

**Dana Point Condominium Association**

**Financial Statements and Supplementary Information**

**December 31, 2012**

DRAFT

**Dana Point Condominium Association**  
**December 31, 2012**

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## Financial Statements

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**Dana Point Condominium Association**  
**Balance Sheet**  
**December 31, 2012**  
**(With Comparative Totals for December 31, 2011)**

<b>ASSETS</b>	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>	<b>2011 Total</b>
Checking	\$ 52,072	\$ -	\$ 52,072	\$ 131,536
Money market	-	339,329	339,329	527,398
Total Cash and Cash Equivalents	52,072	339,329	391,401	658,934
Accounts receivable, net of allowance for doubtful accounts for operating and replacement funds of \$19,000 and \$2,094, respectively	23,596	-	23,596	25,911
Prepaid insurance	46,349	-	46,349	40,697
Income taxes on deposit - net of liability	220	-	220	-
Equipment, net of accumulated depreciation of \$1,438 and \$2,876 respectively	3,639	4,314	7,953	10,406
<b>TOTAL ASSETS</b>	<b>\$ 125,876</b>	<b>\$ 343,643</b>	<b>\$ 469,519</b>	<b>\$ 735,948</b>
<b>LIABILITIES AND FUND BALANCE (DEFICIT)</b>				
<b>Liabilities</b>				
Accounts payable	\$ 61,658	\$ -	\$ 61,658	\$ 74,761
Assessments received in advance	39,846	-	39,846	84,639
Security deposit	16,342	-	16,342	16,342
Deferred laundry revenue	10,000	-	10,000	13,000
Accrued payroll and payroll taxes	1,111	-	1,111	4,787
Accrued income tax expense	-	-	-	1,588
Line of credit	-	350,000	350,000	-
<b>TOTAL LIABILITIES</b>	<b>128,957</b>	<b>350,000</b>	<b>478,957</b>	<b>195,117</b>
<b>FUND BALANCE (DEFICIT)</b>	<b>(3,081)</b>	<b>(6,357)</b>	<b>(9,438)</b>	<b>540,831</b>
<b>TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)</b>	<b>\$ 125,876</b>	<b>\$ 343,643</b>	<b>\$ 469,519</b>	<b>\$ 735,948</b>

See accompanying notes.

**Dana Point Condominium Association**  
**Statement of Revenues, Expenses and Changes in Fund Balance (Deficit)**  
**For the Year Ended December 31, 2012**  
**(With Comparative Totals for December 31, 2011)**

	Operating Fund	Replacement Fund	Total	2011 Total
<b>Revenues</b>				
Assessments	\$ 1,305,474	\$ 499,824	\$ 1,805,298	\$ 1,631,292
Bank loan assessment	-	21,000	21,000	138,696
Contingency	-	4,800	4,800	4,800
Real estate tax appeal income	-	-	-	30,503
Document fees	7,750	-	7,750	6,375
Fines	1,200	-	1,200	1,575
Locks and keys	16,475	-	16,475	16,395
Laundry income	56,847	-	56,847	55,563
Late charges	4,100	-	4,100	3,725
Legal fees	7,604	-	7,604	6,111
Moving fees	7,175	-	7,175	6,450
Rental income	66,360	-	66,360	59,480
Interest income	-	520	520	3,928
Miscellaneous income	2,151	-	2,151	5,369
<b>Total Revenues</b>	<b>1,475,136</b>	<b>526,144</b>	<b>2,001,280</b>	<b>1,970,262</b>
<b>Expenses</b>				
Administrative	187,188	337	187,525	220,419
Operating	213,247	-	213,247	184,076
Payroll and related expenses	162,075	-	162,075	178,621
Repairs and maintenance	349,236	-	349,236	454,668
Utilities	288,074	-	288,074	302,671
Insurance	117,837	-	117,837	110,382
Capital expenditures	-	1,214,895	1,214,895	842,980
Depreciation	1,015	1,438	2,453	1,861
Income tax expense	2,180	-	2,180	1,456
Interest	-	3,097	3,097	2,326
Bad debt	10,930	-	10,930	5,300
<b>Total Expenses</b>	<b>1,331,782</b>	<b>1,219,767</b>	<b>2,551,549</b>	<b>2,304,760</b>
<b>Excess (Deficit) of Revenues Over Expenses</b>	<b>143,354</b>	<b>(693,623)</b>	<b>(550,269)</b>	<b>(334,498)</b>
Beginning fund balance (deficit)	(63,859)	604,690	540,831	875,329
Other transfers	(82,576)	82,576	-	-
<b>Ending Fund Balance (Deficit)</b>	<b>\$ (3,081)</b>	<b>\$ (6,357)</b>	<b>\$ (9,438)</b>	<b>\$ 540,831</b>

See accompanying notes.

**Dana Point Condominium Association**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2012**  
**(With Comparative Totals for December 31, 2011)**

	Operating Fund	Replacement Fund	Total	2011 Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Excess (Deficit) of Revenues Over Expenses	\$ 143,354	\$ (693,623)	\$ (550,269)	\$ (334,498)
<b>Adjustments To Reconcile Excess (Deficit) Of Revenues Over Expenses To Net Cash Used In Operating Activities</b>				
Bad debt expense	10,930	-	10,930	5,300
Depreciation expense	1,015	1,438	2,453	1,861
Deferred laundry revenue	(3,000)	-	(3,000)	12,274
(Increase) Decrease in Assets				
Assessments receivable	(12,614)	3,999	(8,615)	25,254
Prepaid insurance and other current assets	(5,652)	-	(5,652)	4,044
Income taxes on deposit - net of liability	(220)	-	(220)	-
Interfund receivable	(27,165)	27,165	-	-
Increase (Decrease) in Liabilities				
Accounts payable	(13,103)	-	(13,103)	(85,190)
Accrued payroll and payroll taxes	(3,676)	-	(3,676)	811
Assessments received in advance	(34,748)	(10,045)	(44,793)	32,704
Accrued income tax expense	(1,588)	-	(1,588)	1,588
Accrued interest	-	-	-	(220)
Security deposits	-	-	-	(195)
Other transfers	(82,576)	82,576	-	-
<b>Total Adjustments</b>	<b>(172,397)</b>	<b>105,133</b>	<b>(67,264)</b>	<b>(1,769)</b>
<b>Net Cash Used In Operating Activities</b>	<b>(29,043)</b>	<b>(588,490)</b>	<b>(617,533)</b>	<b>(336,267)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of equipment	-	-	-	(12,267)
<b>Net Cash Provided By Investing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,267)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from line of credit	-	350,000	350,000	-
Payments on note payable	-	-	-	(136,149)
<b>Net Cash Provided By Financing Activities</b>	<b>-</b>	<b>350,000</b>	<b>350,000</b>	<b>(136,149)</b>
<b>Decrease in Cash and Cash Equivalents</b>	<b>(29,043)</b>	<b>(238,490)</b>	<b>(267,533)</b>	<b>(484,683)</b>
Cash and cash equivalents - Beginning of the year	81,115	577,819	658,934	1,143,617
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 52,072</b>	<b>\$ 339,329</b>	<b>\$ 391,401</b>	<b>\$ 658,934</b>

See accompanying notes.

# **Dana Point Condominium Association**

## **Notes to Financial Statements**

### **December 31, 2012**

#### **Note (1) Summary of Significant Accounting Policies**

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##### **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 represent 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, 2012, the Association had assessments receivable of \$42,596 and \$2,094 for the operating and replacement funds, respectively. It is the opinion of the Board of Directors that the Association may not prevail against all homeowners with delinquent assessments, and accordingly, allowances for doubtful accounts in the amount of \$19,000 and \$2,094 are deemed necessary for the operating and replacement funds, respectively, as of December 31, 2012.

##### **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.

**Dana Point Condominium Association**  
**Notes to Financial Statements**  
**December 31, 2012**

**Note (1) Summary of Significant Accounting Policies - Continued**

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**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, 2012 reflect payments of \$3,097 for interest and \$3,988 for income taxes.

**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 \$142,593 for the year ended December 31, 2012.

Subsequent to year end, the Association terminated its agreement with Property Specialists and entered into a contract with Lieberman Management Services.

**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. 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 under Section 528 for the year ended December 31, 2012. Under Section 528, taxable income exists only to the extent that certain nonexempt function income, such as interest income, exceeds the expenses associated with the production of that income. The Association is taxed on this net nonexempt function income at a flat rate of 30%. Exempt function income, which consists primarily of members assessments, is not taxable. The Association had a Federal income tax liability of \$2,180 for the year ended December 31, 2012.

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 2009.



# **Dana Point Condominium Association**

## **Notes to Financial Statements**

### **December 31, 2012**

#### **Note (1) Summary of Significant Accounting Policies - Continued**

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##### **H. 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:

	<b>Life in Years</b>
Equipment	5

Total depreciation expense for the year ended December 31, 2012 was \$2,453.

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, 2012.

##### **I. 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.

##### **J. Subsequent Events**

The Association evaluated all significant events or transactions that occurred through XXXXX, 2013, the date the financial statements were available to be issued.

#### **Note (2) Other Transfers**

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During the year ended December 31, 2012, \$82,576 of replacement fund expenses were paid by the operating fund. The Board of Directors does not intend to repay this amount to the operating fund. Therefore, \$82,576 is shown as a transfer from the operating fund to the replacement fund.

**Dana Point Condominium Association**  
**Notes to Financial Statements**  
**December 31, 2012**

**Note (3) Special Assessments**

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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, 2012, the Association had a special assessments receivable balance of \$2,094 which has been included in the replacement fund allowance for doubtful accounts.

**Note (6) Rental Income**

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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, 2012 was \$66,360.

**Note (7) Line of Credit**

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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, 2012 was 3.25%). The line of credit was extended for one more year until November 1, 2013 at which time it will convert to a 32 month loan requiring monthly principal and interest payments. The line of credit is secured by all Association assets including an assignment of homeowner assessments. The balance at December 31, 2012 is \$350,000.

**Note (8) Future Major Repairs and Replacements**

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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**

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**Dana Point Condominium Association**  
**Schedule of Expenses - Actual vs. Budget - Continued**  
**For the Year Ended December 31, 2012**

	<b>Actual</b>	<b>Budget</b>
<b>Repairs and Maintenance Expenses</b>		
Elevator	\$ 32,036	\$ 33,360
Carpet cleaning	29,350	33,470
Plumbing	17,877	15,120
HVAC services	17,754	15,000
Supplies	19,770	38,380
Masonry	6,268	36,000
Vehicle	164	900
Electrical	5,444	3,600
Paving	1,795	26,100
Repairs	40,426	26,200
Decorating and painting	1,601	16,720
Landscaping	105,367	107,640
Keys, locks and doors	5,298	4,200
Security	11,666	12,000
Fire monitoring	26,335	20,400
Pool	4,924	3,900
Garage	21,233	20,000
Garbage chute - compactor	1,928	3,000
<b>Total Repairs and Maintenance Expenses</b>	<b>\$ 349,236</b>	<b>\$ 415,990</b>
<b>Utilities Expense</b>		
Electric	\$ 82,566	\$ 83,600
Water	126,477	113,604
Gas	79,031	99,000
<b>Total Utilities Expense</b>	<b>\$ 288,074</b>	<b>\$ 296,204</b>
<b>Insurance Expense</b>	<b>\$ 117,837</b>	<b>\$ 122,846</b>

**Dana Point Condominium Association**  
**Schedule of Expenses - Actual vs. Budget - Continued**  
**For the Year Ended December 31, 2012**

	<b>Actual</b>	<b>Budget</b>
<b>Capital Expenses</b>		
Street lights	\$ -	\$ 5,000
Masonry	4,938	35,000
Balcony	787,445	185,000
Garage	4,245	6,000
HVAC	12,166	10,000
Water heater	-	6,000
Office	-	1,200
Fire system	-	12,000
Clubhouse	-	1,200
Reserve study	-	10,000
Rental units	-	5,000
Door	5,875	5,700
Landscaping	-	22,135
Pool	12,558	3,500
Asphalt/concrete	4,694	49,500
Site	99,280	-
Trash system	-	8,000
Exterior lights	-	6,000
Roof	283,694	50,000
Fitness center	-	3,000
<b>Total Capital Expenses</b>	<b>\$ 1,214,895</b>	<b>\$ 424,235</b>

**Dana Point Condominium Association**  
**Schedule of Future Major Repairs and Replacements**  
**For the Years Ended December 31, 2012**

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.

<b>Components</b>	<b>Estimated Remaining Useful Lives (Years)</b>	<b>Estimated Current Replacement Costs</b>
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
<b>Total</b>		<b>\$ 24,846,444</b>