

CASA DEL SOL CONDOMINIUM  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2004

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 - 7
SUPPLEMENTARY INFORMATION	
Independent Auditors' Report on Supplementary Information	8
Schedules of Operating Fund Revenues and Expenses - Budget and Actual	9
Supplementary Information on Future Major Repairs and Replacements	10

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Casa Del Sol Condominium

We have audited the accompanying balance sheet of Casa Del Sol Condominium, as of December 31, 2004, 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 Condominium's management. 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 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 as of December 31, 2004, 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.

*Pigg Krahl Stern & Co. P.A.*  
CERTIFIED PUBLIC ACCOUNTANTS

May 6, 2005

CASA DEL SOL CONDOMINIUM

BALANCE SHEETS

DECEMBER 31, 2004

(WITH COMPARATIVE TOTALS FOR 2003)

	2004			2003
	Operating Fund	Replacement Fund	Total	Total
<b>ASSETS</b>				
Cash	\$ 16,309	\$ 114,974	\$ 131,283	\$ 120,415
Assessments receivable	1,468		1,468	3,075
Prepaid expenses	7,245		7,245	9,118
Prepaid income taxes	33		33	33
Due from other association				16,190
Due from other funds	32,367		32,367	16,615
<b>TOTAL ASSETS</b>	<u>\$ 57,422</u>	<u>\$ 114,974</u>	<u>\$ 172,396</u>	<u>\$ 165,446</u>
<b>LIABILITIES</b>				
Prepaid assessments	\$ 16,255	\$	\$ 16,255	\$ 14,562
Due to other funds		32,367	32,367	16,615
<b>TOTAL LIABILITIES</b>	<u>16,255</u>	<u>32,367</u>	<u>48,622</u>	<u>31,177</u>
<b>FUND BALANCES</b>	<u>41,167</u>	<u>82,607</u>	<u>123,774</u>	<u>134,269</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 57,422</u>	<u>\$ 114,974</u>	<u>\$ 172,396</u>	<u>\$ 165,446</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, 2004  
(WITH COMPARATIVE TOTALS FOR 2003)

	2004		2003	
	Operating Fund	Replacement Fund	Total	Total
<b>REVENUES</b>				
Condominium assessments	\$ 106,570	\$ 228,150	\$ 334,720	\$ 322,953
Less: Replacement Fund Contribution	(16,190)	16,190		
Interest and late fees	2,181	721	2,902	1,999
Other revenues	50		50	2,275
<b>TOTAL REVENUES</b>	<b>92,611</b>	<b>245,061</b>	<b>337,672</b>	<b>327,227</b>
<b>EXPENSES</b>				
General and administrative	14,402		14,402	13,790
Insurance	48,513		48,513	40,666
Maintenance and repair	39,385	241,372	280,757	209,832
Utilities	4,495		4,495	7,286
<b>TOTAL EXPENSES</b>	<b>106,795</b>	<b>241,372</b>	<b>348,167</b>	<b>271,574</b>
Net revenues over (under) expenses	(14,184)	3,689	(10,495)	55,653
Fund balances, beginning of year	55,351	78,918	134,269	78,616
Fund balances, end of year	\$ 41,167	\$ 82,607	\$ 123,774	\$ 134,269

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

CASA DEL SOL CONDOMINIUM  
STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2004  
(WITH COMPARATIVE TOTALS FOR 2003)

	2004			2003
	Operating Fund	Replacement Fund	Total	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net revenues over (under) expenses	\$ (14,184)	\$ 3,689	\$ (10,495)	\$ 55,653
(Increase) decrease				
Assessments receivable	1,607		1,607	(222)
Due from other association		16,190	16,190	(16,190)
Prepaid expenses	1,873		1,873	1,076
Increase (decrease)				
Accounts payable				(2,948)
Prepaid assessments	1,693		1,693	(8,353)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(9,011)</u>	<u>19,879</u>	<u>10,868</u>	<u>29,016</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Interfund borrowings	<u>(15,752)</u>	<u>15,752</u>		
Net increase (decrease) in cash	(24,763)	35,631	10,868	29,016
Cash at beginning of year	<u>41,072</u>	<u>79,343</u>	<u>120,415</u>	<u>91,399</u>
Cash at end of year	<u>\$ 16,309</u>	<u>\$ 114,974</u>	<u>\$ 131,283</u>	<u>\$ 120,415</u>

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

CASA DEL SOL CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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, 2004

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.

CASH BALANCES

Cash accounts with a federally insured bank are insured up to \$100,000 by the FDIC, an agency of the Federal government. As of December 31, 2004, the Association has deposits at one local bank that exceeded the FDIC limit.

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 still believes collectibility is in question. Any excess assessments at year-end are retained by the Association for use in future years.

DUE FROM OTHER ASSOCIATION

As of December 31, 2003, Bluewater East Condominium Association owed the Association \$16,190 due to an error in deposits. Bluewater East Condominium Association paid the Association during 2004.

PREPAID ASSESSMENTS

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

INCOME TAXES

The Association has elected to file as an ordinary corporation under Code Section 277 for the year ended December 31, 2004. Code Section 277 of the Internal Revenue Code prevents net membership losses from sheltering non-membership net income. Non-membership net income, such as interest, vending, and rent is taxable at corporation income tax rates.



CASA DEL SOL CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

**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 \$114,974 at December 31, 2004, 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 board of directors and the management company conducted a study in 1999 to estimate the remaining useful lives and the replacement cost of the components of common property. The table included in the unaudited supplementary information is based on the study.

In prior years, the Association has elected to only partially adopt the funding requirements based on the study. Accordingly, the budget includes a contribution to the replacement fund of \$244,340 which is comprised of \$16,190 for future projects and \$228,150 for the canal side renovations. Because actual expenditures may vary from estimated future expenditures and the variations may be material, 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, however, 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.

**REPLACEMENT FUND EXPENSES**

The Association incurred the following replacement fund expenses for the year ended December 31, 2004:

Sliding door and window replacement	\$ 43,614
Canal side repairs	<u>197,758</u>
	<u>\$ 241,372</u>

**RECLASSIFICATIONS**

Certain accounts in prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**SUPPLEMENTARY INFORMATION**



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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors  
Casa Del Sol Condominium

Our report on our audit of the basic financial statements of Casa Del Sol Condominium for the year ended December 31, 2004 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, 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 is not a required part of the basic financial statements, but is supplementary information required by the American Institute of Certified Public Accountants. 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.

*Pigg Krahl Stern & Co. P.A.*

CERTIFIED PUBLIC ACCOUNTANTS

May 6, 2005

CASA DEL SOL CONDOMINIUM

SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2004  
(WITH COMPARATIVE TOTALS FOR 2003)

	2004		2003
	Budget (Unaudited)	Actual	Actual
<b>REVENUES</b>			
Condominium assessments	\$ 106,570	\$ 106,570	\$ 78,763
Less: Replacement Fund Contribution	(16,190)	(16,190)	
Interest and late fees		2,181	1,536
Other revenues		50	2,275
<b>TOTAL REVENUES</b>	<u>90,380</u>	<u>92,611</u>	<u>82,574</u>
<b>EXPENSES</b>			
<b>General and Administrative</b>			
Management fees	7,450	7,450	7,220
Accounting fee	1,350	1,500	1,250
Legal fee	500		200
Administrative	5,000	5,452	5,120
Income Tax	150		
	<u>14,450</u>	<u>14,402</u>	<u>13,790</u>
<b>Insurance</b>			
Package	40,000	45,281	37,220
Flood	3,750	3,232	3,446
	<u>43,750</u>	<u>48,513</u>	<u>40,666</u>
<b>Maintenance and repair</b>			
Building maintenance	5,280	23,834	3,083
Major Repairs and Maintenance	7,000	4,609	
Operating supplies	500	110	189
Fire equipment/inspections	2,750	1,441	2,245
Exterminating	1,800	1,741	1,742
Custodial	7,650	7,650	7,420
	<u>24,980</u>	<u>39,385</u>	<u>14,679</u>
<b>Utilities</b>			
Electric	2,600	3,214	2,134
Water and sewer	4,600	1,281	5,152
	<u>7,200</u>	<u>4,495</u>	<u>7,286</u>
<b>TOTAL EXPENSES</b>	<u>90,380</u>	<u>106,795</u>	<u>76,421</u>
Net revenues over (under) expenses	<u>\$</u>	<u>\$ (14,184)</u>	<u>\$ 6,153</u>

See accountants' report on supplementary information.

CASA DEL SOL CONDOMINIUM

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2004  
(Unaudited)

The board of directors performed a study in 1999 to estimate the remaining useful life and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property.

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	30	25	\$ 360,316	\$ 12,011
Roof (future replacement)	9	4	86,629	9,625
Roof (immediate replacement)	10	5	86,629	8,663
Parking lot	10	5	17,499	1,750
Caulking	5	0	54,111	10,822
Siding	25	20	109,197	4,368
Fire alarm system	6	1	15,765	2,628
Decks (common\street)	12	7	73,188	6,099
Decks (common\canal)	12	7	150,656	13,388
			\$ 953,990	\$ 69,354
Total				