

CASA DEL SOL CONDOMINIUM
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

CASA DEL SOL CONDOMINIUM

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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
JEFFERY D. PRUITT, CPA
JOHN M. STERN, JR., CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Casa Del Sol Condominium

www.pkscpa.com

We have audited the accompanying financial statements of Casa Del Sol Condominium, which comprise the balance sheet as of December 31, 2013, 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.

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

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.

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

Lewes
1143 SAVANNAH ROAD, SUITE 1
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

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.

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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, 2013, 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

Salisbury, Maryland
March 19, 2014

CASA DEL SOL CONDOMINIUM

BALANCE SHEETS

DECEMBER 31, 2013

(WITH COMPARATIVE TOTALS FOR 2012)

	2013			2012
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 51,080	\$ 184,545	\$ 235,625	\$ 153,897
Assessments receivable	7,084		7,084	2,244
Prepaid expenses	36,934		36,934	34,615
Due from members	7,265		7,265	
Due from other funds	17,005		17,005	17,005
TOTAL ASSETS	<u>\$ 119,368</u>	<u>\$ 184,545</u>	<u>\$ 303,913</u>	<u>\$ 207,761</u>
LIABILITIES				
Accounts payable	\$ 5,574	\$	\$ 5,574	\$ 825
Prepaid assessments	16,652		16,652	12,702
Due to other funds		17,005	17,005	17,005
TOTAL LIABILITIES	<u>22,226</u>	<u>17,005</u>	<u>39,231</u>	<u>30,532</u>
FUND BALANCES	<u>97,142</u>	<u>167,540</u>	<u>264,682</u>	<u>177,229</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 119,368</u>	<u>\$ 184,545</u>	<u>\$ 303,913</u>	<u>\$ 207,761</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, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013		2012
	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments	\$ 108,800	\$ 71,320	\$ 180,120
Interest, late fees, and other revenue	2,000	797	2,797
TOTAL REVENUES	110,800	72,117	182,917
EXPENSES			
General and administrative	19,690		19,690
Insurance	49,116		49,116
Maintenance and repair	20,707		20,707
Utilities	5,951		5,951
TOTAL EXPENSES	95,464		95,464
Net revenues over expenses	15,336	72,117	87,453
Fund balances, beginning of year	81,806	95,423	177,229
Fund balances, end of year	\$ 97,142	\$ 167,540	\$ 264,682

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

CASA DEL SOL CONDOMINIUM

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013			2012
	Operating Fund	Replacement Fund	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net revenues over expenses	\$ 15,336	\$ 72,117	\$ 87,453	\$ 71,976
(Increase) decrease				
Assessments receivable	(4,840)		(4,840)	360
Prepaid expenses	(2,319)		(2,319)	(2,151)
Due from members	(7,265)		(7,265)	
Increase (decrease)				
Accounts payable	4,749		4,749	825
Prepaid assessments	3,950		3,950	(5,376)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>9,611</u>	<u>72,117</u>	<u>81,728</u>	<u>65,634</u>
Net increase in cash	9,611	72,117	81,728	65,634
Cash, beginning of year	<u>41,469</u>	<u>112,428</u>	<u>153,897</u>	<u>88,263</u>
Cash, end of year	<u>\$ 51,080</u>	<u>\$ 184,545</u>	<u>\$ 235,625</u>	<u>\$ 153,897</u>

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

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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, 2013

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 19, 2014, 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 consists of the following:

Insurance deductible receivable	\$ 5,000
Owner expense reimbursement receivable	265
Violation fees receivable	<u>2,000</u>
Total due from members	<u><u>\$ 7,265</u></u>

PREPAID ASSESSMENTS

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

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

INCOME TAXES

The Association has elected to file as a homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2013. 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 2009 are subject to examination by the IRS or the Comptroller of Maryland, generally for three years after they were filed.

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.

Funds are being accumulated in the replacement fund based on estimated future needs for repairs and replacements of common property components. Actual expenditures may vary from estimated future expenditures and the variations may be material, therefore, 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, 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.

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, 2013, the Association transacted business in the amount of \$6,238 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, 2013, the Association transacted business in the amount of \$224 with the company.

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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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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

Lewes
1143 SAVANNAH ROAD, SUITE 1
LEWES, DE 19958
TEL: 302.645.5757
FAX: 302.645.1757

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Casa Del Sol Condominium

Report on Supplementary Information

We have audited the financial statements of Casa Del Sol Condominium as of and for the year ended December 31, 2013, and our report thereon dated March 19, 2014, which expressed an unmodified opinion on those financial statements, appears on pages one and two. Our audit was performed for the purpose of forming an opinion on the financial statements 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 are 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, 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 12 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.

PKS & Company, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
March 19, 2014

CASA DEL SOL CONDOMINIUM

SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013		2012
	Budget (Unaudited)	Actual	Actual
REVENUES			
Member assessments	\$ 108,800	\$ 108,800	\$ 108,800
Interest, late fees, and other revenue		2,000	697
TOTAL REVENUES	<u>108,800</u>	<u>110,800</u>	<u>109,497</u>
EXPENSES			
General and administrative			
Management fees	12,654	12,654	12,654
Accounting fees	3,500	3,350	3,200
Legal fees	2,000	570	
Professional fees	1,450		135
Administrative	3,000	3,116	2,968
Meeting expense	600		
	<u>23,204</u>	<u>19,690</u>	<u>18,957</u>
Insurance			
Multi-peril	47,000	43,664	41,548
Flood	5,700	5,452	5,139
	<u>52,700</u>	<u>49,116</u>	<u>46,687</u>
Maintenance and repair			
Building maintenance	11,050	12,629	3,199
Piers and pilings	1,800		
Parking lot repairs/resealing	1,300	463	
Operating supplies	700	364	691
Landscaping	2,000	1,085	1,566
Fire alarm services	2,000	1,386	1,089
Exterminating	3,000	2,645	2,639
Custodial	5,000	2,135	2,178
	<u>26,850</u>	<u>20,707</u>	<u>11,362</u>
Utilities			
Electric	3,800	3,246	2,814
Water and sewer	2,200	2,705	2,563
	<u>6,000</u>	<u>5,951</u>	<u>5,377</u>
Income tax	46		
TOTAL EXPENSES	<u>108,800</u>	<u>95,464</u>	<u>82,383</u>
Net revenues over expenses	<u>\$</u>	<u>\$ 15,336</u>	<u>\$ 27,114</u>

See auditors' report on supplementary information.

CASA DEL SOL CONDOMINIUM

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2013
(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 remaining useful lives have been adjusted based on the number of years since the study was completed.

Components	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Costs	Annual Funding Requirement
Bulkheads	35	15	\$ 373,378	\$ 10,668
Roof	25	15	112,257	4,490
Parking lot	35	1	27,600	789
Caulking	10	3	84,624	8,462
Siding	50	42	240,472	4,809
Fire alarm system	30	0	15,150	505
Decks (common\street)	40	34	574,908	14,373
Decks (common\canal)	40	5	927,883	23,197
Total			\$ 2,356,272	\$ 67,293

See auditors' report on supplementary information.