

CASA DEL SOL CONDOMINIUM
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

CASA DEL SOL CONDOMINIUM

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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, 2009, 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 Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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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.

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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, 2009, 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

April 12, 2010

CASA DEL SOL CONDOMINIUM

BALANCE SHEETS

DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009		2008	
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 21,641	\$	\$ 21,641	\$ 342,872
Assessments receivable	493	5,251	5,744	220,229
Prepaid expenses	30,036		30,036	27,608
Prepaid income taxes				11
Due from members	600		600	450
Due from other funds		7,336	7,336	325,593
TOTAL ASSETS	\$ 52,770	\$ 12,587	\$ 65,357	\$ 916,763
LIABILITIES				
Line of credit	\$	\$ 10,000	\$ 10,000	\$
Accounts payable	878		878	573
Prepaid assessments	11,385		11,385	10,627
Deferred special assessments				528,314
Due to members				4,127
Due to other funds	7,336		7,336	325,593
TOTAL LIABILITIES	19,599	10,000	29,599	869,234
FUND BALANCES	33,171	2,587	35,758	47,529
TOTAL LIABILITIES AND FUND BALANCES	\$ 52,770	\$ 12,587	\$ 65,357	\$ 916,763

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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009		2008	
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 101,404	\$ 11,000	\$ 112,404	\$ 112,404
Special assessments		578,814	578,814	449,486
Interest, late fees, and other revenue	524	543	1,067	790
TOTAL REVENUES	101,928	590,357	692,285	562,680
EXPENSES				
General and administrative	15,999	12	16,011	15,096
Insurance	42,626		42,626	55,141
Maintenance and repair	29,327	611,063	640,390	459,999
Utilities	5,029		5,029	4,926
TOTAL EXPENSES	92,981	611,075	704,056	535,162
Net revenues over (under) expenses	8,947	(20,718)	(11,771)	27,518
Fund balances, beginning of year	24,224	23,305	47,529	20,011
Fund balances, end of year	\$ 33,171	\$ 2,587	\$ 35,758	\$ 47,529

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

CASA DEL SOL CONDOMINIUM

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009			2008
	Operating Fund	Replacement Fund	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net revenues over (under) expenses	\$ 8,947	\$ (20,718)	\$ (11,771)	\$ 27,518
(Increase) decrease				
Assessments receivable	164	214,321	214,485	(218,336)
Prepaid expenses	(2,428)		(2,428)	(16,083)
Prepaid income taxes	11		11	22
Due from members	(150)		(150)	
Increase (decrease)				
Accounts payable	305		305	573
Prepaid assessments	758		758	(194)
Deferred special assessments		(528,314)	(528,314)	528,314
Due to members	(4,127)		(4,127)	4,127
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>3,480</u>	<u>(334,711)</u>	<u>(331,231)</u>	<u>325,941</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund borrowings	(318,257)	318,257		
Proceeds from line of credit		10,000	10,000	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(318,257)</u>	<u>328,257</u>	<u>10,000</u>	
Net increase (decrease) in cash	(314,777)	(6,454)	(321,231)	325,941
Cash, beginning of year	<u>336,418</u>	<u>6,454</u>	<u>342,872</u>	<u>16,931</u>
Cash, end of year	<u>\$ 21,641</u>	<u>\$</u>	<u>\$ 21,641</u>	<u>\$ 342,872</u>
SUPPLEMENTARY INFORMATION				
Interest expense paid	<u>\$</u>	<u>\$ 1,158</u>	<u>\$ 1,158</u>	<u>\$</u>

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

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

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, 2009

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.

Subsequent Events - Management has evaluated subsequent events through April 12, 2010, which is the date the financial statements were available to be issued.

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 believes collectability 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 four owners for window staining repairs that were paid by the Association during 2007.

PREPAID ASSESSMENTS

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

INCOME TAXES

The Association qualifies as a tax-exempt homeowners association under Internal Revenue Code Section 528 for the year ended December 31, 2009. 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. It is the Association's policy that penalties and interest assessed by income taxing authorities, if any, are included in operating expenses.

The Federal and Maryland income tax returns for the Association for years after 2005 are subject to examination by the IRS or the Comptroller of Maryland, generally for three years after they were filed.

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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. As of December 31, 2009, all accumulated funds had been expended. Subsequent to December 31, 2009, the Association transferred funds into a separate replacement fund bank account. It is the policy of the Association that interest earned in the replacement fund remains in the replacement fund as an additional contribution.

The Association engaged an independent engineer who conducted a study in 2009, to estimate the remaining useful lives and the replacement costs of common property components. The estimates were based on current estimated replacement costs. The table included in the unaudited supplementary information is based on the study.

The Association has elected to only partially adopt the funding requirements based on the study. Accordingly, \$11,000 was contributed to the replacement fund during the year ended December 31, 2009. For that reason, and because actual expenditures may vary from estimated amounts and the variations may be material, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to member approval, to increase regular assessments, to levy special assessments, or to delay major repairs and replacements until funds are available.

SPECIAL ASSESSMENT

The Association passed a special assessment of \$991,800 during the year ended December 31, 2008, for front side renovations. An additional special assessment of \$51,300 was passed during 2009. A \$400 discount was given for owners paying the entire special assessment by October 31, 2008. Discounts credited to owners accounts during 2009 totaled \$800. The project was complete as of December 31, 2009, and \$578,814 has been recognized as special assessment income. As of December 31, 2009, \$5,251 remains to be collected.

LINE OF CREDIT

During the year ended December 31, 2009, the Association obtained an unsecured line of credit up to \$100,000 with Bank of Ocean City, which bears interest at 8.25%. There was \$10,000 outstanding on the line of credit at December 31, 2009. Interest paid on the line of credit was \$1,158 for the year ended December 31, 2009.

RELATED PARTY

The Association does business with a repairs and maintenance company in which the owner of the business is also the owner of a unit within the Association. For the year ended December 31, 2009, the Association transacted business in the amount of \$21,767, with the repairs and maintenance company.

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

RELATED PARTY (continued)

The Association does business with a website administrator in which the owner of the business is also the owner of a unit within the Association. For the year ended December 31, 2009, the Association transacted business in the amount of \$163 with the company.

SUBSEQUENT EVENT

During 2009 the Association hired an engineer to inspect pilings. The engineer's study reported that eleven pilings were in need of repair or replacement. Subsequent to the year ended December 31, 2009 the Association entered into a contract to replace the pilings at an estimated cost of \$27,500.

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 \$12,312.

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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**Board of Directors
 Casa Del Sol Condominium**

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Our report on our audit of the basic financial statements of Casa Del Sol Condominium for 2009 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 on page 10 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information 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 on page 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

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April 12, 2010

CASA DEL SOL CONDOMINIUM

SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	2009		2008
	Budget	Actual	Actual
REVENUES			
Member assessments	\$ 101,510	\$ 101,404	\$ 101,334
Net income from previous year	14,000		
Interest, late fees, and other revenue		524	773
TOTAL REVENUES	<u>115,510</u>	<u>101,928</u>	<u>102,107</u>
EXPENSES			
General and administrative			
Management fees	9,500	9,500	9,040
Accounting fee	3,300	3,500	3,000
Legal fee	750		
Administrative	3,400	2,487	2,970
Meeting expense	1,800	512	86
	<u>18,750</u>	<u>15,999</u>	<u>15,096</u>
Insurance			
Package	45,000	37,951	50,886
Flood	5,000	4,675	4,255
	<u>50,000</u>	<u>42,626</u>	<u>55,141</u>
Maintenance and repair			
Building maintenance	6,900	8,096	4,520
Front storage doors	17,100	16,963	
Piers and pilings	1,800		
Operating supplies	1,000	221	110
Landscaping	1,000		
Fire equipment/inspections	3,000	1,408	2,394
Exterminating	2,000	2,639	1,862
Custodial	8,000		1,627
	<u>40,800</u>	<u>29,327</u>	<u>10,513</u>
Utilities			
Electric	4,400	4,816	4,090
Water and sewer	1,500	213	836
	<u>5,900</u>	<u>5,029</u>	<u>4,926</u>
Income tax	60		
TOTAL EXPENSES	<u>115,510</u>	<u>92,981</u>	<u>85,676</u>
Net revenues over expenses	<u>\$</u>	<u>\$ 8,947</u>	<u>\$ 16,431</u>

See accountants' report on supplementary information.

CASA DEL SOL CONDOMINIUM

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2009
(Unaudited)

MAD Engineering, Inc. conducted a study in 2009 to estimate the remaining useful life and the replacement costs of the components of common property. The estimates were based on current replacement costs.

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	35	19	\$ 373,378	\$ 10,668
Roof	25	19	112,257	4,490
Parking lot	35	5	27,600	789
Caulking	10	7	84,624	8,462
Siding	50	46	240,472	4,809
Fire alarm system	30	0	15,150	505
Decks (common\street)	40	38	574,908	14,373
Decks (common\canal)	40	9	927,883	23,197
Total			\$ 2,356,272	\$ 67,293

See accountants report on supplementary information.