

CASA DEL SOL CONDOMINIUM
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006

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, 2006, 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, 2006, 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

April 20, 2007

CASA DEL SOL CONDOMINIUM

BALANCE SHEETS

DECEMBER 31, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	2006			2005
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 50,898	\$ 979	\$ 51,877	\$ 209,548
Assessments receivable	437	23,500	23,937	388,527
Prepaid expenses	9,881		9,881	9,129
Prepaid income taxes	33		33	33
Due from members				221
Due from other funds		45,564	45,564	137,390
TOTAL ASSETS	\$ 61,249	\$ 70,043	\$ 131,292	\$ 744,848
LIABILITIES				
Accounts payable	\$	\$	\$	\$ 6,130
Prepaid assessments	7,311		7,311	2,987
Deferred special assessment				554,390
Line of credit		220,000	220,000	
Due to other funds	45,564		45,564	137,390
TOTAL LIABILITIES	52,875	220,000	272,875	700,897
FUND BALANCES (DEFICIT)	8,374	(149,957)	(141,583)	43,951
TOTAL LIABILITIES AND FUND BALANCES	\$ 61,249	\$ 70,043	\$ 131,292	\$ 744,848

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, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	2006			2005
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Condominium assessments	\$ 97,248	\$ 9,000	\$ 106,248	\$ 337,923
Special assessment		541,889	541,889	115,361
Interest, late fees, and other income	188	281	469	3,029
TOTAL REVENUES	<u>97,436</u>	<u>551,170</u>	<u>648,606</u>	<u>456,313</u>
EXPENSES				
General and administrative	15,692	15,069	30,761	16,057
Insurance	52,438		52,438	48,059
Maintenance and repair	16,864	730,280	747,144	468,866
Utilities	3,797		3,797	3,154
TOTAL EXPENSES	<u>88,791</u>	<u>745,349</u>	<u>834,140</u>	<u>536,136</u>
Net revenues over (under) expenses	8,645	(194,179)	(185,534)	(79,823)
Fund balances, beginning of year	43,742	209	43,951	123,774
Permanent transfer	(44,013)	44,013		
Fund balances (deficits), end of year	<u>\$ 8,374</u>	<u>\$ (149,957)</u>	<u>\$ (141,583)</u>	<u>\$ 43,951</u>

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

CASA DEL SOL CONDOMINIUM

STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	2006			2005
	Operating Fund	Replacement Fund	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net revenues over (under) expenses	\$ 8,645	\$ (194,179)	\$ (185,534)	\$ (79,823)
(Increase) decrease				
Assessments receivable	(409)	365,000	364,591	(387,059)
Prepaid expenses	(753)		(753)	(1,883)
Due from members	221		221	(221)
Increase (decrease)				
Accounts payable	(6,130)		(6,130)	6,130
Prepaid assessments	4,324		4,324	(13,268)
Deferred special assessment		(554,390)	(554,390)	554,389
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>5,898</u>	<u>(383,569)</u>	<u>(377,671)</u>	<u>78,265</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund borrowings	(135,839)	135,839		
Proceeds from line of credit		220,000	220,000	
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(135,839)</u>	<u>355,839</u>	<u>220,000</u>	
Net increase (decrease) in cash	(129,941)	(27,730)	(157,671)	78,265
Cash at beginning of year	<u>180,839</u>	<u>28,709</u>	<u>209,548</u>	<u>131,283</u>
Cash at end of year	<u>\$ 50,898</u>	<u>\$ 979</u>	<u>\$ 51,877</u>	<u>\$ 209,548</u>
SUPPLEMENTARY INFORMATION				
Interest expense paid	<u>\$</u>	<u>15,069</u>	<u>\$ 15,069</u>	

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

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

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, 2006

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.

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.

PREPAID ASSESSMENTS

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

DUE FROM MEMBERS

Due from members represents reimbursement from the owners for air conditioning repairs that were paid by the Association during 2005. The due from members was repaid in 2006.

LINE OF CREDIT

The Association has a line of credit which provides for maximum borrowings of \$600,000. Amounts outstanding under the line bear interest at the 7.75%. \$220,000 was outstanding as of December 31, 2006.

CASA DEL SOL CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

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, 2006. 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 \$979 at December 31, 2006, are held in separate accounts and are generally not available for operating purposes. Total contributions for the year ended December 31, 2006 were \$9,000. 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.

Funds are being accumulated in the replacement based on estimated future needs for repairs and replacements of common property components. However, the Association has elected to only partially adopt the funding requirements based on the study. 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, 2006

SPECIAL ASSESSMENT

The Association passed a special assessment of \$669,750 during the year ended December 31, 2005 for the roof project. Expenses incurred relating to the roof project were \$730,279 for the year ending December 31, 2006. As of December 31, 2006, the Association had completed the project and collected all the special assessment income except \$23,500 which has been reported as a receivable.

The roof project expenses exceeded the amount of the 2005 special assessment. The additional funds required to cover this excess is expected to be approximately \$163,000 and will be assessed to the unit owners during 2007.

INTERFUND TRANSFER

The Association made a permanent transfer during the year ended December 31, 2006.

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.

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 2006 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.

DXS & Company, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

April 20, 2007

CASA DEL SOL CONDOMINIUM

SCHEDULES OF OPERATING FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL

YEAR ENDED DECEMBER 31, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	2006		2005
	Budget	Actual	Actual
REVENUES			
Condominium assessments	\$ 97,150	\$ 97,248	\$ 93,733
Interest, late fees, and other income		188	2,294
TOTAL REVENUES	<u>97,150</u>	<u>97,436</u>	<u>96,027</u>
EXPENSES			
General and Administrative			
Management fees	8,200	8,200	7,882
Accounting fee	1,500	2,400	1,500
Legal fee	500		
Administrative	3,400	3,607	4,459
Meeting expense	2,400	1,485	2,216
	<u>16,000</u>	<u>15,692</u>	<u>16,057</u>
Insurance			
Package	48,000	48,017	44,704
Flood	7,500	4,421	3,355
	<u>55,500</u>	<u>52,438</u>	<u>48,059</u>
Maintenance and repair			
Building maintenance	6,000	10,283	6,742
Major repairs and maintenance	3,750	200	8,287
Operating supplies	800	382	182
Fire equipment/inspections	1,200	800	1,261
Exterminating	1,800	1,761	1,761
Custodial	7,950	3,438	7,950
	<u>21,500</u>	<u>16,864</u>	<u>26,183</u>
Utilities			
Electric	2,500	2,756	2,254
Water and sewer	1,500	1,041	900
	<u>4,000</u>	<u>3,797</u>	<u>3,154</u>
Income Tax	150		
TOTAL EXPENSES	<u>97,150</u>	<u>88,791</u>	<u>93,453</u>
Net revenues over (under) expenses	<u>\$</u>	<u>\$ 8,645</u>	<u>\$ 2,574</u>

See accountants' report on supplementary information.

CASA DEL SOL CONDOMINIUM

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2006
(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	23	\$ 360,316	\$ 12,011
Roof (future replacement)	9	2	86,629	9,625
Roof (immediate replacement)	10	3	86,629	8,663
Parking lot	10	3	17,499	1,750
Caulking	5	0	54,111	10,822
Siding	25	18	109,197	4,368
Fire alarm system	6	0	15,765	2,628
Decks (common\street)	12	5	73,188	6,099
Decks (common\canal)	12	5	150,656	13,388
Total			\$ 953,990	\$ 69,354

See accountants report on supplementary information.