

CASA DEL SOL CONDOMINIUM  
FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005

# CASA DEL SOL CONDOMINIUM

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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, 2005, 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, 2005, 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.

PKS | COMPANY P.A.

CERTIFIED PUBLIC ACCOUNTANTS

February 2, 2006

CASA DEL SOL CONDOMINIUM

BALANCE SHEETS

DECEMBER 31, 2005

(WITH COMPARATIVE TOTALS FOR 2004)

	2005			2004
	Operating Fund	Replacement Fund	Total	Total
<b>ASSETS</b>				
Cash	\$ 180,839	\$ 28,709	\$ 209,548	\$ 131,283
Assessments receivable	27	388,500	388,527	1,468
Prepaid expenses	9,129		9,129	7,245
Prepaid income taxes	33		33	33
Due from members	221		221	
Due from other funds		137,390	137,390	32,367
<b>TOTAL ASSETS</b>	<u>\$ 190,249</u>	<u>\$ 554,599</u>	<u>\$ 744,848</u>	<u>\$ 172,396</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 6,130	\$	\$ 6,130	\$
Prepaid assessments	2,987		2,987	16,255
Deferred special assessment		554,390	554,390	
Due to other funds	137,390		137,390	32,367
<b>TOTAL LIABILITIES</b>	<u>146,507</u>	<u>554,390</u>	<u>700,897</u>	<u>48,622</u>
<b>FUND BALANCES</b>	<u>43,742</u>	<u>209</u>	<u>43,951</u>	<u>123,774</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 190,249</u>	<u>\$ 554,599</u>	<u>\$ 744,848</u>	<u>\$ 172,396</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, 2005  
(WITH COMPARATIVE TOTALS FOR 2004)

	2005			2004
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Condominium assessments	\$ 93,733	\$ 244,190	\$ 337,923	\$ 334,720
Special assessment		115,361	115,361	
Interest, late fees, and other income	2,294	735	3,029	2,952
<b>TOTAL REVENUES</b>	<b>96,027</b>	<b>360,286</b>	<b>456,313</b>	<b>337,672</b>
EXPENSES				
General and administrative	16,056		16,056	14,402
Insurance	48,059		48,059	48,513
Maintenance and repair	26,183	442,684	468,867	280,757
Utilities	3,154		3,154	4,495
<b>TOTAL EXPENSES</b>	<b>93,452</b>	<b>442,684</b>	<b>536,136</b>	<b>348,167</b>
Net revenues over (under) expenses	2,575	(82,398)	(79,823)	(10,495)
Fund balances, beginning of year	41,167	82,607	123,774	134,269
Fund balances, end of year	\$ 43,742	\$ 209	\$ 43,951	\$ 123,774

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

CASA DEL SOL CONDOMINIUM

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2005  
(WITH COMPARATIVE TOTALS FOR 2004)

	2005			2004
	Operating Fund	Replacement Fund	Total	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net revenues over (under) expenses	\$ 2,575	\$ (82,398)	\$ (79,823)	\$ (10,495)
(Increase) decrease				
Assessments receivable	1,441	(388,500)	(387,059)	1,607
Prepaid expenses	(1,884)		(1,884)	1,873
Due from other association				16,190
Due from members	(221)		(221)	
Increase (decrease)				
Accounts payable	6,130		6,130	
Prepaid assessments	(13,268)		(13,268)	1,693
Deferred special assessment		554,390	554,390	
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(5,227)</u>	<u>83,492</u>	<u>78,265</u>	<u>10,868</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Interfund borrowings	<u>169,757</u>	<u>(169,757)</u>		
Net increase (decrease) in cash	164,530	(86,265)	78,265	10,868
Cash at beginning of year	<u>16,309</u>	<u>114,974</u>	<u>131,283</u>	<u>120,415</u>
Cash at end of year	<u>\$ 180,839</u>	<u>\$ 28,709</u>	<u>\$ 209,548</u>	<u>\$ 131,283</u>

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

CASA DEL SOL CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

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, 2005

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, 2005, 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 MEMBERS

Due from members represents reimbursement from the owners for air conditioning repairs that were paid by the Association during 2005.

PREPAID ASSESSMENTS

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



CASA DEL SOL CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

INCOME TAXES

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2005. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, non-membership transactions, and capital transactions.

The Association is taxed on all net income from non-membership activities reduced only by losses from non-membership activities for which a profit motive exists. Non-membership income may not be offset by membership losses, and excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files Form 1120, which has graduated effective tax rates of 15% to 35% that are applied to net taxable income.

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 \$28,709 at December 31, 2005, 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 \$244,190 which is comprised of \$16,190 for future projects and \$228,000 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.

CASA DEL SOL CONDOMINIUM  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**SPECIAL ASSESSMENT**

The Association passed a special assessment of \$669,750 during the year ended December 31, 2005 for the roof project. Approximately \$115,360 of the improvements was made during 2005. The remaining balance of approximately \$554,390 has been reported as deferred revenue and will be recognized as revenue when the related expenses are incurred. During the year ended December 31, 2005 \$281,250 of the special assessment was collected and the remaining \$388,500 has been reported as receivable.

**REPLACEMENT FUND EXPENSES**

The Association incurred the following replacement fund expenses for the year ended December 31, 2005:

Roof project	\$ 115,360
Canal side repairs	<u>327,324</u>
	<u>\$ 442,684</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.

**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 \$8,200.

The Association entered into a contract dated November 4, 2005 with C/W Building Services totaling \$669,750 for the roof project.

The Association entered into a contract dated June 24, 2005 and revised September 13, 2005 with Fourth Street Design Studio, Inc. totaling \$15,000 for remaining estimated fees for architectural and structural design services for the roof project.

**SUPPLEMENTARY INFORMATION**

## 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, 2005 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.

PKS / COMPANY P.A.

CERTIFIED PUBLIC ACCOUNTANTS

February 2, 2006

CASA DEL SOL CONDOMINIUM

SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2005  
(WITH COMPARATIVE TOTALS FOR 2004)

	2005		2004
	Budget	Actual	Actual
REVENUES			
Condominium assessments	\$ 93,732	\$ 93,733	\$ 90,380
Interest, late fees, and other income		2,294	2,231
TOTAL REVENUES	<u>93,732</u>	<u>96,027</u>	<u>92,611</u>
EXPENSES			
General and Administrative			
Management fees	7,882	7,882	7,450
Accounting fee	1,400	1,500	1,500
Legal fee	500		
Administrative	2,100	4,458	5,452
Meeting expense	1,200	2,216	
	<u>13,082</u>	<u>16,056</u>	<u>14,402</u>
Insurance			
Package	45,000	44,704	45,281
Flood	3,750	3,355	3,232
	<u>48,750</u>	<u>48,059</u>	<u>48,513</u>
Maintenance and repair			
Building maintenance	6,000	6,742	23,834
Major repairs and maintenance	7,000	8,287	4,609
Operating supplies	800	182	110
Fire equipment/inspections	1,200	1,261	1,441
Exterminating	1,800	1,761	1,741
Custodial	7,950	7,950	7,650
	<u>24,750</u>	<u>26,183</u>	<u>39,385</u>
Utilities			
Electric	2,500	2,254	3,214
Water and sewer	4,500	900	1,281
	<u>7,000</u>	<u>3,154</u>	<u>4,495</u>
Income Tax	150		
TOTAL EXPENSES	<u>93,732</u>	<u>93,452</u>	<u>106,795</u>
Net revenues over (under) expenses	<u>\$</u>	<u>\$ 2,575</u>	<u>\$ (14,184)</u>

See accountants' report on supplementary information.

CASA DEL SOL CONDOMINIUM

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2005  
(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.

<u>Components</u>	<u>Estimated Useful Life (Years)</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Annual Funding Requirement</u>
Bulkheads	30	24	\$ 360,316	\$ 12,011
Roof (future replacement)	9	3	86,629	9,625
Roof (immediate replacement)	10	4	86,629	8,663
Parking lot	10	4	17,499	1,750
Caulking	5	0	54,111	10,822
Siding	25	19	109,197	4,368
Fire alarm system	6	0	15,765	2,628
Decks (common\street)	12	6	73,188	6,099
Decks (common\canal)	12	6	150,656	13,388
			<u>\$ 953,990</u>	<u>\$ 69,354</u>
Total			<u>\$ 953,990</u>	<u>\$ 69,354</u>

See accountants report on supplementary information.