

**CASA DEL SOL CONDOMINIUM**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**

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          |



**PKS & Company, P.A.**

*Pigg, Krahl & Stern*

**Certified Public Accountants  
& Advisors to Business**

ANDREW M. HAYNIE, CPA

SUSAN P. KEEN, CPA

MICHAEL C. KLEGER, CPA

JEFFREY A. MICHALIK, CPA

DANIEL M. O'CONNELL II, CPA

JAMES Y. PIGG, CPA, EMERITUS

JEFFERY D. PRUITT, CPA

JOHN M. STERN, JR., CPA

## INDEPENDENT AUDITORS' REPORT

**Board of Directors  
Casa Del Sol Condominium**

[www.pkscpa.com](http://www.pkscpa.com)

### **Salisbury**

1801 SWEETBAY DRIVE

P.O. BOX 72

SALISBURY, MD 21803

TEL: 410.546.5600

FAX: 410.548.9576

We have audited the accompanying balance sheet of Casa Del Sol Condominium as of December 31, 2010, 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.

### **Ocean City**

12308 OCEAN GATEWAY, UNIT #5

OCEAN CITY, MD 21842

TEL: 410.213.7185

FAX: 410.213.7638

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Casa Del Sol Condominium for the year ended December 31, 2010, 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.

### **MEMBERS OF:**

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

PKF INTERNATIONAL

*PKS & Company, P.A.*  
CERTIFIED PUBLIC ACCOUNTANTS

**March 16, 2011**

CASA DEL SOL CONDOMINIUM

BALANCE SHEETS

DECEMBER 31, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

|  | 2010             |                  | Total            | 2009             |
|--|------------------|------------------|------------------|------------------|
|  | Operating Fund   | Replacement Fund |                  | Total            |
| <b>ASSETS</b>                              |                  |                  |                  |                  |
| Cash                                       | \$ 19,491        | \$ 11,042        | \$ 30,533        | \$ 21,641        |
| Assessments receivable                     | 571              |                  | 571              | 5,744            |
| Prepaid expenses                           | 32,229           |                  | 32,229           | 30,036           |
| Due from members                           |                  |                  |                  | 600              |
| Due from other funds                       | 14,901           |                  | 14,901           | 7,336            |
| <b>TOTAL ASSETS</b>                        | <u>\$ 67,192</u> | <u>\$ 11,042</u> | <u>\$ 78,234</u> | <u>\$ 65,357</u> |
| <b>LIABILITIES</b>                         |                  |                  |                  |                  |
| Line of credit                             | \$               | \$               | \$               | \$ 10,000        |
| Accounts payable                           | 3,868            |                  | 3,868            | 878              |
| Prepaid assessments                        | 13,839           |                  | 13,839           | 11,385           |
| Due to other funds                         |                  | 14,901           | 14,901           | 7,336            |
| <b>TOTAL LIABILITIES</b>                   | <u>17,707</u>    | <u>14,901</u>    | <u>32,608</u>    | <u>29,599</u>    |
| <b>FUND BALANCES (DEFICIT)</b>             | <u>49,485</u>    | <u>(3,859)</u>   | <u>45,626</u>    | <u>35,758</u>    |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <u>\$ 67,192</u> | <u>\$ 11,042</u> | <u>\$ 78,234</u> | <u>\$ 65,357</u> |

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, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

|  | 2010             |                   | 2009             |
|--|------------------|-------------------|------------------|
|  | Operating Fund   | Replacement Fund  | Total            |
| <b>REVENUES</b>                        |                  |                   |                  |
| Member assessments                     | \$ 107,822       | \$ 21,454         | \$ 129,276       |
| Special assessments                    |                  |                   | \$ 112,404       |
| Interest, late fees, and other revenue | 120              | 42                | 162              |
| <b>TOTAL REVENUES</b>                  | <b>107,942</b>   | <b>21,496</b>     | <b>129,438</b>   |
| <b>EXPENSES</b>                        |                  |                   |                  |
| General and administrative             | 19,354           |                   | 19,354           |
| Insurance                              | 44,951           |                   | 44,951           |
| Maintenance and repair                 | 21,850           | 27,942            | 49,792           |
| Utilities                              | 5,473            |                   | 5,473            |
| <b>TOTAL EXPENSES</b>                  | <b>91,628</b>    | <b>27,942</b>     | <b>119,570</b>   |
| Net revenues over (under) expenses     | 16,314           | (6,446)           | 9,868            |
| Fund balances, beginning of year       | 33,171           | 2,587             | 35,758           |
| Fund balances (deficit), end of year   | <u>\$ 49,485</u> | <u>\$ (3,859)</u> | <u>\$ 45,626</u> |
|  |                  |                   | <u>\$ 35,758</u> |

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

CASA DEL SOL CONDOMINIUM

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

|   | 2010             |                  |                  | 2009             |
|---|------------------|------------------|------------------|------------------|
|   | Operating Fund   | Replacement Fund | Total            | Total            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>             |                  |                  |                  |                  |
| Net revenues over (under) expenses                      | \$ 16,314        | \$ (6,446)       | \$ 9,868         | \$ (11,771)      |
| (Increase) decrease                                     |                  |                  |                  |                  |
| Assessments receivable                                  | (78)             | 5,251            | 5,173            | 214,485          |
| Prepaid expenses  | (2,193)          |                  | (2,193)          | (2,428)          |
| Prepaid income taxes                                    |                  |                  |                  | 11               |
| Due from members  | 600              |                  | 600              | (150)            |
| Increase (decrease)                                     |                  |                  |                  |                  |
| Accounts payable  | 2,991            |                  | 2,991            | 305              |
| Prepaid assessments                                     | 2,453            |                  | 2,453            | 758              |
| Deferred special assessments                            |                  |                  |                  | (528,314)        |
| Due to members  |                  |                  |                  | (4,127)          |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b> | <u>20,087</u>    | <u>(1,195)</u>   | <u>18,892</u>    | <u>(331,231)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>             |                  |                  |                  |                  |
| Interfund borrowings                                    | (22,237)         | 22,237           |                  |                  |
| Proceeds from (repayment of) line of credit             |                  | (10,000)         | (10,000)         | 10,000           |
| <b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b> | <u>(22,237)</u>  | <u>12,237</u>    | <u>(10,000)</u>  | <u>10,000</u>    |
| Net increase (decrease) in cash                         | (2,150)          | 11,042           | 8,892            | (321,231)        |
| Cash, beginning of year                                 | <u>21,641</u>    |                  | <u>21,641</u>    | <u>342,872</u>   |
| Cash, end of year                                       | <u>\$ 19,491</u> | <u>\$ 11,042</u> | <u>\$ 30,533</u> | <u>\$ 21,641</u> |
| <b>SUPPLEMENTARY INFORMATION</b>                        |                  |                  |                  |                  |
| Interest expense paid                                   | <u>\$</u>        | <u>\$ 77</u>     | <u>\$ 77</u>     | <u>\$ 1,158</u>  |

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

CASA DEL SOL CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

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, 2010

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 March 16, 2011, 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.

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, 2010. 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 2007, 2008, and 2009 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, 2010

**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 \$11,042 at December 31, 2010, are held in separate accounts and are generally not available for operating purposes. 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, \$21,454 was contributed to the replacement fund during the year ended December 31, 2010. 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.

**REPLACEMENT FUND EXPENSES**

The Association incurred the following replacement fund expenses for the year ended December 31, 2010:

|                                 |                         |
|---------------------------------|-------------------------|
| Piling repairs                  | \$ 27,865               |
| Interest paid on line of credit | <u>77</u>               |
| Total replacement fund expenses | <u><u>\$ 27,942</u></u> |

**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, 2010, the Association transacted business in the amount of \$6,642 with the repairs and maintenance company.

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, 2010, the Association transacted business in the amount of \$159 with the company.

**CASA DEL SOL CONDOMINIUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**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 \$12,654.

**SUPPLEMENTARY INFORMATION**



**PKS & Company, P.A.**

*Pigg, Krahl & Stern*

*Certified Public Accountants  
& Advisors*

ANDREW M. HAYNIE, CPA  
SUSAN P. KEEN, CPA  
MICHAEL C. KLEGER, CPA  
JEFFREY A. MICHALIK, CPA  
DANIEL M. O'CONNELL II, CPA  
JAMES Y. PIGG, CPA, EMERITUS  
JEFFERY D. PRUITT, CPA  
JOHN M. STERN, JR., CPA

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION**

**Board of Directors  
Casa Del Sol Condominium**

[www.pkscpa.com](http://www.pkscpa.com)

**Salisbury**

1801 SWEETBAY DRIVE  
P.O. BOX 72  
SALISBURY, MD 21803  
TEL: 410.546.5600  
FAX: 410.548.9576

**Ocean City**

12308 OCEAN GATEWAY, UNIT #5  
OCEAN CITY, MD 21842  
TEL: 410.213.7185  
FAX: 410.213.7638

We have audited the financial statements of Casa Del Sol Condominium as of and for the year ended December 31, 2010, and our report thereon dated March 16, 2011, which contained an unqualified opinion on those financial statements, appears on page one. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of operating fund revenues and expenses - budget and actual, which is the responsibility of management, are presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the portion marked as "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 11 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.

*MEMBERS OF:*

*AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS*

*MARYLAND ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS*

*DELAWARE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS*

*PKF INTERNATIONAL*

*PKS & Company, P.A.*

**CERTIFIED PUBLIC ACCOUNTANTS**

**March 16, 2011**

CASA DEL SOL CONDOMINIUM

SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2010  
(WITH COMPARATIVE TOTALS FOR 2009)

|  | 2010                  |                  | 2009            |
|--|-----------------------|------------------|-----------------|
|  | Budget<br>(Unaudited) | Actual           | Actual          |
| <b>REVENUES</b>                        |                       |                  |                 |
| Member assessments                     | \$ 107,822            | \$ 107,822       | \$ 101,404      |
| Interest, late fees, and other revenue |                       | 120              | 524             |
| <b>TOTAL REVENUES</b>                  | <u>107,822</u>        | <u>107,942</u>   | <u>101,928</u>  |
| <b>EXPENSES</b>                        |                       |                  |                 |
| <b>General and administrative</b>      |                       |                  |                 |
| Management fees                        | 12,312                | 12,312           | 9,500           |
| Accounting fees                        | 3,500                 | 3,200            | 3,500           |
| Legal fees                             | 750                   |                  |                 |
| Professional fees                      |                       | 1,450            |                 |
| Administrative                         | 2,400                 | 2,265            | 2,487           |
| Meeting expense                        | 1,800                 | 127              | 512             |
|  | <u>20,762</u>         | <u>19,354</u>    | <u>15,999</u>   |
| <b>Insurance</b>                       |                       |                  |                 |
| Multi-peril                            | 45,000                | 40,214           | 37,951          |
| Flood                                  | 5,100                 | 4,737            | 4,675           |
|  | <u>50,100</u>         | <u>44,951</u>    | <u>42,626</u>   |
| <b>Maintenance and repair</b>          |                       |                  |                 |
| Building maintenance                   | 6,900                 | 5,651            | 8,096           |
| Front storage doors                    |                       |                  | 16,963          |
| Piers and pilings                      | 1,800                 | 1,400            |                 |
| Parking lot repairs/resealing          | 8,000                 | 5,614            |                 |
| Operating supplies                     | 1,000                 | 384              | 221             |
| Landscaping                            | 1,000                 |                  |                 |
| Fire alarm services                    | 2,000                 | 1,511            | 1,408           |
| Exterminating                          | 2,700                 | 2,979            | 2,639           |
| Custodial                              | 7,000                 | 4,311            |                 |
|  | <u>30,400</u>         | <u>21,850</u>    | <u>29,327</u>   |
| <b>Utilities</b>                       |                       |                  |                 |
| Electric                               | 5,000                 | 3,937            | 4,816           |
| Water and sewer                        | 1,500                 | 1,536            | 213             |
|  | <u>6,500</u>          | <u>5,473</u>     | <u>5,029</u>    |
| <b>Income tax</b>                      | 60                    |                  |                 |
| <b>TOTAL EXPENSES</b>                  | <u>107,822</u>        | <u>91,628</u>    | <u>92,981</u>   |
| <b>Net revenues over expenses</b>      | <u>\$</u>             | <u>\$ 16,314</u> | <u>\$ 8,947</u> |

See auditors' report on supplementary information.

CASA DEL SOL CONDOMINIUM

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2010  
(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.

| <u>Components</u>     | <u>Estimated Useful Life (Years)</u> | <u>Estimated Remaining Useful Life (Years)</u> | <u>Estimated Current Replacement Costs</u> | <u>Annual Funding Requirement</u> |
|-----------------------|--------------------------------------|--|--|-----------------------------------|
| Bulkheads             | 35                                   | 18   | \$ 373,378                                 | \$ 10,668                         |
| Roof                  | 25                                   | 18   | 112,257                                    | 4,490                             |
| Parking lot           | 35                                   | 4  | 27,600                                     | 789                               |
| Caulking              | 10                                   | 6  | 84,624                                     | 8,462                             |
| Siding                | 50                                   | 45   | 240,472                                    | 4,809                             |
| Fire alarm system     | 30                                   | 0  | 15,150                                     | 505                               |
| Decks (common\street) | 40                                   | 37   | 574,908                                    | 14,373                            |
| Decks (common\canal)  | 40                                   | 8  | 927,883                                    | 23,197                            |
| Total                 |                                      |  | <u>\$ 2,356,272</u>                        | <u>\$ 67,293</u>                  |

See auditors' report on supplementary information.