

**CASA DEL SOL CONDOMINIUM**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

# CASA DEL SOL CONDOMINIUM

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## INDEPENDENT AUDITORS' REPORT

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PKF INTERNATIONAL

Board of Directors and Management  
Casa Del Sol Condominium

We have audited the accompanying financial statements of Casa Del Sol Condominium, which comprise the balance sheet as of December 31, 2015, 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 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.

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, 2015, 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.

***Report on Summarized Comparative Information***

We have previously audited the Association's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 20, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**CERTIFIED PUBLIC ACCOUNTANTS**

Ocean City, Maryland  
April 2, 2016

**CASA DEL SOL CONDOMINIUM**

**BALANCE SHEETS**

**DECEMBER 31, 2015  
(WITH COMPARATIVE TOTALS FOR 2014)**

**ASSETS**

	2015		2014
	Operating Fund	Replacement Fund	Total
Cash	\$ 17,208	\$ 328,138	\$ 345,346
Assessments receivable	2,021		2,021
Prepaid expenses	40,005		40,005
Total assets	<u>\$ 59,234</u>	<u>\$ 328,138</u>	<u>\$ 387,372</u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES**

Accounts payable	\$ 801	\$	\$ 801	\$ 853
Income taxes payable	28		28	
Prepaid assessments	9,051		9,051	16,651
Total liabilities	<u>9,880</u>		<u>9,880</u>	<u>17,504</u>
<b>FUND BALANCES</b>	<u>49,354</u>	<u>328,138</u>	<u>377,492</u>	<u>351,114</u>
Total liabilities and fund balances	<u>\$ 59,234</u>	<u>\$ 328,138</u>	<u>\$ 387,372</u>	<u>\$ 368,618</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, 2015  
(WITH COMPARATIVE TOTALS FOR 2014)**

	2015		2014	
	Operating Fund	Replacement Fund	Total	Total
<b>REVENUES</b>				
Member assessments	\$ 108,800	\$ 71,320	\$ 180,120	\$ 180,120
Interest, late fees, and other revenue	1,030	1,683	2,713	3,762
 Total revenues	 <u>109,830</u>	 <u>73,003</u>	 <u>182,833</u>	 <u>183,882</u>
<b>EXPENSES</b>				
General and administrative	23,489		23,489	23,204
Insurance	56,717		56,717	52,616
Maintenance and repair	66,487	2,022	68,509	14,482
Utilities	7,712		7,712	7,148
Income taxes	28		28	
 Total expenses	 <u>154,433</u>	 <u>2,022</u>	 <u>156,455</u>	 <u>97,450</u>
 Net revenues over (under) expenses	 (44,603)	 70,981	 26,378	 86,432
<b>FUND BALANCES, BEGINNING OF YEAR</b>				
	<u>93,957</u>	<u>257,157</u>	<u>351,114</u>	<u>264,682</u>
<b>FUND BALANCES, END OF YEAR</b>				
	<u>\$ 49,354</u>	<u>\$ 328,138</u>	<u>\$ 377,492</u>	<u>\$ 351,114</u>

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

**CASA DEL SOL CONDOMINIUM**  
**STATEMENTS OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2015**  
**(WITH COMPARATIVE TOTALS FOR 2014)**

	2015			2014
	Operating Fund	Replacement Fund	Total	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net revenues over (under) expenses	\$ (44,603)	\$ 70,981	\$ 26,378	\$ 86,432
(Increase) decrease				
Assessments receivable	(1,141)		(1,141)	6,204
Prepaid expenses	(707)		(707)	(2,366)
Due from members				7,265
Increase (decrease)				
Accounts payable	(50)		(50)	(4,721)
Income taxes payable	28		28	
Prepaid assessments	(7,600)		(7,600)	(1)
Net cash provided (used) by operating activities	<u>(54,073)</u>	<u>70,981</u>	<u>16,908</u>	<u>92,813</u>
Net increase (decrease) in cash	(54,073)	70,981	16,908	92,813
<b>CASH, BEGINNING OF YEAR</b>	<u>71,281</u>	<u>257,157</u>	<u>328,438</u>	<u>235,625</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 17,208</u></u>	<u><u>\$ 328,138</u></u>	<u><u>\$ 345,346</u></u>	<u><u>\$ 328,438</u></u>

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

**CASA DEL SOL CONDOMINIUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**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.



**CASA DEL SOL CONDOMINIUM**  
**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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 2, 2016, which is the date the financial statements were available to be issued.

**CASH BALANCES**

Cash accounts with a federally insured bank are insured up to \$250,000 by the FDIC, an agency of the Federal government. At December 31, 2015, the Association had deposits that exceeded the FDIC limit by \$95,751.

**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 are reported at the amount management expects to collect 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. Based on an assessment of the current status of individual accounts, management provides for uncollectible amounts through a charge to expense with an offsetting entry to an allowance for uncollectible assessments. As of December 31, 2015, management considers all assessments to be collectible and therefore, no allowance for uncollectible assessments was considered necessary. Any excess assessments at year end are retained by the Association for use in future years.

**CASA DEL SOL CONDOMINIUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**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, 2015. 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.

**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 2014 and revised it in 2015 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 as recommended by the study. 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.

**CASA DEL SOL CONDOMINIUM**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**REPLACEMENT FUND EXPENSES**

The Association incurred \$2,022 in replacement fund expenses for the exterior signs.

**RELATED PARTIES**

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, 2015, the Association transacted business in the amount of \$54,382 with the repairs and maintenance company for the powerwashing, building staining, and custodial services.

**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 \$12,970.

**SUPPLEMENTARY INFORMATION**



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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors and Management  
Casa Del Sol Condominium

### *Report on Supplementary Information*

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PKF INTERNATIONAL

We have audited the financial statements of Casa Del Sol Condominium as of and for the year ended December 31, 2015, and our report thereon dated April 2, 2016, which expressed an unmodified opinion on those financial statements, appears on page one and two. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of operating fund revenues and expenses - budget and actual, which is the responsibility of the Association's management, is 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.

### *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 pages 14 through 17 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.

Ocean City, Maryland  
April 2, 2016

**CERTIFIED PUBLIC ACCOUNTANTS**

**CASA DEL SOL CONDOMINIUM**

**SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES  
BUDGET AND ACTUAL**

**YEAR ENDED DECEMBER 31, 2015  
(WITH COMPARATIVE TOTALS FOR 2014)**

	2015		2014
	Budget (Unaudited)	Actual	Actual
<b>REVENUES</b>			
Member assessments	\$ 108,800	\$ 108,800	\$ 108,800
Interest, late fees, and other revenue		1,030	2,470
Total revenues	<u>108,800</u>	<u>109,830</u>	<u>111,270</u>
<b>EXPENSES</b>			
General and administrative			
Management fees	12,970	12,970	12,654
Accounting fees	3,500	3,650	3,500
Legal fees	2,030	3,343	
Professional fees		919	4,100
Administrative	3,600	2,607	2,950
	<u>22,100</u>	<u>23,489</u>	<u>23,204</u>
Insurance			
Multi-peril	51,000	49,210	46,536
Flood	6,800	7,507	6,080
	<u>57,800</u>	<u>56,717</u>	<u>52,616</u>
Maintenance and repair			
Building maintenance	7,000	53,839	5,324
Piers and pilings	1,800	2,125	1,100
Parking lot repairs/resealing	1,300	1,975	417
Operating supplies	700		211
Landscaping	2,000	1,215	1,136
Fire alarm services	2,000	2,641	948
Exterminating	3,000	2,645	2,645
Custodial	4,000	2,047	2,701
	<u>21,800</u>	<u>66,487</u>	<u>14,482</u>

See independent auditors' report on supplementary information.

**CASA DEL SOL CONDOMINIUM**

**SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES  
BUDGET AND ACTUAL (Continued)**

**YEAR ENDED DECEMBER 31, 2014  
(WITH COMPARATIVE TOTALS FOR 2013)**

	2015		2014
	Budget (Unaudited)	Actual	Actual
Utilities			
Electric	3,500	4,228	3,979
Water and sewer	3,000	3,484	3,169
	6,500	7,712	7,148
Income taxes	600	28	
Total expenses	108,800	154,433	97,450
Net revenues over (under) expenses	\$	\$ (44,603)	\$ 13,820

See independent auditors' report on supplementary information



**CASA DEL SOL CONDOMINIUM**

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND  
REPLACEMENTS**

**DECEMBER 31, 2015  
(Unaudited)**

Miller Dodson Associates conducted a study in 2014 and revised it in 2015 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 study recommends a contribution to the replacement fund of \$66,954 for 2015 using the cash flow funding method.

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>
Building 614-680			
Asphalt pavement, seal coat	6	2	\$ 4,110
Asphalt pavement, mill & overlay	24	8	34,935
Shingle asphalt/fiberglass	30	22	85,799
Gutter, aluminium	30	22	3,502
Downspout, PVC	30	22	1,620
Soffit, aluminium	30	22	8,034
Soffit, carport gypsum board (20%)	7	7	6,180
Siding & trim, vinyl, rear	25	15	35,226
Siding & trim, vinyl, front/sides	35	30	85,239
Siding & trim, crawl space closure	20	0	9,040
Building pilings	15	15	49,000
Deck, structure, rear	30	26	174,500
Deck, wood decking, rear	15	11	66,310
Deck, wood railing, rear	15	11	32,000
Privacy screens, wood	25	26	35,052
Wood step, open riser (PTL)	20	11	17,850
Deck, structure, front	30	26	41,200
Deck, synthetic decking, front	30	26	18,128
Deck, synthetic railing, front	30	26	14,420

See independent auditors' report on supplementary information.

**CASA DEL SOL CONDOMINIUM**

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND  
REPLACEMENTS (Continued)**

**DECEMBER 31, 2015  
(Unaudited)**

Components	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Costs
Building 614-680 (Continued)			
Finger pier decking	15	6	10,710
Finger pier structure	30	21	25,500
Ladders	30	21	6,480
Piling, free standing (50%)	30	21	8,100
Bulkhead, replace	60	21	94,500
Boardwalk decking, bulkhead	15	2	31,920
Boardwalk structure, bulkhead	30	17	50,400
Boardwalk decking, side	15	6	5,244
Boardwalk structure, side	30	21	8,280
Domestic water lines	15	12	10,000
Sanitary sewer lines	30	20	7,500
Heat tracing	15	5	6,000
Building 700-736			
Asphalt pavement, seal coat	6	1	2,570
Asphalt pavement, mill & overlay	24	7	21,848
Shingle asphalt/fiberglass	30	22	48,663
Gutter, aluminium	30	22	1,947
Downspout, PVC	30	22	1,485
Soffit, aluminium	30	22	4,466
Soffit, carport gypsum board (20%)	7	7	3,435
Siding & trim, vinyl, rear	25	15	19,580
Siding & trim, vinyl, front/sides	35	30	54,847
Siding & trim, crawl space closure	20	0	5,460
Building pilings	15	14	21,000
Deck, structure, rear	30	25	64,825
Deck, wood decking, rear	15	10	24,634
Deck, wood railing, rear	15	10	14,500

See independent auditors' report on supplementary information.

**CASA DEL SOL CONDOMINIUM**

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND  
REPLACEMENTS (Continued)**

**DECEMBER 31, 2015  
(Unaudited)**

Components	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Costs
<b>Building 700-736 (Continued)</b>			
Privacy screens, wood	25	25	20,010
Wood step, open riser (PTL)	20	10	9,975
Deck, structure, front	30	25	25,200
Deck, synthetic decking, front	30	25	11,088
Deck, synthetic railing, front	30	25	8,820
Finger pier decking	15	3	6,300
Finger pier structure	30	18	15,000
Ladders	30	18	3,600
Piling, free standing (50%)	30	18	4,500
Bulkhead, replace	60	18	54,000
Boardwalk decking, bulkhead	15	2	18,240
Boardwalk structure, bulkhead	30	17	28,800
Boardwalk decking, side	15	6	4,180
Boardwalk structure, side	30	21	6,600
Domestic water lines	15	12	10,000
Sanitary sewer lines	30	20	7,500
Heat tracing	15	5	6,000
<b>Building 770 A-D</b>			
Asphalt pavement, seal coat	6	0	581
Asphalt pavement, mill & overlay	24	6	4,942
Shingle asphalt/fiberglass	30	22	10,404
Gutter, aluminium	30	22	408
Downspout, PVC	30	22	270
Soffit, aluminium	30	22	936
Soffit, carport gypsum board (20%)	5	5	720
Siding & trim, vinyl, rear	25	15	4,104
Siding & trim, vinyl, front/sides	35	30	7,792

See independent auditors' report on supplementary information.

**CASA DEL SOL CONDOMINIUM**

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND  
REPLACEMENTS (Continued)**

**DECEMBER 31, 2015  
(Unaudited)**

Components	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Costs
Building 770 A-D (Continued)			
Siding & trim, crawl space closure	20	0	1,800
Building pilings	15	8	7,000
Deck, structure, rear	30	24	33,725
Deck, wood decking, rear	15	9	12,816
Deck, wood railing, rear	15	9	3,350
Privacy screens, wood	25	24	2,898
Wood step, open riser (PTL)	20	9	5,355
Deck, structure, front	30	24	4,800
Deck, synthetic decking, front	30	24	2,112
Deck, synthetic railing, front	30	24	1,680
Finger pier decking	15	2	1,260
Finger pier structure	30	5	3,000
Ladders	30	5	1,080
Piling, free standing (50%)	30	5	1,800
Bulkhead, replace	60	17	13,500
Boardwalk decking, bulkhead	15	2	4,560
Boardwalk structure, bulkhead	30	17	7,200
Boardwalk decking, side	15	6	6,042
Boardwalk structure, side	30	21	9,540
Domestic water lines	15	12	5,000
Sanitary sewer lines	30	20	3,500
Heat tracing	15	5	2,000
Total			<u>\$ 1,680,027</u>

See independent auditors' report on supplementary information.