

CASA DEL SOL CONDOMINIUM
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

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. HAYNE, 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

www.pkscpa.com

Board of Directors
Casa Del Sol Condominium

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, 2011, 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.

Lewes

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

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, 2011, 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

March 19, 2012

PKS & Company, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

CASA DEL SOL CONDOMINIUM

BALANCE SHEETS

DECEMBER 31, 2011

(WITH COMPARATIVE TOTALS FOR 2010)

	2011			2010
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 37,702	\$ 50,561	\$ 88,263	\$ 30,533
Assessments receivable	2,604		2,604	571
Prepaid expenses	32,464		32,464	32,229
Due from other funds	12,000		12,000	14,901
TOTAL ASSETS	<u>\$ 84,770</u>	<u>\$ 50,561</u>	<u>\$ 135,331</u>	<u>\$ 78,234</u>
LIABILITIES				
Accounts payable	\$	\$	\$	\$ 3,868
Prepaid assessments	18,078		18,078	13,839
Due to other funds		12,000	12,000	14,901
TOTAL LIABILITIES	<u>18,078</u>	<u>12,000</u>	<u>30,078</u>	<u>32,608</u>
FUND BALANCES	<u>66,692</u>	<u>38,561</u>	<u>105,253</u>	<u>45,626</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 84,770</u>	<u>\$ 50,561</u>	<u>\$ 135,331</u>	<u>\$ 78,234</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, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011			2010
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 108,800	\$ 39,400	\$ 148,200	\$ 129,276
Interest, late fees, and other revenue	250	119	369	162
TOTAL REVENUES	<u>109,050</u>	<u>39,519</u>	<u>148,569</u>	<u>129,438</u>
EXPENSES				
General and administrative	18,412		18,412	19,354
Insurance	44,876		44,876	44,951
Maintenance and repair	9,170	12,000	21,170	49,792
Utilities	4,484		4,484	5,473
TOTAL EXPENSES	<u>76,942</u>	<u>12,000</u>	<u>88,942</u>	<u>119,570</u>
Net revenues over expenses	32,108	27,519	59,627	9,868
Fund balances (deficit), beginning of year	49,485	(3,859)	45,626	35,758
Permanent equity transfer	<u>(14,901)</u>	<u>14,901</u>		
Fund balances, end of year	<u>\$ 66,692</u>	<u>\$ 38,561</u>	<u>\$ 105,253</u>	<u>\$ 45,626</u>

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

CASA DEL SOL CONDOMINIUM

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011			2010
	Operating Fund	Replacement Fund	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net revenues over expenses	\$ 32,108	\$ 27,519	\$ 59,627	\$ 9,868
(Increase) decrease				
Assessments receivable	(2,032)		(2,032)	5,173
Prepaid expenses	(236)		(236)	(2,193)
Due from members				600
Increase (decrease)				
Accounts payable	(3,868)		(3,868)	2,991
Prepaid assessments	4,239		4,239	2,453
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>30,211</u>	<u>27,519</u>	<u>57,730</u>	<u>18,892</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund borrowings	(26,901)	26,901		
Permanent equity transfer	14,901	(14,901)		
Repayment of line of credit				(10,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(12,000)</u>	<u>12,000</u>		<u>(10,000)</u>
Net increase in cash	18,211	39,519	57,730	8,892
Cash, beginning of year	<u>19,491</u>	<u>11,042</u>	<u>30,533</u>	<u>21,641</u>
Cash, end of year	<u>\$ 37,702</u>	<u>\$ 50,561</u>	<u>\$ 88,263</u>	<u>\$ 30,533</u>
SUPPLEMENTARY INFORMATION				
Interest expense paid	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 77</u>

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

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

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, 2011

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, 2012, 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, 2011. 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 2007 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, 2011

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, \$39,400 was contributed to the replacement fund during the year ended December 31, 2011. 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 2012 budget approved during 2011 included an increase in the budgeted replacement contribution to \$61,630 which is approximately 91% of the amount called for in the study. The 2012 budget marks the third consecutive budgeted increase in the annual replacement contribution.

REPLACEMENT FUND EXPENSES

The Association incurred replacement fund expenses in the amount of \$12,000 for carport repairs during the year ended December 31, 2011.

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, 2011, the Association transacted business in the amount of \$6,120 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, 2011, the Association transacted business in the amount of \$172 with the company.

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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.

The Association entered into an agreement with Smithson Restoration for carport repairs. The original agreement called for a price of \$29,005. During 2011 \$12,000 was paid for this project.

SUPPLEMENTARY INFORMATION



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 ON SUPPLEMENTARY INFORMATION

**Board of Directors
 Casa Del Sol Condominium**

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

Lewes

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

MEMBERS OF:

*AMERICAN INSTITUTE OF
 CERTIFIED PUBLIC ACCOUNTANTS*

*MARYLAND ASSOCIATION OF
 CERTIFIED PUBLIC ACCOUNTANTS*

*DELAWARE SOCIETY OF
 CERTIFIED PUBLIC ACCOUNTANTS*

PKF INTERNATIONAL

We have audited the financial statements of Casa Del Sol Condominium as of and for the year ended December 31, 2011, and our report thereon dated March 19, 2012, which expressed 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.

PKS & Company, P.A.
 CERTIFIED PUBLIC ACCOUNTANTS

March 19, 2012

CASA DEL SOL CONDOMINIUM

SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	2011		2010
	Budget (Unaudited)	Actual	Actual
REVENUES			
Member assessments	\$ 108,800	\$ 108,800	\$ 107,822
Interest, late fees, and other revenue		250	120
TOTAL REVENUES	<u>108,800</u>	<u>109,050</u>	<u>107,942</u>
EXPENSES			
General and administrative			
Management fees	12,654	12,654	12,312
Accounting fees	3,500	3,200	3,200
Professional fees	1,000	293	1,450
Administrative	3,000	2,006	2,265
Meeting expense	800	259	127
	<u>20,954</u>	<u>18,412</u>	<u>19,354</u>
Insurance			
Multi-peril	45,000	39,889	40,214
Flood	5,500	4,987	4,737
	<u>50,500</u>	<u>44,876</u>	<u>44,951</u>
Maintenance and repair			
Building maintenance	14,300	2,116	5,651
Piers and pilings	1,800		1,400
Parking lot repairs/resealing			5,614
Operating supplies	1,000	112	384
Landscaping	1,000		
Fire alarm services	2,000	788	1,511
Exterminating	2,700	2,299	2,979
Custodial	7,000	3,855	4,311
	<u>29,800</u>	<u>9,170</u>	<u>21,850</u>
Utilities			
Electric	5,000	3,129	3,937
Water and sewer	2,500	1,355	1,536
	<u>7,500</u>	<u>4,484</u>	<u>5,473</u>
Income tax	46		
TOTAL EXPENSES	<u>108,800</u>	<u>76,942</u>	<u>91,628</u>
Net revenues over expenses	<u>\$</u>	<u>\$ 32,108</u>	<u>\$ 16,314</u>

See auditors' report on supplementary information.

CASA DEL SOL CONDOMINIUM

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2011
(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 2012 budget approved during 2011 included an increase in the budgeted replacement contribution to \$61,630 which is approximately 91% of the amount called for in the study. The 2012 budget marks the third 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	17	\$ 373,378	\$ 10,668
Roof	25	17	112,257	4,490
Parking lot	35	3	27,600	789
Caulking	10	5	84,624	8,462
Siding	50	44	240,472	4,809
Fire alarm system	30	0	15,150	505
Decks (common\street)	40	36	574,908	14,373
Decks (common\canal)	40	7	927,883	23,197
Total			\$ 2,356,272	\$ 67,293

See auditors' report on supplementary information.