

mailed to board
09/05/08

CASA DEL SOL CONDOMINIUM
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2007

CASA DEL SOL CONDOMINIUM

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	2
Statements of Revenues, Expenses and Changes in Fund Balances	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 8
SUPPLEMENTARY INFORMATION	
Independent Auditors' Report on Supplementary Information	9
Schedules of Operating Fund Revenues and Expenses - Budget and Actual	10
Supplementary Information on Future Major Repairs and Replacements	11



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INDEPENDENT AUDITORS' REPORT

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Board of Directors
Casa Del Sol Condominium

We have audited the accompanying balance sheet of Casa Del Sol Condominium, as of December 31, 2007, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Condominium's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Ocean City

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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 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 audit provides a reasonable basis for our opinion.

MEMBERS OF:

AMERICAN INSTITUTE OF
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PKF INTERNATIONAL

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Casa Del Sol Condominium as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PKS + Company, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

August 14, 2008

CASA DEL SOL CONDOMINIUM

BALANCE SHEETS

DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007			2006
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 16,028	\$ 903	\$ 16,931	\$ 51,877
Assessments receivable	1,893		1,893	23,937
Prepaid expenses	11,525		11,525	9,881
Prepaid income taxes	33		33	33
Due from members	450		450	
Due from other funds		11,315	11,315	45,564
TOTAL ASSETS	\$ 29,929	\$ 12,218	\$ 42,147	\$ 131,292
LIABILITIES				
Line of credit				220,000
Prepaid assessments	\$ 10,821	\$	\$ 10,821	\$ 7,311
Due to other funds	11,315		11,315	45,564
TOTAL LIABILITIES	22,136		22,136	272,875
FUND BALANCES (DEFICIT)	7,793	12,218	20,011	(141,583)
TOTAL LIABILITIES AND FUND BALANCES	\$ 29,929	\$ 12,218	\$ 42,147	\$ 131,292

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

CASA DEL SOL CONDOMINIUM

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007			2006
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 112,509	\$ 10,000	\$ 122,509	\$ 106,248
Special assessment		161,220	161,220	541,889
Interest, late fees, and other income	3,610	3	3,613	469
TOTAL REVENUES	116,119	171,223	287,342	648,606
EXPENSES				
General and administrative	16,588	8,969	25,557	30,761
Insurance	55,608		55,608	52,438
Maintenance and repair	40,187	79	40,266	747,144
Utilities	4,317		4,317	3,797
TOTAL EXPENSES	116,700	9,048	125,748	834,140
Net revenues over (under) expenses	(581)	162,175	161,594	(185,534)
Fund balances (deficits), beginning of year	8,374	(149,957)	(141,583)	43,951
Fund balances (deficits), end of year	\$ 7,793	\$ 12,218	\$ 20,011	\$ (141,583)

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

CASA DEL SOL CONDOMINIUM
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007			2006
	Operating Fund	Replacement Fund	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net revenues over (under) expenses	\$ (581)	\$ 162,175	\$ 161,594	\$ (185,534)
(Increase) decrease				
Assessments receivable	(1,456)	23,500	22,044	364,591
Prepaid expenses	(1,644)		(1,644)	(753)
Due from members	(450)		(450)	221
Increase (decrease)				
Accounts payable				(6,130)
Prepaid assessments	3,510		3,510	4,324
Deferred special assessment				(554,390)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(621)</u>	<u>185,675</u>	<u>185,054</u>	<u>(377,671)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund borrowings	(34,249)	34,249		
Proceeds from (repayment of) line of credit		(220,000)	(220,000)	220,000
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(34,249)</u>	<u>(185,751)</u>	<u>(220,000)</u>	<u>220,000</u>
Net increase (decrease) in cash	(34,870)	(76)	(34,946)	(157,671)
Cash at beginning of year	50,898	979	51,877	209,548
Cash at end of year	<u>\$ 16,028</u>	<u>\$ 903</u>	<u>\$ 16,931</u>	<u>\$ 51,877</u>
SUPPLEMENTARY INFORMATION				
Interest expense paid	<u>\$</u>	<u>8,969</u>	<u>\$ 8,969</u>	<u>15,069</u>

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

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

ORGANIZATION

The Association was organized in the State of Maryland in September 1977. The Association is responsible for the operation and maintenance of the common property of Casa Del Sol Condominium. Casa Del Sol Condominium consists of 57 residential units and is located in Ocean City, Maryland.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements are presented using the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when the product or service has been received and the liability incurred.

Fund Accounting - In accordance with industry standards and practices, the Association has segregated its activities into two funds: the operating fund and the replacement fund.

Operating Fund - provides working capital for operations, contingencies, and replacements where specific funds have not been designated. If the operating fund is inadequate to meet funding requirements for any reason, the board of directors may levy at any time a further assessment.

Replacement Fund - provides funds for replacement of the common elements and equipment of the Association and for operating expenses of a non-recurring nature.

Total Columns on Combined Statement - Total columns on the combined statements are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Cash Equivalents - Investments with an original maturity of three months or less that are not restricted from immediate withdrawal and do not require a substantial penalty for early withdrawal are considered cash equivalents.

Property and Equipment - Real property and common areas acquired by the original owners from the developer are not capitalized on the Association financial statements, as they are owned by the individual owners and not the Association. Common areas are restricted to use by Association members, their tenants, and guests. Replacements and improvements to the real property and common areas are not capitalized, as the improvements would also belong to the owners and not the Association.

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MEMBER ASSESSMENTS

Association members are subject to assessments to provide funds for the Association's operating expenses, capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner. An allowance for doubtful accounts may be set up for those receivables where management still believes collectibility is in question. Any excess assessments at year-end are retained by the Association for use in future years.

DUE FROM MEMBERS

Due from members represents reimbursement due from the owners for window staining repairs that were paid by the Association during 2007.

LINE OF CREDIT

The Association has a line of credit which provides for maximum borrowings of \$600,000. Amounts outstanding under the line bear interest at the 7.75%. There was no outstanding balance as of December 31, 2007.

PREPAID ASSESSMENTS

Prepaid assessments include the subsequent year's assessments paid prior to current year-end.

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

INCOME TAXES

The Association qualifies as a tax-exempt homeowners association under Internal Revenue Code Section 528 for the year ended December 31, 2005. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government.

FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents give discretion to the board of directors to accumulate funds for future major repairs and replacements. Accumulated funds, which aggregate \$903 at December 31, 2007, are held in separate accounts and are generally not available for operating purposes. Total contributions for the year ended December 31, 2007 were \$10,000. It is the policy of the Association that interest earned in the replacement fund remains in the replacement fund as an additional contribution.

The board of directors and the management company conducted a study in 1999 to estimate the remaining useful lives and the replacement cost of the components of common property. The table included in the unaudited supplementary information is based on the study.

Funds are being accumulated in the replacement based on estimated future needs for repairs and replacements of common property components. However, the Association has elected to only partially adopt the funding requirements based on the study. Because actual expenditures may vary from estimated future expenditures and the variations may be material, amounts accumulated in the replacement fund may not be adequate to meet all future needs and major repairs and replacements. If additional funds are needed, however, the board of directors has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

SPECIAL ASSESSMENT

The Association passed a special assessment of \$657,250 during the year ended December 31, 2005 for the roof project. The roof project expenses exceeded the amount of the 2005 special assessment. During the year ended December 31, 2006 the Association decided to pass another special assessment of \$161,220 to cover additional costs related to the project. As of December 31, 2007, the Association had completed the project; therefore, \$161,220 has been recognized as income.

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

REPLACEMENT FUND EXPENSES

The Association incurred the following replacement fund expenses for the year ended December 31, 2007:

General and administrative	\$	8,969
Maintenance and repair		79
	<u>\$</u>	<u>9,048</u>

COMMITMENTS

The Association entered into an agreement with Mann Properties to manage the operations of the condominium. The agreement calls for an annual fee of \$9,040.

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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Salisbury

Board of Directors
Casa Del Sol Condominium

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Ocean City

Our report on our audit of the basic financial statements of Casa Del Sol Condominium for 2007 appears on page one. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of operating fund revenues and expenses - budget and actual are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the portion marked "unaudited", on which we express no opinion, has been subjected to the auditing 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.

The supplementary information on future major repairs and replacements is not a required part of the basic financial statements, but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

MEMBERS OF:

*AMERICAN INSTITUTE OF
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CERTIFIED PUBLIC ACCOUNTANTS*

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

PKF INTERNATIONAL August 14, 2008

CASA DEL SOL CONDOMINIUM

SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007		2006
	Budget	Actual	Actual
REVENUES			
Member assessments	\$ 112,510	\$ 112,509	\$ 97,248
Interest, late fees, and other income		3,610	188
TOTAL REVENUES	<u>112,510</u>	<u>116,119</u>	<u>97,436</u>
EXPENSES			
General and Administrative			
Management fees	8,610	8,610	8,200
Accounting fee	2,400	2,600	2,400
Legal fee	750		
Administrative	13,400	4,799	3,607
Meeting expense	1,800	579	1,485
	<u>26,960</u>	<u>16,588</u>	<u>15,692</u>
Insurance			
Package	53,700	52,107	48,017
Flood	4,700	3,501	4,421
	<u>58,400</u>	<u>55,608</u>	<u>52,438</u>
Maintenance and repair			
Building maintenance	6,500	7,100	10,283
Major repairs and maintenance	3,600	24,051	200
Operating supplies	1,000	110	382
Fire equipment/inspections	1,400	776	800
Exterminating	1,800	1,779	1,761
Custodial	8,000	6,371	3,438
	<u>22,300</u>	<u>40,187</u>	<u>16,864</u>
Utilities			
Electric	3,300	3,116	2,756
Water and sewer	1,500	1,201	1,041
	<u>4,800</u>	<u>4,317</u>	<u>3,797</u>
Income Tax	<u>50</u>		
TOTAL EXPENSES	<u>112,510</u>	<u>116,700</u>	<u>88,791</u>
Net revenues over (under) expenses	<u>\$</u>	<u>\$ (581)</u>	<u>\$ 8,645</u>

See accountants' report on supplementary information.

CASA DEL SOL CONDOMINIUM

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2007
(Unaudited)

The board of directors performed a study in 1999 to estimate the remaining useful life and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property.

The following table is based on the study and presents significant information about the components of common property.

Components	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Costs	Annual Funding Requirement
Bulkheads	30	22	\$ 360,316	\$ 12,011
Roof (future replacement)	9	1	86,629	9,625
Roof (immediate replacement)	10	2	86,629	8,663
Parking lot	10	2	17,499	1,750
Caulking	5	0	54,111	10,822
Siding	25	17	109,197	4,368
Fire alarm system	6	0	15,765	2,628
Decks (common\street)	12	4	73,188	6,099
Decks (common\canal)	12	4	150,656	13,388
Total			\$ 953,990	\$ 69,354

See accountants report on supplementary information.