

**AUDUBON TRACE
CONDOMINIUM
ASSOCIATION, INC.**

FINANCIAL STATEMENTS

**Year Ended
June 30, 2023**

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR’S REPORT | 1 |
| FINANCIAL STATEMENTS | |
| Balance Sheet | 4 |
| Statement of Revenues, Expenses, and Changes in Fund Balances | 5 |
| Statement of Cash Flows..... | 6 |
| Notes to Financial Statements | 7 |

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2023, and the related Statement of Revenues, Expenses, and Changes in Fund Balances, and Statement of Cash Flows, for the year then ended, and the related notes to the financial statements.

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, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), with the following departures from U.S. GAAP.

As discussed in Note A(2)(f), U.S. GAAP require that benefits from certain income tax attributes, anticipated to arise in subsequent accounting periods, give rise to capitalized deferred tax assets. The Association's Management has informed us that the Association does not report deferred tax assets on its Balance Sheet, primarily for cost-benefit considerations. The precise effect of this departure from U.S. GAAP on the accompanying financial statements has not been determined.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Audubon Trace Condominium Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. GAAP, and for 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.

In preparing these financial statements, Management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Audubon Trace Condominium Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Audubon Trace Condominium Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by Management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Audubon Trace Condominium Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during our audit.

Omission of Required Supplementary Information About Future Major Repairs and Replacements

As discussed in Note C, 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
September 25, 2024

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
BALANCE SHEET
June 30, 2023

| | <u>Operating Fund</u> | <u>Replacement & Reserve Fund</u> | <u>Operating & Reserve Funds</u> |
|--|---------------------------|---|--|
| ASSETS | | | |
| Cash | \$ 11,237 | \$ 839,970 | \$ 851,207 |
| Dues receivable | 7,487 | - | 7,487 |
| Prepaid insurance | 686,977 | - | 686,977 |
| Property & equipment, net of accumulated depreciation | <u>545</u> | <u>-</u> | <u>545</u> |
| TOTAL ASSETS | <u><u>\$ 706,246</u></u> | <u><u>\$ 839,970</u></u> | <u><u>\$ 1,546,216</u></u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 2,050 | \$ - | \$ 2,050 |
| Insurance premium financing | <u>280,927</u> | <u>-</u> | <u>280,927</u> |
| TOTAL LIABILITIES | <u>282,977</u> | <u>-</u> | <u>282,977</u> |
| FUND BALANCES | <u>423,269</u> | <u>839,970</u> | <u>1,263,239</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 706,246</u></u> | <u><u>\$ 839,970</u></u> | <u><u>\$ 1,546,216</u></u> |

See accompanying notes and independent auditor's report.

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2023

| | <u>Operating Fund</u> | | <u>Replacement</u> | <u>Operating & Reserve Funds</u> | |
|--|-----------------------|-----------------|---------------------------|--------------------------------------|-----------------|
| | <u>\$</u> | <u>%</u> | <u>& Reserve Fund</u> | <u>\$</u> | <u>%</u> |
| REVENUES | | | | | |
| Owners' dues | \$ 1,088,162 | 98.6 % | \$ 175,000 | \$ 1,263,162 | 98.8 % |
| Interest income | 15,708 | 1.4 | - | 15,708 | 1.2 |
| TOTAL REVENUES | 1,103,870 | 100.0 | 175,000 | 1,278,870 | 100.0 |
| EXPENSES | | | | | |
| Wages & payroll taxes | 287,965 | 26.1 | - | 287,965 | 22.5 |
| Employee benefits | 54,965 | 5.0 | - | 54,965 | 4.3 |
| Administrative | 50,428 | 4.6 | - | 50,428 | 3.9 |
| Payroll processing | 1,746 | 0.2 | - | 1,746 | 0.1 |
| Insurance | 473,053 | 42.9 | - | 473,053 | 37.0 |
| Interest expense | 3,993 | 0.4 | - | 3,993 | 0.3 |
| Legal & professional | 89,583 | 8.1 | - | 89,583 | 7.0 |
| Repairs & maintenance: | | | | | |
| Building | 71,208 | 6.5 | 154,472 | 225,680 | 17.6 |
| Grounds | 135,288 | 12.3 | - | 135,288 | 10.6 |
| Bldg 9 fire-related | 121,282 | 11.0 | - | 121,282 | 9.5 |
| Hurricane Ida-related | 59,930 | 5.4 | - | 59,930 | 4.7 |
| Pool | 19,944 | 1.8 | - | 19,944 | 1.6 |
| Utilities | 123,273 | 11.2 | - | 123,273 | 9.6 |
| Depreciation | 650 | 0.1 | - | 650 | 0.1 |
| Automotive | 3,775 | 0.3 | - | 3,775 | 0.3 |
| TOTAL EXPENSES | 1,497,083 | 135.9 | 154,472 | 1,651,555 | 129.1 |
| (DEFICIT)/SURPLUS BEFORE INCOME TAXES | (393,213) | (35.9) | 20,528 | (372,685) | (29.1) |
| LESS: PROVISION FOR INCOME TAXES | - | - | - | - | - |
| NET (DEFICIT)/SURPLUS | (393,213) | (35.9) % | 20,528 | (372,685) | (29.1) % |
| INTERFUND TRANSFERS | 251,708 | | (251,708) | - | |
| BEGINNING FUND BALANCES | 564,774 | | 1,071,150 | 1,635,924 | |
| ENDING FUND BALANCES | \$ 423,269 | | \$ 839,970 | \$ 1,263,239 | |

See accompanying notes and independent auditor's report.

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023

| | <u>Operating Fund</u> | <u>Replacement & Reserve Fund</u> | <u>Operating & Reserve Funds</u> |
|---|---------------------------|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net (deficit)/surplus | \$ (393,213) | \$ 20,528 | \$ (372,685) |
| Adjustments to reconcile net surplus to net cash provided by operating activities: | | | |
| Depreciation | 650 | - | 650 |
| Decrease/(increase) in the following assets: | | | |
| Dues receivable | 79,284 | - | 79,284 |
| Prepaid insurance | (441,966) | - | (441,966) |
| (Decrease) in the following liabilities: | | | |
| Advance unearned assessments | (33,567) | - | (33,567) |
| NET CASH (USED)/PROVIDED BY OPERATIONS | <u>(788,812)</u> | <u>20,528</u> | <u>(768,284)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditures | - | - | - |
| NET CASH (USED) BY INVESTING ACTIVITIES | <u>-</u> | <u>-</u> | <u>-</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Insurance premium financing, net | 280,927 | - | 280,927 |
| Interfund transfers | 251,708 | (251,708) | - |
| NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES | <u>532,635</u> | <u>(251,708)</u> | <u>280,927</u> |
| NET (DECREASE) IN CASH | (256,177) | (231,180) | (487,357) |
| CASH AND CASH EQUIVALENTS - JULY 1, 2022 | <u>267,414</u> | <u>1,071,150</u> | <u>1,338,564</u> |
| CASH AND CASH EQUIVALENTS - JUNE 30, 2023 | <u>\$ 11,237</u> | <u>\$ 839,970</u> | <u>\$ 851,207</u> |
| SUPPLEMENTAL DISCLOSURES | | | |
| Cash paid for interest | \$ 3,993 | \$ - | \$ 3,993 |
| 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, 2023

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 departures discussed in Notes (A)(2)(e) and A(2)(f) 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 Law ¹ 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, along with 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, 2023

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 on their account. 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.

Effective July 1, 2013, dues include a designated portion to fund 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, 2023

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, 2022:

| | |
|--------------------------------|------------------|
| Building & Improvements | \$ 62,511 |
| Equipment | <u>22,775</u> |
| | 85,286 |
| Less: Accumulated Depreciation | <u>(84,741)</u> |
| Total | <u>\$ 545</u> |

Depreciation expense for the year ended June 30, 2023, was \$650.

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 opted not to make an IRC Sec. 528 election for the year ended June 30, 2023, and accordingly was taxed as a regular "C" corporation. Because the Association incurred a net operating loss for the year ended June 30, 2023, there is no current year provision for Federal or Louisiana corporate income tax.

The Association has certain net operating loss and general business tax credit carryforwards, which will shelter future years' income from taxation. U.S. GAAP require that the related "deferred tax assets" be capitalized as an asset. The Association has not attempted to quantify, nor does it report, its deferred tax assets.

There are no uncertain tax positions as of and for the year ended June 30, 2023.

The Association is not subject to tax examinations prior to the year ended June 30, 2020.

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023

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.

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, which sometimes exceed the Federal Deposit Insurance Corporation (FDIC) threshold. The Association generally deploys its cash and cash equivalents in highly liquid short-term corporate commercial paper, U.S. Treasury instruments, and/or money market funds among several different banks to mitigate its exposure.

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. If additional

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.”

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, 2023

funds are required to meet future major repair and replacement needs, the Association can increase regular dues, levy special dues, seek debt financing, or delay major repairs and replacements until funds become adequate.

NOTE D – CONTINGENCIES

As of September 25, 2024, the Association -

- Is involved in certain litigation concerning ongoing forced collection matters with respect to certain owners whose delinquent dues had put their accounts in “lien status” (see Note A(2)(d) above) as of June 30, 2023.
- Has settled a lawsuit that a former Board member had initiated during February 2022 concerning certain governance practices, policies, and procedures with the favorable result that subsequent to June 30, 2023, the Association’s insurance carrier reimbursed substantially all related out-of-pocket defense costs.
- Has completed an ongoing restoration project and settled its related insurance claim applicable to a four-unit building that sustained significant fire damage during November 2022 with the favorable result that the Association’s insurance carrier covered substantially all related costs less the deductible.

The Association did not accrue an applicable contingent liability for any of these matters.

The Association carries a significant “wind and hail/named storm/hurricane” insurance deductible, which is currently pegged at approximately \$1,850,000 (or 5% of total replacement cost coverage). In the event that the Association sustains catastrophic wind and hail/named storm/hurricane damage subject to this deductible, 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 includes a combination of operating and reserve funds.

Shortly after the fiscal year ended June 30, 2023 had concluded, the Association levied a special assessment on its owners to bolster its working capital position primarily with respect to its insurance deductible.

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.

AUDUBON TRACE CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023

NOTE E – SUBSEQUENT EVENTS

As of and through September 25, 2024 (which is the date that the financial statements were available to be issued), no events have occurred subsequent to June 30, 2023 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 contingencies and the levy of a special assessment.