

CASA DEL SOL CONDOMINIUM
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

CASA DEL SOL CONDOMINIUM

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INDEPENDENT AUDITORS' REPORT

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PKF INTERNATIONAL

We have audited the accompanying financial statements of Casa Del Sol Condominium, which comprise the balance sheets as of December 31, 2012, and the related statements of revenues, expenses, and 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.

Auditors' 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 auditors' 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 statements 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 Casa Del Sol Condominium as of December 31, 2012, 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.

PXS & Company, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

February 27, 2013

CASA DEL SOL CONDOMINIUM

BALANCE SHEETS

DECEMBER 31, 2012

(WITH COMPARATIVE TOTALS FOR 2011)

	2012			2011
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 41,469	\$ 112,428	\$ 153,897	\$ 88,263
Assessments receivable	2,244		2,244	2,604
Prepaid expenses	34,615		34,615	32,464
Due from other funds	17,005		17,005	12,000
TOTAL ASSETS	<u>\$ 95,333</u>	<u>\$ 112,428</u>	<u>\$ 207,761</u>	<u>\$ 135,331</u>
LIABILITIES				
Accounts payable	\$ 825	\$	\$ 825	\$
Prepaid assessments	12,702		12,702	18,078
Due to other funds		17,005	17,005	12,000
TOTAL LIABILITIES	<u>13,527</u>	<u>17,005</u>	<u>30,532</u>	<u>30,078</u>
FUND BALANCES	<u>81,806</u>	<u>95,423</u>	<u>177,229</u>	<u>105,253</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 95,333</u>	<u>\$ 112,428</u>	<u>\$ 207,761</u>	<u>\$ 135,331</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, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012			2011
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 108,800	\$ 61,630	\$ 170,430	\$ 148,200
Interest, late fees, and other revenue	697	237	934	369
TOTAL REVENUES	109,497	61,867	171,364	148,569
EXPENSES				
General and administrative	18,957		18,957	18,412
Insurance	46,687		46,687	44,876
Maintenance and repair	11,362	17,005	28,367	21,170
Utilities	5,377		5,377	4,484
TOTAL EXPENSES	82,383	17,005	99,388	88,942
Net revenues over expenses	27,114	44,862	71,976	59,627
Fund balances, beginning of year	66,692	38,561	105,253	45,626
Permanent equity transfer	(12,000)	12,000		
Fund balances, end of year	\$ 81,806	\$ 95,423	\$ 177,229	\$ 105,253

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

CASA DEL SOL CONDOMINIUM

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012			2011
	Operating Fund	Replacement Fund	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net revenues over expenses	\$ 27,114	\$ 44,862	\$ 71,976	\$ 59,627
(Increase) decrease				
Assessments receivable	360		360	(2,032)
Prepaid expenses	(2,151)		(2,151)	(236)
Due from members				
Increase (decrease)				
Accounts payable	825		825	(3,868)
Prepaid assessments	(5,376)		(5,376)	4,239
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>20,772</u>	<u>44,862</u>	<u>65,634</u>	<u>57,730</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund borrowings	(5,005)	5,005		
Permanent equity transfer	(12,000)	12,000		
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(17,005)</u>	<u>17,005</u>		
Net increase in cash	3,767	61,867	65,634	57,730
Cash, beginning of year	<u>37,702</u>	<u>50,561</u>	<u>88,263</u>	<u>30,533</u>
Cash, end of year	<u>\$ 41,469</u>	<u>\$ 112,428</u>	<u>\$ 153,897</u>	<u>\$ 88,263</u>

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

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

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, 2012

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 February 27, 2013, 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 has elected to file as a homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2012. 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 the years after 2008 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, 2012

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 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, \$61,630 was contributed to the replacement fund during the year ended December 31, 2012. 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. The 2013 budget approved during 2012 included an increase in the budgeted replacement contribution to \$71,320 which is \$4,027 more than the annual amount called for in the study. The 2013 budget marks the fourth consecutive budgeted increase in the annual replacement contribution.

REPLACEMENT FUND EXPENSES

The Association incurred replacement fund expenses in the amount of \$17,005 for carport repairs during the year ended December 31, 2012.

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, 2012, the Association transacted business in the amount of \$5,713 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, 2012, the Association transacted business in the amount of \$172 with the company.

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



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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Board of Directors
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Report on Supplementary Information

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We have audited the financial statements of Casa Del Sol Condominium as of and for the year ended December 31, 2012, and our report thereon dated February 27, 2013, which expressed an unmodified opinion on those financial statements, appears on page one. Our audit was conducted 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, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for the portion marked as "unaudited", is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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, the 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.

Disclaimer of Opinion on Required Supplementary Information

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.

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February 27, 2013

CASA DEL SOL CONDOMINIUM

SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012		2011
	Budget (Unaudited)	Actual	Actual
REVENUES			
Member assessments	\$ 108,800	\$ 108,800	\$ 108,800
Interest, late fees, and other revenue		697	250
TOTAL REVENUES	<u>108,800</u>	<u>109,497</u>	<u>109,050</u>
EXPENSES			
General and administrative			
Management fees	12,654	12,654	12,654
Accounting fees	3,500	3,200	3,200
Legal fees	2,000		
Professional fees	1,450	135	293
Administrative	3,000	2,968	2,006
Meeting expense	800		259
	<u>23,404</u>	<u>18,957</u>	<u>18,412</u>
Insurance			
Multi-peril	45,000	41,548	39,889
Flood	5,500	5,139	4,987
	<u>50,500</u>	<u>46,687</u>	<u>44,876</u>
Maintenance and repair			
Building maintenance	11,550	3,199	2,116
Piers and pilings	1,800		
Parking lot repairs/resealing	1,300		
Operating supplies	700	691	112
Landscaping	1,000	1,566	
Fire alarm services	2,000	1,089	788
Exterminating	3,000	2,639	2,299
Custodial	7,000	2,178	3,855
	<u>28,350</u>	<u>11,362</u>	<u>9,170</u>
Utilities			
Electric	4,500	2,814	3,129
Water and sewer	2,000	2,563	1,355
	<u>6,500</u>	<u>5,377</u>	<u>4,484</u>
Income tax	46		
TOTAL EXPENSES	<u>108,800</u>	<u>82,383</u>	<u>76,942</u>
Net revenues over expenses	<u>\$</u>	<u>\$ 27,114</u>	<u>\$ 32,108</u>

See auditors' report on supplementary information.

CASA DEL SOL CONDOMINIUM

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2012

(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.

The 2013 budget approved during 2012 included an increase in the budgeted replacement contribution to \$71,320, which is \$4,027 above the annual amount called for in the study. The 2013 budget marks the fourth consecutive budgeted increase in the annual replacement contribution.

Components	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Costs	Annual Funding Requirement
Bulkheads	35	16	\$ 373,378	\$ 10,668
Roof	25	16	112,257	4,490
Parking lot	35	2	27,600	789
Caulking	10	4	84,624	8,462
Siding	50	43	240,472	4,809
Fire alarm system	30	0	15,150	505
Decks (common\street)	40	35	574,908	14,373
Decks (common\canal)	40	6	927,883	23,197
Total			\$ 2,356,272	\$ 67,293

See auditors' report on supplementary information.