

July 18, 2014

The Dana Point Condominium Association  
C/O: Lieberman Management Services  
Attn: Lizette Ray  
1519 Central  
Arlington Heights, IL 60005

Dear Ms. Ray:

Enclosed please find:

- **Revised Draft Checklist**
- **Revised Draft of the financial statements as of December 31, 2013**

The enclosed financial statements are in revised draft form, subject to change, and should not be relied upon or distributed, outside the Board of Directors or Management Company, until completed. We ask that you review this report and enclosures with the board before we issue the final report.

As a result of the updated Reserve study, we recommend that the Association develop a budgeting plan to meet the objectives of the study in maintaining reasonable reserves.

If you have any questions, or if I can be of any assistance, please do not hesitate to call me.

Sincerely,

CANTEY ASSOCIATES

Mark Cantey, C.P.A.

Enclosures

Cc: Raymond Jagodzinski



# Draft Checklist

## The Dana Point Condominium Association For the year ended December 31, 2013

The following items are needed from management and/or the Board before the enclosed report can be finalized.

1. Board member questionnaires: We received a questionnaire from the treasurer, but not from any of the other board members. As we discussed with the treasurer, we will assume that there are no issues in the questionnaire to be brought to our attention from other members of the Board. Please inform us otherwise. We have included a copy of this questionnaire if any of the Board members wish to complete the form and return it to us. If that would be the case, we would need it as soon as possible.	
2. Attached representation letter signed by the Board and management.	
3. I have enclosed Section 6.7(a) of the Association's Declaration regarding capital expenditures over \$5,000. If the Association has not complied with this declaratory requirement for the year 2013 and prior years, please let us know.	
4. The enclosed financial statements include an "Interfund Transfer" of \$100,471 on page 3, which primarily consists of the excess operating funds that were transferred to the reserve fund in the prior years. It is our understanding that the Association intends this to be a permanent adjustment of money from operating to reserves, and that the reserve fund does not intend to repay the operating fund for this \$100,471. If our understanding is not correct, please let us know.	
5. Have a Board member sign and return the first page of our draft report signifying acceptance of the report, and that there are no other significant subsequent events not already disclosed.	
6. We have attached a copy of the tax provision used to prepare the Associations tax return, please provide us documentation that the Board has approved of the percentages. If there are any changes let us know as soon as possible, so we can amend the return.	

Karen Skoric is the engagement manager and is responsible for supervising the engagement and signing the final report or authorizing another to sign it.



**THE DANA POINT CONDOMINIUM ASSOCIATION  
CITY, ILLINOIS**

Cantey Associates  
Certified Public Accountants  
1737 South Naperville Road, Suite 103  
Wheaton, IL 60189

We are providing this letter in connection with your audit of the financial statements of The Dana Point Condominium Association, which comprise the balance sheet as of December 31, 2013, and the related statement of revenues, expenses, and changes in fund balance, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). We confirm that we are responsible for the preparation and fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, through the date of this response, the following representations made to you during your audit.

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 2, 2013.
2. The financial statements referred to the above are fairly presented in conformity with U.S. generally accepted accounting principles.
3. We acknowledge our responsibilities for presenting the required supplementary information (RSI) about future major repairs and replacements in accordance with U.S. GAAP. The RSI is measured and presented within the prescribed guidelines, and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
4. We are responsible for presenting the supplementary information accompanying the basic financial statements in accordance with U.S. generally accepted accounting principles. We believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. generally accepted accounting principles. The methods of measurement and presentation used to prepare the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
5. We are responsible for the fair presentation of the supplementary information accompanying the financial statements about future major repairs and replacements, and we understand that the scope of your audit does not include expressing an opinion or any form of

assurance on the information or on the adequacy/reasonableness of the future major repairs and replacement assessments/reserves.

6. We have made available to you all-

- A. Information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
- B. Minutes of meetings of Board of Directors and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- C. Unrestricted access to persons within the Association from whom you determined it necessary to obtain audit evidence.

7. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

8. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

9. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates, including those measured at fair value, are reasonable in the circumstances.

10. We acknowledge our responsibility for 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.

11. We acknowledge our responsibility for the design, implementation, and maintenance of programs and internal controls to prevent and detect fraud.

12. There have been no:

- A. Fraud, suspected fraud, or irregularities involving management, board members or employees who have significant roles in internal control.
- B. Fraud, suspected fraud, or irregularities involving management, board members, employees and others that could have a material effect on the financial statements.

13. We have no knowledge of any allegations of fraud or suspected fraud affecting the Association received in communications from management, board members, employees, former employees, regulators, or others.

14. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations (including any loan compliance issues) whose effects should be considered when preparing financial statements.

15. The Association has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities and equity balances.

16. The following have been appropriately accounted for and disclosed in the financial statements in accordance with U.S. GAAP:

- A. Related party relationships, transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
  - B. Guarantees, whether written or oral, under which the Association is contingently liable.
  - C. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275, *Risks and Uncertainties*.
  - D. Any material concentrations that are required to be disclosed.
17. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Association vulnerable to the risk of near-term severe impact that have not been properly disclosed in the financial statements.
18. There are no-
- A. Violations or possible violations of laws or regulations whose effect should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - B. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in the financial statements in accordance with FASB Accounting Standards Codification 450, *Contingencies*.
  - C. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
  - E. Transfers or designations of fund balance or interfund borrowings that were not properly authorized and approved, or uncollectible interfund loans that have not been properly reflected in the financial statements or disclosed to you.
19. The Association has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged, other than as disclosed in the financial statements, as applicable.
20. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
21. The board of directors is collecting funds for future repairs and replacements in conformity with The Dana Point Condominium's policy to fund for those needs based on a study conducted in July 2010. The Board of Directors and managers believes the funds will adequately provide for future major repairs and replacements. We understand that your audit does not include any evaluation, assurance or opinion on the adequacy or reasonableness of the current funds available or funds needed to meet future obligations.
22. The Association's allocation of expenses against membership and nonmembership income, or exempt and nonexempt income, conforms with IRS rules, which require that the allocation be made "on reasonable basis." We have adequately documented such allocation.

23. If the Association had excess membership income in the current year, for tax purposes it has elected to either (a) offset it against next year's assessments or (b) refund it to members. We have adequately documented such election in the current year.
24. We understand that management and the Board of Directors are responsible for the Association's choice of filing form 1120H and the consequences thereof.
25. In regards to the preparation of the Federal and State income taxes performed by you, we have-
  1. Made all management decisions and performed all management functions.
  2. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
  3. Evaluated the adequacy and results of the services performed.
  4. Accepted responsibility for the results of the services.
26. We have reviewed the tax returns and assert that there are no omissions or misstatements and that all income and expense allocations are reasonable.
27. We are in agreement with the adjusting journal entries you have recommended, and they will be posted to the Association's accounts.
28. We represent that the Association fully complies with all statutory and Declaration requirements and believe that insurance coverage is adequate.
29. There are no environmental issues including mold, landscape infestations, and other hazards that are known to us that would require disclosures or accrual in the financial statements.
30. The Association is in compliance with all applicable laws, regulations, ordinances, etc.
31. We have disclosed to you the identity of the Association's related parties and all the related party relationships and transactions of which we are aware.
32. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustments to, or disclosure in, the financial statements.

No transactions, major projects, special assessments, litigation or activities have occurred or are expected to occur within the next year, subsequent to December 31, 2013 that will require a significant change in assessments, require a special assessment or require bank loan borrowings that would require adjustments, or disclosures in the financial statements. In addition, if we become aware of any material misstatement in the financial statements issued by Cantey Associates, we agree to immediately advise you in writing of such misstatement and shall refrain from any further use of such financial statements or the distribution thereof to third parties, and shall cooperate with Cantey Associates in the preparation and issuance of a restatement on such financial statements.

We understand that your audit was made in accordance with auditing principles generally accepted in the United States of America for the purpose of formulating your opinion as to whether our financial statements present fairly the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. We further understand that your audit did not include the use of tests and sampling procedures that would detect errors, irregularities, or illegal acts should any exist or have occurred.

We have responded fully and truthfully to all inquiries made to us by you during your audit.

**We have reviewed the draft of the financial statements and approved the report for final issuance, subject to the items needed, if applicable, in the draft letter.**

**THE DANA POINT CONDOMINIUM ASSOCIATION**

**Board of Directors:**

Signature: \_\_\_\_\_ Title: \_\_\_\_\_ Date: \_\_\_\_\_

Signature: \_\_\_\_\_ Title: \_\_\_\_\_ Date: \_\_\_\_\_

Signature: \_\_\_\_\_ Title: \_\_\_\_\_ Date: \_\_\_\_\_

**Management:**

Signature: \_\_\_\_\_ Title: \_\_\_\_\_ Date: \_\_\_\_\_

## BOARD MEMBER QUESTIONNAIRE

July 18, 2014

Dear Mr/Ms. Board Member:

We are the auditors for Dana Point Condominium Association, and are currently conducting the **December 31, 2013** year-end audit. We are contacting you as part of our standard audit procedures. We would appreciate receiving your response to this letter before we can finalize the audit.

We request that you inform us if any of the following occur, and provide details to the best of your knowledge:

- Transactions with "related parties" (for example, using vendors who are related to members of the board or management)
- Suspected fraud or embezzlement
- Illegal acts by management, board members, and/or employees
- Personal use of association assets
- Changes in your internal control policies and procedures
- Undue pressure from board members to misstate or misuse the financial statements, the budget or the reserve study

If you have information on any of the above items, please provide details here: \_\_\_\_\_

\_\_\_\_\_

**If you are not aware of any of the above items, and have no knowledge of any other matters of which we would need to be informed, please check the first box and sign on the line below.**

We would appreciate receiving your response within two weeks. My direct fax number is (630) 315-3720 and my email address is: [jcihlar@canteycpa.com](mailto:jcihlar@canteycpa.com). Thank you in advance for your time and cooperation in this matter. If you have any questions, please call me at (630) 315-3620.

Sincerely,  
*Cantey Associates*

☐ I am not aware of any of the above items, and there are no other matters of which you need to be informed.

☐ Yes, I am aware of one or more of the above items. See details provided.

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Signature: \_\_\_\_\_  
Dana Point Condominium Association



purposes, the Board may authorize a management company to maintain the Association's reserve funds in a single interest bearing account with similar funds of other associations. The management company shall at all times maintain records identifying all moneys of each association in such investment account. The management company may hold all operating funds of associations which it manages in a single operating account but shall at all times maintain records identifying all moneys of each association in such operating account. Such operating and reserve funds held by the management company for the association shall not be subject to attachment by any creditor of the management company. For the purpose of this section, a management company shall be defined as a person, partnership, corporation, or other legal entity entitled to transact business on behalf of others, acting on behalf of or as an agent for a unit owner, unit owners or association of unit owners for the purpose of carrying out the duties, responsibilities, and other obligations necessary for the day to day operation and management of any property subject to the Act. For purposes of this section, the term "fiduciary insurance coverage" shall be defined as both a fidelity bond and directors and officers liability coverage, the fidelity bond in the full amount of Association funds and Association reserves that will be in the custody of the Association, and the directors and officers liability coverage at a level as shall be determined to be reasonable by the Board of Managers. Directors and officers liability coverage must extend to all contracts and other actions taken by the Board in their official capacity as directors and officers, but this coverage shall exclude actions for which the directors are not entitled to indemnification under the General Not For Profit Corporation Act of 1986 or the Declaration and By-Laws.

**6.7 Additional Duties of Board.** The Board, in addition to the powers and duties set forth elsewhere herein, shall have the following powers and duties:

(a) The Board shall have no authority to (1) acquire and pay for out of the Maintenance Fund any capital addition or improvement (other than for purposes of replacing or restoring portions of the Common Elements, subject to all the provisions of this Declaration) having a total cost in excess of Five Thousand Dollars (\$5,000.00) or (2) authorize any structural alterations, capital additions to, or capital improvements of the Common Elements requiring an expenditure in excess of Five Thousand Dollars (\$5,000.00), without, in each case, securing the prior approval of the Voting Members holding two-thirds (2/3) of the total votes;

(b) All vouchers for payment of expenditures by the Board shall be signed by such officer or officers, agent or agents of the Board and in such manner as from time to time shall be determined by written resolution of the Board. In the absence of such determination by the Board, such vouchers shall be signed by the Treasurer or the President of the Association;

(c) The Board may engage the services of an agent to manage the property to the extent deemed advisable by the Board, and upon such terms and for such compensation as the Board may approve.

(d) Nothing hereinabove contained shall be construed to give the Board authority to conduct an active business for profit on behalf of all the Owners or any of them.

**DANA POINTE**  
**Tax Provision**  
**12/31/13**

4/25/2014  
 JC

		PY
<b>Interest</b>	133	519
Laundry	56,769	56847
Rental	66,785	66360
Locker rental	13,695	12555
	<u>137,382</u>	<u>136,281</u>

Expenses	Percent			
Accounting	10% *	8,000	800	521
Management	20% *	143,762	28,752	28519
Bank Charges	100% *	776	776	337
Insurance	12% *	131,470	15,776	15035
Office expens	20% *	9,601	1,920	
Renting exp	100% *	56	56	1367
Employee benefits	20% *	8,421	1,684	1749
Telephone	8% *	24,749	1,980	1766
Janitorial	20% ~	79,084	15,817	13643
fire protection/sec	2% *	31,818	636	1140
scavenger/exterminator	10% *	39,313	3,931	4502
Uniforms	10% *	1,186	119	149
supplies	20% *	1,897	379	1130
interest	100% *	7,847	7,847	3097
salaries	15% *	141,343	21,201	19912
Utilities	13% ~	295,138	38,368	34581
		<u>140,042</u>		<u>127448</u>

<b>Net income (Loss)</b>	(2,660)	
	Federal	State
	(2,660)	(2,660)
	(100)	-
	-	
	<u>(2,760)</u>	<u>(2,660)</u>
	30%	9.50%
	-	-

a	2,043,461	-	137,382	=	1,906,079
b	1,495,756	-	-	=	1,495,756
c	1,495,756				100.00%

\* Percent consistent with prior year

	Federal	State
prior yr over	(241)	-
current yr est	(1,259)	(1,596)
current yr Liab	-	-
	<u>(1,500)</u>	<u>(1,596)</u>
current (prepaid)/	(1,500)	(1,596)
accrued tax		
	1500	

WE HAVE REVIEWED AND APPROVED  
THE DRAFT FINANCIAL STATEMENTS.  
IN ADDITION, THERE ARE NO  
MATERIAL SUBSEQUENT EVENTS  
THAT HAVE OCCURRED THAT ARE  
NOT ALREADY DISCLOSED IN THESE  
FINANCIAL STATEMENTS.

APPROVED \_\_\_\_\_

## **The Dana Point Condominium Association**

(An Illinois Not-For-Profit Corporation)

Financial Statement and Supplementary Information

Year Ended  
**December 31, 2013**

REVISED DRAFT  
for discussion purposes only  
subject to change

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
The Dana Point Condominium Association  
Arlington Heights, Illinois

We have audited the accompanying financial statements of The Dana Point Condominium Association (an Illinois not-for-profit corporation), which comprise the balance sheet as of December 31, 2013, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management and Board of Directors' Responsibility for the Financial Statements***

Management and the board of directors are responsible for the preparation and fair presentation of the 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.

### ***Auditor's 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 auditor's 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 and the board of directors, 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 The Dana Point Condominium Association, as of December 31, 2013, 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.

***Emphasis of Matter***

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 4 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter. However, as discussed in Note 4, there is an unknown contingency and uncertainty that the Association will have funds available to meet future replacements.

REVISED DRAFT  
for discussion purposes only  
subject to change

THE DANA POINT CONDOMINIUM ASSOCIATION

(An Illinois Not-For-Profit Corporation)

BALANCE SHEET

DECEMBER 31, 2013

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and cash equivalents	\$ 149,500	\$ 515,938	\$ 665,438
Assessments receivable (net of allowance for doubtful accounts of \$25,100 and \$2,094)	8,823	-	8,823
Prepaid expenses	15,410	-	15,410
Prepaid insurance	44,521	-	44,521
Prepaid income taxes	220	-	220
Equipment, net of accumulated depreciation of \$2,453 and 4,314 respectively)	2,624	2,876	5,500
TOTAL ASSETS	<u>\$ 221,098</u>	<u>\$ 518,814</u>	<u>\$ 739,912</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 110,233	\$ -	\$ 110,233
Accrued expenses	7,575	-	7,575
Prepaid assessments	60,188	-	60,188
Deferred laundry revenue	7,000	-	7,000
Security deposits	16,649	-	16,649
TOTAL LIABILITIES	201,645	-	201,645
FUND BALANCES	<u>19,453</u>	<u>518,814</u>	<u>538,267</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 221,098</u>	<u>\$ 518,814</u>	<u>\$ 739,912</u>

The accompanying notes are an integral part of this statement.

THE DANA POINT CONDOMINIUM ASSOCIATION

(An Illinois Not-For-Profit Corporation)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Homeowner assessments	\$ 1,258,300	\$ 485,172	\$ 1,743,472
Bank loan assessment	-	140,652	140,652
Interest	-	133	133
Fines	5,040	-	5,040
Late fees	5,570	-	5,570
Laundry	56,769	-	56,769
Miscellaneous	1,590	-	1,590
Key fees	2,305	-	2,305
Move fees	7,450	-	7,450
Rent	66,785	-	66,785
Locker rental	13,695	-	13,695
<b>TOTAL REVENUES</b>	<u>1,417,504</u>	<u>625,957</u>	<u>2,043,461</u>
<b>EXPENSES</b>			
Administrative	240,976	9,343	250,319
Payroll	267,069	-	267,069
Utilities	295,138	-	295,138
Maintenance and repairs	442,292	109,338	551,630
Operating	131,600	-	131,600
<b>TOTAL EXPENSES</b>	<u>1,377,075</u>	<u>118,681</u>	<u>1,495,756</u>
<b>EXCESS OF</b>			
<b>REVENUES OVER EXPENSES</b>	40,429	507,276	547,705
Fund balances (deficit) at			
December 31, 2012	79,495	(88,933)	(9,438)
Transfer between funds	<u>(100,471)</u>	<u>100,471</u>	<u>-</u>
Fund balances at			
December 31, 2013	<u>\$ 19,453</u>	<u>\$ 518,814</u>	<u>\$ 538,267</u>

The accompanying notes are an integral part of this statement.



THE DANA POINT CONDOMINIUM ASSOCIATION

(An Illinois Not-For-Profit Corporation)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of revenues over expenses	\$ 40,429	\$ 507,276	\$ 547,705
Depreciation	1,015	1,438	2,453
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Net (increase) decrease in assets			
Receivables	14,772	-	14,772
Prepaid expenses	(15,410)	-	(15,410)
Prepaid income taxes	-	-	-
Prepaid insurance	1,828	-	1,828
Net increase (decrease) in liabilities			
Accounts payables	48,576	-	48,576
Prepaid assessments	20,342	-	20,342
Accrued payroll and payroll taxes	6,464	-	6,464
Deferred laundry	(3,000)	-	(3,000)
Security deposits	307	-	307
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>115,323</u>	<u>508,714</u>	<u>624,037</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of loan principal	-	(350,000)	(350,000)
Interfund receivable/payable	82,576	(82,576)	-
Interfund transfer	(100,471)	100,471	-
<b>NET CASH (USED) BY FINANCING ACTIVITIES</b>	<u>(17,895)</u>	<u>(332,105)</u>	<u>(350,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	97,428	176,609	274,037
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of year	<u>52,072</u>	<u>339,329</u>	<u>391,401</u>
End of year	<u>\$ 149,500</u>	<u>\$ 515,938</u>	<u>\$ 665,438</u>
<b>SUPPLEMENTAL DISCLOSURES</b>			
Cash paid during the year for:			
Interest	\$ -	\$ 7,847	\$ 7,847
Income taxes	-	-	-

The accompanying notes are an integral part of this statement.

# THE DANA POINT CONDOMINIUM ASSOCIATION

(An Illinois Not-For-Profit Corporation)

## NOTES TO FINANCIAL STATEMENTS

### **1. NATURE OF ORGANIZATION**

The Association was incorporated on November 24, 1980 under the laws of the State of Illinois as a not-for-profit corporation, to administer and operate the property known as The Dana Point Condominium Association located in Arlington Heights, Illinois, pursuant to and in accordance with the Illinois Condominium Property Act and the terms of the Declaration of Condominium Ownership. The Association consists of 499 residential units, and 5 rented units considered part of the common elements, in five buildings.

### **2. DATE OF MANAGEMENT AND BOARD OF DIRECTORS' REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 25, 2014 (**this date will change when the Board approves the draft for final**), the date the financial statements were available to be issued.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **FUND ACCOUNTING**

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Interfund transfers reflect activity between funds. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

#### **ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management and the board of directors to make estimates and assumptions that affect certain reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

#### **INCOME TAXES**

The Association has the option to file income tax returns as a homeowners association under Section 528 of the Internal Revenue Code, or as a regular corporation.

For the year ended December 31, 2013, the Association has elected to file as a homeowners association. There was no tax liability in 2013 because the taxable non-exempt function income was offset by the expenses related thereto. The Association had \$220 of prepaid income taxes at December 31, 2013.

THE DANA POINT CONDOMINIUM ASSOCIATION

(An Illinois Not-For-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS – Continued

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***INCOME TAXES - Continued***

The Association may be potentially subject to other types of taxes besides state and federal income taxes, such as use tax, sales tax or any other tax. These financial statements do not include an evaluation or any adjustment or contingency for potential additional taxes that may be potentially assessed by federal, state and local authorities.

Currently, the 2010, 2011, 2012 and 2013 tax years are open and subject to examination by the Internal Revenue Service and Illinois Department of Revenue. However, the Association is not currently under audit nor has the Association been contacted by any of these jurisdictions. Accordingly, no provision for the effects of possible examinations on open tax years has been recorded for the year ended December 31, 2013.

***UNCOLLECTIBLE ACCOUNTS***

At December 31, 2013, the Association had past-due delinquent accounts, and it is possible that the Association may not collect the full amount due. Therefore, an allowance for uncollectible accounts has been established for future possible defaults in the amount of \$25,100 for operating receivables and \$2,094 for special assessment receivables.

***CASH AND CASH EQUIVALENTS***

The Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

***PROPERTY AND EQUIPMENT***

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it over five years using the straight-line method. Fixed assets consist of maintenance and exercise equipment. At December 31, 2013, the Association had total fixed assets of \$12,267 and total accumulated depreciation of \$6,767, arriving at a total net fixed assets of \$5,500. For the year ended December 31, 2013, the Association recognized total depreciation expense of \$2,453.

***MEMBER ASSESSMENTS***

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments for the year ended December 31, 2013 were made on the basis of a budget adopted by the Board of Directors and allocated to unit owners in proportion to their relative ownership interests in the common elements of the condominium property. This budget has not been audited or reviewed, and is included in the financial statements for informational purposes. Assessments receivable at the balance sheet date represent fees due from unit owners. Prepaid assessments at the balance sheet date represent fees received in advance from unit owners.

THE DANA POINT CONDOMINIUM ASSOCIATION

(An Illinois Not-For-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS – Continued

**4. REPLACEMENT FUND**

The Association's governing documents require funds to be accumulated for future major repairs and replacements.

The Association had a reserve study conducted in July 2010, updated in 2014, by an outside firm to estimate the remaining useful lives and the replacement costs of the components of common property. This study, which has not been audited or reviewed, is more fully described on page fourteen and fifteen. For further information refer to the report in its entirety. The study begins recommendations in 2015. The Association budgeted for annual reserve funding contributions of \$485,172 in 2013 and \$668,601 in 2014.

Based on the 2014 reserve study the future replacement funds based on current assessment amounts may not be adequate to accomplish all needed future major repairs and replacements. A potential deficit in reserves might occur by 2017 based upon continuation of the most recent annual reserve contribution of \$668,601 and the identified Reserve Expenditures.

The Association budgeted \$668,601 for Reserve Contributions in 2014. The study recommends that the Association budget annual phased increases in Reserve Contributions of approximately \$165,000 from 2015 to 2019. By 2020, the Association will have fully funded balcony repairs. Therefore, the association may anticipate a decrease in the annual Reserve Contributions to \$910,000. Afterwards, the Association should budget gradual annual increases in reserve funding that in part consider the effects of inflation through 2044, the limit of this study's Cash Flow Analysis.

Actual replacement funding, expenditures and investment income vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, borrow funds, or delay major repairs and replacements until funds are available. These financial statements do not include any adjustment or contingency for potential future variances between actual funding and expenditures and estimated amounts and potentially underfunded amounts. There is an unknown contingency and uncertainty that the Association will have funds available to meet future replacements.

**5. RENTAL INCOME**

The Association owns five units that it is leasing annually to unrelated parties. The rental income is between \$1,000 and \$1,205 per unit per month. Total rental income for the year ended December 31, 2013 was \$66,785.

**6. UNINSURED CASH BALANCE**

The Association maintains its cash balances at several financial institutions located in the United States. The Federal Deposit Insurance Corporation insures accounts at each institution up to \$250,000. Money market mutual funds are not insured at all by FDIC. During 2013, the Association held funds that exceeded the federal insured limit.

THE DANA POINT CONDOMINIUM ASSOCIATION

(An Illinois Not-For-Profit Corporation)

NOTES TO FINANCIAL STATEMENTS – Continued

**7. SPECIAL ASSESSMENT**

In November 2007, the Association passed a \$2,225,000 special assessment to fund various capital expenditures. Beginning January 1, 2008, unit owners began to pay in thirty-six equal consecutive monthly installments. As of December 31, 2013, the Association had a special assessment receivable balance of \$2,094, which has been included in the replacement fund allowance for doubtful of accounts.

**8. LINE OF CREDIT**

In November 2011, the Association obtained a line of credit loan in the amount not to exceed \$600,000 at an interest rate of prime plus .25% with Glenview Sate Bank. The line of credit was extended from November 2012 to November 2013 and again to November 2014 at which time it will convert to a 32 month loan requiring month principal and interest payments. The line of credit is secured by all Association assets including an assignment of homeowner assessments.

The Association paid off the line of credit during 2013 therefore, at December 31, 2013, the balance of the line of credit payable was \$0. The Association recognized total interest expense associated with this line of credit of approximately \$7,847 for the year ended December 31, 2013. The Association has plans to draw on the line of credit in 2014 for various capital expenditures.

**9. COMMITMENTS**

The Association has entered into various maintenance and service agreements for the upkeep and operations of the property.

**10. DEFERRED LAUNDRY INCOME**

In 2011 the Association entered into a contract with a laundry company, which stated that the Association would allow the laundry company to install laundry machines in the Association, and in return, the Association would receive monthly payments from the laundry company. The laundry company paid a one-time bonus of \$15,000 to the Association, which is being deferred and recognized over the term of the contract, or 60 months. At December 31, 2013, the Association recognized \$3,000 of this bonus as income and had total laundry income of \$56,769. The Association had deferred laundry income of \$7,000.

**11. RELATED PARTY**

The Association's management payroll cost consists of individuals who are employees of the Association's management company. The Association reimburses the management company for these employees' payroll costs.

**12. SUBSEQUENT EVENTS**

During 2014, the Association paid \$70,647 to a legal firm to obtain a real estate tax reduction for the homeowners. The Association then charged the \$70,647 back to the homeowners, according to each owner's respective percentage of ownership and portion of the real estate tax savings. The net effect of these transactions on the Association's financial statements is zero. In 2014, the Association budgeted for approximately \$495,000 of various capital expenditures to be completed.

SUPPLEMENTARY INFORMATION

REVISED DRAFT  
for discussion purposes only  
subject to change

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors  
The Dana Point Condominium Association  
Arlington Heights, Illinois

We have audited the financial statements of The Dana Point Condominium Association as of and for the year ended December 31, 2013, and our report thereon dated April 25, 2014 **(DATE TO CHANGE ONCE BOARD APPROVES THE DRAFT)**, which expressed an unmodified opinion on those financial statements, appears on pages one and two. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenses – Detail, which is the responsibility of the Association's management and board of directors, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information 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 fourteen and fifteen 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 did not apply certain limited procedures to the required supplementary replacement reserve information in accordance with auditing standard generally accepted in the United States of America because we are not qualified architect engineers. We do not express an opinion or provide any assurance on the information.

THE DANA POINT CONDOMINIUM ASSOCIATION

(An Illinois Not-For-Profit Corporation)

SCHEDULE OF EXPENSES - DETAIL

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Budget (Unaudited)</u>
ADMINISTRATIVE				
Audit and tax preparation	\$ 8,000	\$ -	\$ 8,000	\$ 9,000
Bad debts	5,648	-	5,648	12,000
Bank charges	718	58	776	4,008
Coupon/lockbox fee	-	-	-	2,700
Depreciation	1,015	1,438	2,453	-
Dues, fees, licenses	4,977	-	4,977	3,954
Insurance	131,470	-	131,470	137,406
Internet - website	1,200	-	1,200	-
Legal	6,826	-	6,826	9,000
Loan interest	-	7,847	7,847	-
Management fee	40,800	-	40,800	154,000
Miscellaneous administrative	1,295	-	1,295	500
Newsletter	-	-	-	1,800
Office	9,601	-	9,601	13,300
Postage and printing	4,658	-	4,658	3,420
Promotions/social	19	-	19	1,200
Telephone	24,749	-	24,749	16,040
TOTAL	<u>\$ 240,976</u>	<u>\$ 9,343</u>	<u>\$ 250,319</u>	<u>\$ 368,328</u>
PAYROLL/PAYROLL REIMB				
Maintenance	\$ 141,343	\$ -	\$ 141,343	\$ 133,603
Health and welfare	8,421	-	8,421	7,600
Management	102,962	-	102,962	-
Payroll processing fees	1,973	-	1,973	864
Payroll taxes	12,370	-	12,370	11,800
TOTAL	<u>\$ 267,069</u>	<u>\$ -</u>	<u>\$ 267,069</u>	<u>\$ 153,867</u>
UTILITIES				
Electricity	\$ 83,292	\$ -	\$ 83,292	\$ 90,500
Gas	83,311	-	83,311	101,970
Water	128,535	-	128,535	115,000
TOTAL	<u>\$ 295,138</u>	<u>\$ -</u>	<u>\$ 295,138</u>	<u>\$ 307,470</u>



THE DANA POINT CONDOMINIUM ASSOCIATION

(An Illinois Not-For-Profit Corporation)

SCHEDULE OF EXPENSES - DETAIL - Continued

FOR THE YEAR ENDED DECEMBER 31, 2013

	Operating Fund	Replacement Fund	Total	Budget
<b>MAINTENANCE AND REPAIRS</b>				
Balcony repair-replacement	\$ -	\$ 65,695	\$ 65,695	\$ -
Carpet cleaning	22,988	-	22,988	25,582
Concrete	-	-	-	5,000
Electrical	6,939	-	6,939	4,800
Elevator repairs/service	18,420	-	18,420	33,912
Equipment repairs	1,813	-	1,813	5,990
Exterior painting	-	-	-	5,000
Fire prevention/security	31,818	-	31,818	34,710
Garage maintenance	20,076	-	20,076	24,000
Heating and air conditioning	15,808	43,643	59,451	10,000
Ice control	84,766	-	84,766	30,000
Interior painting/decorating	3,260	-	3,260	4,020
Landscape	76,402	-	76,402	118,910
Locks, doors and keys	7,624	-	7,624	5,000
Maintenance supplies	4,203	-	4,203	5,100
Masonry and tuckpointing	39,145	-	39,145	40,000
Plumbing repairs	40,264	-	40,264	15,120
Pool expense	28,564	-	28,564	33,304
Roof repairs	9,025	-	9,025	17,000
Streets and sidewalks	10,349	-	10,349	10,000
Trees and bushes	20,828	-	20,828	17,295
<b>TOTAL</b>	<b>\$ 442,292</b>	<b>\$ 109,338</b>	<b>\$ 551,630</b>	<b>\$ 444,743</b>
<b>OPERATING</b>				
Building services - other	\$ 1,874	\$ -	\$ 1,874	\$ 4,504
Cleaning contract	79,084	-	79,084	73,080
Cleaning supplies	1,897	-	1,897	2,000
Exterminating	3,806	-	3,806	9,220
Light bulbs	5,808	-	5,808	5,004
Scavenger	35,507	-	35,507	41,604
Garbage chute-compactor	2,438	-	2,438	4,000
Uniform	1,186	-	1,186	1,200
<b>TOTAL</b>	<b>\$ 131,600</b>	<b>\$ -</b>	<b>\$ 131,600</b>	<b>\$ 140,612</b>

THE DANA POINT CONDOMINIUM ASSOCIATION

(An Illinois Not-For-Profit Corporation)

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
AND REPLACEMENTS - UNAUDITED OR REVIEWED

An outside firm conducted a study in July 2010, updated in April 2014, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Estimated current replacement costs do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following table is based on the study and presents significant information about the components of common property. For further information refer to the report in its entirety.

Components	2014 Estimated Remaining Useful Lives in Years	2014 Estimated Current Replacement Costs
Exterior Building Elements	0-21 years	\$ 18,366,592
Interior Building Elements	4-24 years	3,409,736
Building Services Elements	0-28 years	7,666,941
Property Site Elements	0-20 years	4,342,480
Clubhouse Elements	1-17 years	470,719
Pool Elements	5-15 years	941,917
Garage Elements	0-14 years	1,997,746
Reserve Study Update with Site Visit	2 years	5,400
Total Estimated Current Repair and Replacement Costs		<u>\$ 37,201,531</u>

2015 is the first year of recommended contributions

2013 Actual Reserve Funding	<u>\$ 485,172</u>
2014 Budgeted Reserve Funding	<u>\$ 668,601</u>
2015 Recommended Reserve Funding	<u>\$ 833,600</u>

2.3% is the estimated future inflation rate for estimating future replacement costs

Actual expenditures, funding, and investment income vary from the estimated amounts and the variation may be material. Therefore, if additional funds are needed the Association has the right to increase regular assessments, levy special assessments, borrow funds, or delay major repairs and replacements until funds are available. These financial statements do not include any adjustments or contingencies for potential differences between actual funding and estimated amounts and potentially underfunded amounts.

*Continued on next page*

THE DANA POINT CONDOMINIUM ASSOCIATION  
(An Illinois Not-For-Profit Corporation)  
REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
AND REPLACEMENTS - UNAUDITED OR REVIEWED

*Continued from previous page*

2015 - 2020 Reserve Information

	<u>Total Recommended Reserve Contribution</u>	<u>Total Anticipated Expenditures</u>
2015	\$ 781,052	\$ 907,888
2016	\$ 714,947	\$ 792,091
2017	\$ 930,456	\$ 1,288,727
2018	\$ 814,876	\$ 1,718,983
2019	\$ 431,310	\$ 1,728,780
2020	\$ 199,581	\$ 1,004,537

A potential deficit in reserves might occur by 2017 based upon continuation of the most recent annual reserve contribution of \$668,601 and the identified Reserve Expenditures.

The Association budgeted \$668,601 for Reserve Contributions in 2014. The study recommends that the Association budget annual phased increases in Reserve Contributions of approximately \$165,000 from 2015 to 2019. By 2020, the Association will have fully funded balcony repairs. Therefore, the association may anticipate a decrease in the annual Reserve Contributions to \$910,000. Afterwards, the Association should budget gradual annual increases in reserve funding, that in part consider the effects of inflation through 2044, the limit of this study's Cash Flow Analysis.