

Dana Point Condominium Association

**Financial Statements and
Supplementary Information**

December 31, 2011

Dana Point Condominium Association
December 31, 2011

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**To the Board of Directors
Dana Point Condominium Association**

Independent Auditor's Report

We have audited the accompanying balance sheet of Dana Point Condominium Association (the "Association") as of December 31, 2011, and the related statements of revenues, expenses and changes in fund balance 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. The prior year summarized comparative information has been derived from Dana Point Condominium Association's 2010 financial statements and, in our report dated March 31, 2011, we expressed an unqualified opinion on those financial statements.

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 Dana Point Condominium Association as of 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules on pages 10-12, which are the responsibility of the Association's management, are presented for purposes of additional analysis and are 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 about future repairs and replacements on page 13 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 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.

Frost, Ruttenberg & Rothblatt, P.C.

March 28, 2012

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Financial Statements

Dana Point Condominium Association
Balance Sheet
December 31, 2011
(With Comparative Totals For December 31, 2010)

ASSETS	Operating	Replacement	2010	
	Fund	Fund	Total	Total
Checking	\$ 81,115	\$ 50,421	\$ 131,536	\$ 261,706
Money market	-	527,398	527,398	881,911
Total Cash and Cash Equivalents	81,115	577,819	658,934	1,143,617
Accounts receivable - net of allowance for doubtful accounts for operating and replacement funds of \$33,600 and \$6,700, respectively	21,912	3,999	25,911	56,465
Prepaid insurance	40,697	-	40,697	41,789
Prepaid expenses	-	-	-	2,952
Interfund receivable (payable)	(27,165)	27,165	-	-
Equipment - net of accumulated depreciation of \$423 and \$1,438, respectively	4,654	5,752	10,406	-
TOTAL ASSETS	\$ 121,213	\$ 614,735	\$ 735,948	\$ 1,244,823
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LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ 74,761	\$ -	\$ 74,761	\$ 159,952
Assessments received in advance	74,594	10,045	84,639	51,935
Security deposit	16,342	-	16,342	16,537
Deferred laundry revenue	13,000	-	13,000	726
Accrued payroll and payroll taxes	4,787	-	4,787	3,976
Accrued income tax expense	1,588	-	1,588	-
Accrued interest payable	-	-	-	220
Note payable	-	-	-	136,149
TOTAL LIABILITIES	185,072	10,045	195,117	369,495
FUND BALANCE	(63,859)	604,690	540,831	875,328
TOTAL LIABILITIES AND FUND BALANCE	\$ 121,213	\$ 614,735	\$ 735,948	\$ 1,244,823

See Independent Auditor's Report and accompanying Notes to Financial Statements.

Dana Point Condominium Association
Statement of Revenues, Expenses and Changes in Fund Balance
For the Year Ended December 31, 2011
(With Comparative Totals For the Year Ended December 31, 2010)

	Operating Fund	Replacement Fund	Total	2010 Total
Revenues				
Assessments	\$ 1,310,112	\$ 321,180	\$ 1,631,292	\$ 1,473,668
Special assessment	-	-	-	741,673
Bank loan assessment	-	138,696	138,696	258,408
Contingency	-	4,800	4,800	5,004
Real estate tax appeal income	30,503		30,503	-
Document fees	6,375	-	6,375	2,880
Fines	1,575	-	1,575	2,895
Locks and keys	16,395	-	16,395	17,317
Laundry income	55,563	-	55,563	51,017
Late charges	3,725	-	3,725	4,000
Legal fees	6,111	-	6,111	7,662
Moving fees	6,450	-	6,450	6,900
Rental income	59,480	-	59,480	59,070
Interest income		3,928	3,928	4,920
Miscellaneous income	5,369	-	5,369	2,264
Total Revenues	1,501,658	468,604	1,970,262	2,637,678
Expenses				
Administrative	219,645	774	220,419	228,865
Operating	184,076	-	184,076	233,815
Payroll and related expenses	178,621	-	178,621	173,332
Repairs and maintenance	454,668	-	454,668	343,285
Utilities	302,671	-	302,671	293,287
Insurance	110,382	-	110,382	111,527
Capital expenditures	-	842,980	842,980	609,600
Depreciation	423	1,438	1,861	-
Income tax expense	1,456		1,456	-
Interest	-	2,326	2,326	15,631
Bad debt	900	4,400	5,300	8,095
Total Expenses	1,452,842	851,918	2,304,760	2,017,437
Excess (Deficit) of Revenues Over Expenses	48,816	(383,314)	(334,498)	620,241
Beginning fund balance	(115,349)	990,678	875,329	255,088
Other transfers	2,674	(2,674)		-
Ending Fund Balance	\$ (63,859)	\$ 604,690	\$ 540,831	\$ 875,329

See Independent Auditor's Report and accompanying Notes to Financial Statements.

Dana Point Condominium Association
Statement of Cash Flows
For the Year Ended December 31, 2011
(With Comparative Totals For the Year Ended December 31, 2010)

	Operating Fund	Replacement Fund	Total	2010 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (Deficit) of Revenues Over Expenses	\$ 48,816	\$ (383,314)	\$ (334,498)	\$ 620,241
Adjustments To Reconcile Excess (Deficit) Of Revenues Over Expenses To Net Cash Provided By (Used In) Operating Activities				
Bad debt expense	900	4,400	5,300	8,095
Depreciation expense	423	1,438	1,438	-
(Increase) Decrease In Assets				
Assessments receivable	6,958	18,296	25,254	(19,921)
Prepaid insurance and other current assets	4,044	-	4,044	(19,343)
Interfund receivable	(53,571)	53,571	-	-
Increase (Decrease) in Liabilities				
Accounts payable	(28,669)	(56,521)	(85,190)	(645)
Accrued payroll and payroll taxes	811	-	811	3,976
Assessments received in advance	33,345	(641)	32,704	(76,135)
Accrued income tax expense	1,588			-
Accrued interest	-	(220)	(220)	(454)
Security deposits	(195)	-	(195)	1,000
Deferred laundry revenue	12,274	-	12,274	(2,903)
Other transfers	2,674	(2,674)	-	
Total Adjustments	(19,418)	17,649	(3,780)	(106,330)
Net Cash Provided by (Used in) Operating Activities	29,398	(365,665)	(336,267)	513,911
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of equipment	(5,077)	(7,190)	(7,190)	-
Net Cash Used in Investing Activities	(5,077)	(7,190)	(12,267)	-
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on note payable	-	(136,149)	(136,149)	(242,287)
Net Cash Provided by (Used in) Financing Activities	-	(136,149)	(136,149)	(242,287)
Increase (Decrease) in Cash and Cash Equivalents	24,321	(509,004)	(484,683)	271,624
Cash and cash equivalents - Beginning of the year	56,794	1,086,823	1,143,617	871,993
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 81,115	\$ 577,819	\$ 658,934	\$ 1,143,617

See Independent Auditor's Report and accompanying Notes to Financial Statements.

**Dana Point Condominium Association
Notes to Financial Statements
December 31, 2011**

Note (1) Summary of Significant Accounting Policies

A. Nature of Operations

Dana Point Condominium Association (the "Association") was incorporated under the laws of Illinois as a not-for-profit corporation on November 24, 1980 for the purpose of operating and maintaining the property known as Dana Point Condominium Association. The Association is governed by the rules and regulations as dictated by its condominium declaration as filed in accordance with the Illinois Condominium Property Act. The Association consists of 499 residential units located in Arlington Heights, Illinois.

B. Assessments Receivable

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 receivable at the balance sheet date represents assessments due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of unit owners whose assessments are considered delinquent and to provide for an allowance for doubtful accounts in an amount determined on a review of delinquent accounts. At December 31, 2011, the Association had assessments receivable of \$55,512 and \$10,699 for the operating and replacement funds respectively, of which \$38,267 and \$7,603 were considered delinquent assessments, respectively. It is the opinion of the Board of Directors that the Association may not prevail against homeowners with delinquent assessments, and accordingly, allowances for doubtful accounts in the amount of \$33,600 and \$6,700 are deemed necessary for the operating and replacement funds, respectively, as of December 31, 2011.

C. 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. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purposes:

Operating Fund – This Fund is used to account for financial resources available for the general operations of the Association. Disbursements from the operating fund are generally at the discretion of the Board of Directors and/or the property manager.

Replacement Fund – This Fund is used to accumulate financial resources designated for future major repairs and replacements. Disbursements from the replacement fund generally may be made only for the purposes designated by the Board of Directors.

See Independent Auditor's Report.

**Dana Point Condominium Association
Notes to Financial Statements
December 31, 2011**

Note (1) Summary of Significant Accounting Policies - Continued

D. Cash Flows

Cash equivalents are all highly liquid investments with a maturity of three months or less when purchased.

Cash flows from operating activities for the year ended December 31, 2011 reflect payments of \$2,546 for interest.

E. Management

The Association entered into a management agreement with Property Specialists Inc., Rolling Meadows, Illinois, which requires the management company to be responsible for the day-to-day administration of the Association. Management fees totaled \$142,828 for the year ended December 31, 2011.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 the reported amounts of revenues and expenses during the reporting period. While actual results may differ from those estimates, management does not expect the differences, if any, to have a material effect on the financial statements.

G. Cash Balances in Excess of Insured Amounts

The Association maintains its cash and investments in accounts which, at times, may exceed insured limits. The Association has not experienced any losses due to these limits.

**Dana Point Condominium Association
Notes to Financial Statements
December 31, 2011**

Note (1) Summary of Significant Accounting Policies - Continued

H. Income Taxes

The Association elects on a yearly basis whether to be taxed as a regular corporation or a tax exempt homeowners' association as permitted by Internal Revenue Code Section 528. The Association elected to be taxed as a regular corporation for the year ended December 31, 2011. As a regular corporation, membership income, which consists primarily of members assessments, is exempt from taxation if certain elections are made. Taxable income exists only to the extent that certain non-membership income, such as interest income, exceeds the expenses associated with the production of that income at regular federal and state corporate rates. The Association had a State income tax liability of \$1,588 for the year ended December 31, 2011.

The Association accounts for any potential interest or penalties related to the possible future liabilities for unrecognized income tax benefits as interest/other expense. The Association is no longer subject to examination by tax authorities for federal, state or local income taxes for periods before 2008.

I. 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 they are owned by the individual unit owners in common and not by the Association. Common areas are restricted to use by Association members, their tenants, and guests.

Property and equipment are depreciated over their estimated useful lives using the straight-line method. The estimated useful life is as follows:

Life in Years	
Equipment	5

Total depreciation expense for the year ended December 31, 2011 was \$1,861.

The Association reviews the recoverability of long-lived assets when circumstances indicate that the carrying amount may not be recoverable. The carrying amount of assets held and used is generally not recoverable if it exceeds the undiscounted sum of cash flows expected to result from the use and eventual disposition of the asset, or for assets held for sale, if it exceeds market value. The Association records impairment when the carrying value exceeds fair market value. There were no impairment indicators for the year ended December 31, 2011.

**Dana Point Condominium Association
Notes to Financial Statements
December 31, 2011**

Note (1) Summary of Significant Accounting Policies - Continued

J. Subsequent Events

The Association evaluated all significant events or transactions that occurred through March 28, 2012, the date the financial statements were available to be issued. During this period, the Association did not have any material recognizable subsequent events.

Note (2) Other Transfers

During the year ended December 31, 2011, \$2,674 of operating expenses were paid by the replacement fund. The Board of Directors does not intend to repay this amount to the replacement fund. Therefore, \$2,674 is shown as a transfer from the replacement fund to the operating fund.

Note (3) Special Assessments

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, 2011, the Association had a special assessments receivable balance of \$10,699.

Note (4) Notes Payable

On September 21, 2004, the Association obtained a \$1,500,000 loan from Harris Bank, N.A. to help pay for modernization of the elevators, security systems, and electrical wiring. This note was due to mature on September 21, 2011 and was secured by the common elements and future assessments.

The note was refinanced in December 2007, reducing the interest rate from 6.61% to 5.91% and the covenant relating to minimum reserve account balances was removed. Monthly principal and interest payments in the amount of \$21,531 were required. The note was paid in full during the year ended December 31, 2011.

Note (5) Commitments

The Association signed an additional contract with Quality Restoration during the year ended December 31, 2011 to replace fifteen balconies at an approximate cost of \$268,000. As of December 31, 2011, seven balconies had been completed at a total cost of \$127,330. The remaining eight balconies are to be completed during 2012.

See Independent Auditor's Report.

**Dana Point Condominium Association
Notes to Financial Statements
December 31, 2011**

Note (6) 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 month. Total rental income for the year ended December 31, 2011 was \$59,480.

Note (7) Line of Credit

On November 1, 2011, the Association entered into a one year line of credit with Glenview State Bank not to exceed \$600,000 at an interest rate of prime plus .25% (prime rate at December 31, 2011 was 3.25%). After the one year term, the line of credit will convert to a 32 month loan requiring monthly principal and interest payments. The line of credit is secured by all Association assets including assignment of homeowner assessments. There was no balance as of December 31, 2011 on the line of credit.

Note (8) Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for expenditures for normal operations.

An independent consulting company completed a repairs and replacement reserve study in 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in supplementary information on future major repairs and replacements is based on the study.

The Board is funding for major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, and investment income may vary from the estimated amounts and the variations may be material. Therefore, 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, or levy special assessments, or it may delay major repairs and replacements until funds are available, or borrow funds.

Supplementary Information

Dana Point Condominium Association
Schedule of Expenses - Actual vs. Budget
For the Year Ended December 31, 2011

	Actual	Budget
Administrative		
Management fees	\$ 142,828	\$ 142,140
Accounting fees	8,000	7,000
Bank charges	3,782	5,880
Legal fees	11,421	6,900
Legal fees - real estate tax appeal	30,494	-
Office	11,079	10,344
Printing and copying	6,422	3,420
Postage	2,883	2,700
Miscellaneous	2,736	5,052
Total Administrative Expenses	\$ 219,645	\$ 183,436
Operating Expenses		
Building equipment	\$ 2,061	\$ 11,640
Uniforms	945	1,200
Scavenger and exterminator	43,366	49,124
Janitor services	71,519	101,220
Fees and permits	1,430	3,400
Pool contract	24,819	26,800
Rental expense	3,521	5,100
Snow removal	10,516	30,000
Telephone	25,899	27,600
Total Operating Expenses	\$ 184,076	\$ 256,084
Payroll and Related Expenses		
Insurance - workers comp	\$ 5,622	\$ 5,600
Salaries and wages	146,530	144,792
Payroll processing	1,350	1,092
Payroll taxes	10,927	12,200
Employee benefits	14,192	13,512
Total Payroll and Related Expenses	\$ 178,621	\$ 177,196

See Independent Auditor's Report.

Dana Point Condominium Association
Schedule of Expenses - Actual vs. Budget - Continued
For the Year Ended December 31, 2011

	Actual	Budget
Repairs and Maintenance Expenses		
Elevator	\$ 26,812	\$ 38,160
Carpet cleaning	26,759	33,470
Plumbing	35,050	15,120
HVAC services	4,171	15,000
Supplies	22,591	38,620
Masonry	22,287	36,000
Vehicle	1,116	1,200
Electrical	11,486	3,600
Paving	6,207	26,100
Repairs	37,008	23,650
Decorating and painting	3,572	16,720
Landscaping	131,708	109,950
Keys, locks and doors	4,035	4,500
Security	15,840	12,000
Fire monitoring	31,461	19,500
Pool	4,170	3,900
Garage	24,586	20,000
Garbage chute - compactor	1,466	3,104
Casualty loss - flood damage	44,343	-
Total Repairs and Maintenance	\$ 454,668	\$ 420,594
Utilities Expense		
Electric	\$ 92,803	\$ 90,300
Water	117,077	108,600
Gas	92,791	99,000
Total Utilities Expense	\$ 302,671	\$ 297,900
Insurance Expense	\$ 110,382	\$ 122,846

See Independent Auditor's Report.

Dana Point Condominium Association
Schedule of Expenses - Actual vs. Budget - Continued
For the Year Ended December 31, 2011

	Actual	Budget
Capital Expenses		
Street lights	\$ -	\$ 5,000
Masonry	- -	99,000
Furniture	- -	9,000
Balcony	127,330	100,000
Garage	- -	6,000
HVAC	17,496	10,000
Water heater	5,894	6,000
Plumbing	30,144	- -
Structural	229,620	- -
Clubhouse	675	- -
Rental units	280	5,000
Door	7,100	5,700
Landscaping	51,694	72,135
Pool	3,215	3,500
Asphalt/concrete	291,982	568,500
Site	77,550	- -
Painting	- -	15,000
Trash system	- -	8,000
Signage	- -	3,500
Exterior lights	- -	6,000
Roof	- -	260,000
Fitness center	- -	9,000
Total Capital Expenses	\$ 842,980	\$ 1,191,335

See Independent Auditor's Report.

**Dana Point Condominium Association
Schedule of Future Major Repairs and Replacements
For the Years Ended December 31, 2011**

Kipcon Great Lakes conducted a study in July 2010, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on 2010 replacement costs. Estimated current replacement costs have not been revised since the date of the study and 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 information is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs
Sitework	1-29	\$ 3,029,235
Waterproofing	3-28	700,275
Interior finishes	3-21	1,288,808
Exterior finishes	1-39	10,272,472
Electrical	# 2-46	3,125,588
Special construction	4-23	825,515
Mechanical	1-29	5,604,551
Total		\$ 24,846,444

See Independent Auditor's Report.