a common area administrative building and other tangible personal property to which it has lawful title. The Association depreciates these capitalized assets using Federal straight-line and modified accelerated cost recovery system (MACRS) income tax cost recovery methods, over their particular cost recovery periods, which range from five (5) to thirty-one and one-half (31.5) years.

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

U.S. GAAP require that capitalized assets be depreciated over their estimated economic useful lives, generally via straight-line methods. The Association's departure from depreciating its capitalized assets in accordance with U.S. GAAP is immaterial to its financial statements.

The caption entitled "Property & equipment, net of accumulated depreciation" on the Association's Balance Sheet, consists of the following as of June 30, 2017:

Building & Improvements	\$ 62,512
Equipment	<u>12,069</u>
	74,581
Less: Accumulated Depreciation	<u>(61,563)</u>
Total	<u>\$ 13,018</u>

Depreciation expense for the year ended June 30, 2017, was \$2,997.

f. Corporate Income Taxes

The Association is afforded an annual option either to be taxed as a regular "C" corporation or to elect under Internal Revenue Code (IRC) Section (Sec.) 528 to be taxed as a "Homeowners Association." Pursuant with any such IRC Sec. 528 election, the Association would be taxed only on "nonexempt function" net taxable income (i.e., interest income net of attributable expenses), at a flat rate of 30%. The Association's "exempt (non-taxable) function" income consists of dues [see Note A(2)(d) above] and miscellaneous related income. The Association has opted to make a valid IRC Sec. 528 election for the year ended June 30, 2017, and accordingly be taxed as a "Homeowners Association."

For calendar tax years 1987 et seq., "a homeowners association" as defined under Federal corporate income tax statutes, is taxed on its Louisiana corporate taxable income under the Louisiana Corporation Income Tax Law.² The Louisiana Corporation Income Tax Law requires that Louisiana corporate taxable income be based upon corporate taxable income as reported for Federal corporate income tax purposes and contains net operating loss provisions identical to those of Federal corporate income tax statutes.

² 1950 La. R.S., Title 47, Subtitle II, Ch. 1 incl. Sub-Part D, "Exempt Organizations," and Sec. 287.528, "Homeowners Associations,": as amended by Act 16, Laws 1986, First Special Session, Part II-A, "Louisiana Corporation Income Tax."

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

For calendar tax years 1986 and prior,³ homeowners associations were not subject to any Louisiana corporate income taxes whatsoever.

g. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 – SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Concentration of Cash and Cash Equivalents (Including Uninsured Balances)

The Association has concentrated its credit risk for cash and cash equivalents by maintaining deposits in a publicly traded financial institution headquartered in Gulfport, Mississippi. As of June 30, 2017, the loss that would have resulted from that risk was \$1,025,010 – which represents excess cash balances over and above Federal Deposit Insurance Corporation (FDIC) insured amounts.

NOTE C – FUTURE MAJOR REPAIRS & REPLACEMENTS

The Association requires that funds be accumulated for future major repairs, replacement, and contingencies in separate, interest-bearing savings accounts that generally do not finance recurring operations.

The Association has not conducted a formal study to determine the remaining useful lives of the development's common property. Such a formal study would consequently determine a current cost estimate for future major repairs and replacements. Accordingly, the Board has not developed a comprehensive plan to fund any such future capital needs. In the event that funds are required to meet future major repair and replacement needs, the Association can increase regular dues, levy special dues, or delay major repairs and replacements until adequate funds are available.

³ Prior law provisions of 1950 La. R.S., Title 47, Subtitle II, Ch. 1, Part II, "Supplemental Provisions"; Sub-Part A, "Exception of Certain Corporation"; Sec. 121, "Exceptions from Tax on Corporations"; and Sub-Section (8), "Clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes... ."

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE D – CONTINGENCIES: LAWSUITS & INSURANCE DEDUCTIBLE

As of December 18, 2017, the Association is party to certain litigation concerning an ongoing forced collection matter with respect to a certain owner whose delinquent dues have put her account in “lien status” (see Note A(2)(d) above). Because the Association presently expects to prevail with respect to its ongoing litigation, it has not accrued a contingent liability applicable thereto.

As of June 30, 2017, the Association was party to certain other litigation concerning a forced collection matter with another (and now former) owner. The Association settled this litigation prior to December 18, 2017, and has not accrued a contingent liability applicable thereto within these financial statements because it had expected to prevail as of, and had not exhausted all of its collection efforts under the law by, June 30, 2017.

Ever since Hurricane Katrina, the Association has carried a significant “wind and hail/named storm/hurricane” insurance deductible, which is currently pegged at approximately \$600,000 (or 2% of total replacement cost coverage). In the event that the Association sustains catastrophic wind and hail/named storm/hurricane damage subject to this deductible (which has been as high as, and can potentially revert back to, 5% – or \$1,500,000), the Association could experience a capital shortfall to cover such damage. The Association could levy special dues from its unit owners as well as seek long-term debt financing (such as a U.S. Small Business Administration disaster loan) to make up for any shortfall. The Association’s capital position, which was bolstered by its net surplus earned during the year ended June 30, 2017, includes a combination of operating and reserve funds.

Because it is virtually impossible to pinpoint when, if ever, the Association would sustain catastrophic wind and hail/named storm/hurricane damage, the Association has not accrued a contingent liability for any anticipated shortfall with respect to its insurance deductible.

NOTE E – SUBSEQUENT EVENTS

As of and through December 18, 2017, no events have occurred subsequent to June 30, 2017 that would require adjustment to, or disclosure in, the Association’s financial statements or notes thereto other than what the Association has disclosed in Note D regarding ongoing litigation and its insurance deductible.