

Avocet Property Owners Association, Inc.

Financial Statements and
Supplemental Information

Year Ended December 31, 2012



OWENS & MITCHELL, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Avocet Property Owners Association, Inc.
Roswell, Georgia

We have audited the accompanying financial statements of Avocet Property Owners Association, Inc. (a Georgia corporation), which comprise the balance sheets as of December 31, 2012, and the related statements of revenues and expenses, changes in fund balances, and 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; 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 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 statement 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Avocet Property Owners Association, Inc. as of December 31, 2012, 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 9 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Owens & Mitchell P.C.

Owens & Mitchell, P.C.

June 25, 2013

Avocet Property Owners Association, Inc.
 Balance Sheet
 As of December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Current assets:			
Cash	\$ 27,716.61	\$ 45,474.49	\$ 73,191.10
Certificates of deposit		30,963.81	30,963.81
Assessments receivable, net	3,914.82		3,914.82
Prepaid insurance	<u>1,492.84</u>		<u>1,492.84</u>
Total assets	<u>\$ 33,124.27</u>	<u>\$ 76,438.30</u>	<u>\$ 109,562.57</u>
Liabilities			
Accounts payable	\$ 4,150.01	\$	\$ 4,150.01
Prepaid assessments	<u>15,700.49</u>		<u>15,700.49</u>
Total liabilities	<u>19,850.50</u>	<u>0.00</u>	<u>19,850.50</u>
Fund balance	<u>13,273.77</u>	<u>76,438.30</u>	<u>89,712.07</u>
Total liabilities and fund balances	<u>\$ 33,124.27</u>	<u>\$ 76,438.30</u>	<u>\$ 109,562.57</u>

The accompanying notes are an integral part of these financial statements.

Avocet Property Owners Association, Inc.
Statement of Revenues and Expenses
Years Ended December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments	\$ 130,800.00	\$	\$ 130,800.00
Late charges & other income		6,587.00	6,587.00
Interest income	60.01	314.12	374.13
Total revenues	<u>130,860.01</u>	<u>6,901.12</u>	<u>137,761.13</u>
Expenses:			
Administration			
Bad debts	3,620.00		3,620.00
Insurance	4,729.79		4,729.79
Legal and accounting	7,925.72		7,925.72
Management fees	13,389.57		13,389.57
Office, printing and postage	2,476.24		2,476.24
Property taxes	1,609.19		1,609.19
	<u>33,750.51</u>	<u>0.00</u>	<u>33,750.51</u>
Maintenance and operations			
Janitorial services	2,255.59		2,255.59
Landscape & common area maintenance	19,405.00		19,405.00
Pest control & termite bond	575.00		575.00
Pool & amenities	15,201.09	58,325.91	73,527.00
Repairs & maintenance	8,375.60		8,375.60
Social activities & member amenities	2,552.56		2,552.56
	<u>48,364.84</u>	<u>58,325.91</u>	<u>106,690.75</u>
Utilities			
Electricity	13,985.20		13,985.20
Trash removal	333.46		333.46
Water & Sewer	3,206.36		3,206.36
	<u>17,525.02</u>	<u>0.00</u>	<u>17,525.02</u>
Total expenses	<u>99,640.37</u>	<u>58,325.91</u>	<u>157,966.28</u>
Excess (deficiency) of revenues over expenses	<u>\$ 31,219.64</u>	<u>\$ (51,424.79)</u>	<u>\$ (20,205.15)</u>

The accompanying notes are an integral part of these financial statements.

Avocet Property Owners Association, Inc.
Statement of Changes in Fund Balances
Years Ended December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Fund balance (deficit), beginning of year	\$ 33,793.04	\$ 76,124.18	\$ 109,917.22
Transfers between funds, net	(51,738.91)	51,738.91	0.00
Excess (deficiency) of revenues over expenses	<u>31,219.64</u>	<u>(51,424.79)</u>	<u>(20,205.15)</u>
Fund balance (deficit), end of year	<u>\$ 13,273.77</u>	<u>\$ 76,438.30</u>	<u>\$ 89,712.07</u>

The accompanying notes are an integral part of these financial statements.

Avocet Property Owners Association, Inc.
Statement of Cash Flows
Years Ended December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Operating activities:			
Excess (deficiency) of revenues over expenses	\$ <u>31,219.64</u>	\$ <u>(51,424.79)</u>	\$ <u>(20,205.15)</u>
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:			
Decrease (increase) in assets:			
Assessments receivable	(261.50)		(261.50)
Prepaid insurance	(85.71)		(85.71)
Increase (decrease) in liabilities:			
Accounts payable	3,114.34		3,114.34
Prepaid assessments	4,702.48		4,702.48
Allowance for doubtful accounts	2,900.00		2,900.00
Total adjustments	<u>10,369.61</u>	<u>0.00</u>	<u>10,369.61</u>
Net cash provided by (used for) operating activities	41,589.25	(51,424.79)	(9,835.54)
Investing activities:			
Net change in certificates of deposit		<u>(213.64)</u>	<u>(213.64)</u>
Net increase (decrease) in cash and cash equivalents	41,589.25	(51,638.43)	(10,049.18)
Interfund reclassifications and transfers	(51,738.91)	51,738.91	0.00
Cash and cash equivalents, beginning of year	<u>37,866.27</u>	<u>45,374.01</u>	<u>83,240.28</u>
Cash and cash equivalents, end of year	<u>\$ 27,716.61</u>	<u>\$ 45,474.49</u>	<u>\$ 73,191.10</u>

The accompanying notes are an integral part of these financial statements.

Avocet Property Owners Association, Inc.
Notes to the Financial Statements
Year Ended December 31, 2012

Note A: Business Description

Avocet Property Owners Association, Inc., (the Association), is a Georgia non-profit corporation whose primary purpose is to exercise on behalf of the members the rights, powers and obligations vested in the Association pursuant to its Declaration of Covenants, Conditions and Restrictions. Such Declaration provides for, among other items, the election of a Board of Directors, management and maintenance of all common areas and elements, and the collection of member assessments. Formed in 1993, the Association consisted of 218 residential units at the end of the 2012.

Note B: Date of Management Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 25, 2013, the date that the financial statements were available to be issued.

Note C: Summary of Significant Accounting Policies

Revenues and Expenses - The Association records revenues and expenses on an accrual basis utilizing fund accounting for annual financial statement purposes. Accordingly, revenues are recorded when earned (as opposed to received) and expenses are recorded when incurred (as opposed to disbursed). In addition, replacement funds are classified and accounted for separately. The cash basis is utilized for income tax purposes.

Income Taxes - As a qualified homeowners association, the Association may elect to file an 1120-H, U. S. Income Tax Return for Homeowners Associations or an 1120, U. S. Corporate Income Tax Return. For the tax year ending December 31, 2012, it was to the advantage of the Association to file forms 1120-H, U. S. Income Tax Return for Homeowners Associations.

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed, and the Association's federal and state income tax returns for 2010, 2011, and 2012 remain open to examination.

Property and Equipment - Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

Avocet Property Owners Association, Inc.
Notes to the Financial Statements
Years Ended December 31, 2012 and 2011

Note C: Summary of Significant Accounting Policies (continued)

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Note D: Cash and Certificate of Deposit

Of the \$104,154.91 held by the Association in cash as of December 31, 2012, \$27,716.61 was held in an interest bearing commercial checking account, \$45,474.49 was held in a money market account and \$30,963.81 was held in three certificates of deposit.

Note E: Future Major Repairs and Replacements

The Association engaged a professional engineer to conduct a study in June 2011, to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. When funds are required for major repairs and replacements, the Association plans to borrow, increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

Note F: Assessments Receivable and Allowance for Doubtful Accounts

The Association's policy is to retain legal counsel and enforce collection on homeowners whose assessments are substantially in arrears. As of December 31, 2012, the Association had assessments receivable of \$12,514.82.

Management realizes that collection of some of the outstanding accounts may be improbable. Therefore, as of December 31, 2012, an allowance for doubtful accounts of \$8,600 has been estimated to present the expected net realized amount.

Avocet Property Owners Association, Inc.
 Supplementary Information on Future Repairs
 and Replacements (Unaudited)
 December 31, 2012

The Association engaged Ray Engineering, a professional engineering firm, to conduct a study in June 2011, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

Components	Estimated Remain- ing Useful Life (Years) in June 2011	Estimated Remain- ing Useful Life (Years) in June 2011	Designated for Re- pairs/Replacements December 31, 2012
Electrical/Mechanical	5 to 15	\$ 26,800	\$ * -0-
Interior/Exterior Building	7 to 20	35,500	* -0-
Sitework	5 to 20	<u>261,750</u>	<u>* -0-</u>
		<u>\$ 324,050</u>	<u>\$ 76,438</u>

* As of December 31, 2012, there was no formal designation for the repair and replacement funds.

