

**Dana Point Condominium Association**

**Financial Statements and  
Supplementary Information**

**December 31, 2010**



# **Dana Point Condominium Association**

## **December 31, 2010**

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*Focus. Dedication. Relationships.*

CERTIFIED PUBLIC ACCOUNTANTS  
AND BUSINESS ADVISORS

To the Board of Directors  
Dana Point Condominium Association

### **Independent Auditor's Report**

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We have audited the accompanying balance sheet of Dana Point Condominium Association as of December 31, 2010, 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.

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, 2010, 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 performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules, 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.

The supplementary information about future major repairs and replacements is not a required part of the basic financial statements of Dana Point Condominium Association but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Frost, Rittenberg & Rothblatt, P.C.*

March 31, 2011



## **Financial Statements**

**Dana Point Condominium Association**  
**Balance Sheet**  
**December 31, 2010**

	Operating Fund	Replacement Fund	Total
<b>Assets</b>			
Checking	56,794	0	56,794
Money Market	0	1,086,824	1,086,824
Total Cash and Cash Equivalents	56,794	1,086,824	1,143,618
Assessment Receivable - Net of Allowance for Doubtful Accounts for Operating and Reserve Funds of \$32,700 and \$2,300, respectively	29,770	26,695	56,465
Prepaid Insurance	41,789	0	41,789
Prepaid Expenses	2,952	0	2,952
Interfund Receivable (Payable)	(80,736)	80,736	0
<b>Total Assets</b>	<b>\$ 50,569</b>	<b>\$ 1,194,255</b>	<b>\$ 1,244,824</b>

**Liabilities and Fund Balance**

**Liabilities**

Accounts Payable	\$ 103,430	\$ 56,522	\$ 159,952
Assessments Received in Advance	41,249	10,686	51,935
Security Deposit	16,537	0	16,537
Deferred Laundry Revenue	726	0	726
Accrued Payroll and Payroll Taxes	3,976	0	3,976
Accrued Interest Payable	0	220	220
Note Payable	0	136,149	136,149
<b>Total Liabilities</b>	<b>165,918</b>	<b>203,576</b>	<b>369,495</b>

<b>Fund Balance</b>	<b>(115,349)</b>	<b>990,678</b>	<b>875,329</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 50,569</b>	<b>\$ 1,194,255</b>	<b>\$ 1,244,824</b>

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, 2010**

	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Assessments	\$ 1,236,464	\$ 237,204	\$ 1,473,668
Special Assessments	0	741,673	741,673
Bank Loan Assessment	0	258,408	258,408
Contingency	5,004	0	5,004
Document Fees	2,880	0	2,880
Fines	2,895	0	2,895
Locks and Keys	17,317	0	17,317
Laundry Income	51,017	0	51,017
Late Charges	4,000	0	4,000
Legal Fees	7,662	0	7,662
Moving Fees	6,900	0	6,900
Rental Income	59,070	0	59,070
Interest Income	0	4,920	4,920
Miscellaneous	2,264	0	2,264
<b>Total Revenues</b>	<b>1,395,473</b>	<b>1,242,205</b>	<b>2,637,678</b>
<b>Expenses</b>			
Administrative	226,090	2,775	228,865
Operating	233,815	0	233,815
Payroll and Related Expenses	173,332	0	173,332
Repairs and Maintenance	343,283	0	343,283
Utilities	293,288	0	293,288
Insurance	111,527	0	111,527
Capital Expenditures	0	609,601	609,601
Interest	0	15,631	15,631
Bad Debt	3,737	4,358	8,095
<b>Total Expenses</b>	<b>1,385,072</b>	<b>632,365</b>	<b>2,017,437</b>
<b>Excess (Deficit) of Revenues Over Expenses</b>	<b>10,401</b>	<b>609,840</b>	<b>620,241</b>
Fund Balance - Beginning of Year	(154,103)	409,191	255,088
Other Transfers	28,353	(28,353)	0
<b>Fund Balance - End of Year</b>	<b>\$ (115,349)</b>	<b>\$ 990,678</b>	<b>\$ 875,329</b>

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, 2010**

	Operating Fund	Replacement Fund	Total
<b>Excess (Deficit) of Revenues Over Expenses</b>	<b>\$ 10,401</b>	<b>\$ 609,840</b>	<b>\$ 620,241</b>
<b>Adjustments to Reconcile Excess (Deficit) of Revenues Over Expenses to Net Cash Provided By (Used In) Operating and Reserve Activities</b>			
Bad Debt Expense	3,737	4,358	8,095
Deferred Laundry Revenue	(2,903)	0	(2,903)
(Increase) Decrease in Assets			
Assessments Receivable	(5,034)	(14,887)	(19,921)
Prepaid Insurance and Other Current Assets	(19,343)	0	(19,343)
Interfund Receivable	20,184	(20,184)	0
Increase (Decrease) in Liabilities			
Accounts Payable	(10,043)	9,399	(644)
Accrued Payroll and Payroll Taxes	3,976	0	3,976
Assessments Received in Advance	(10,254)	(65,881)	(76,135)
Accrued Interest	0	(454)	(454)
Security Deposits	1,000	0	1,000
Other Transfers	28,353	(28,353)	0
<b>Total Adjustments</b>	<b>9,673</b>	<b>(116,002)</b>	<b>(106,329)</b>
<b>Net Cash Provided By (Used In) Operating and Reserve Activities</b>	<b>20,074</b>	<b>493,838</b>	<b>513,912</b>
<b>Cash Flows From Financing Activities</b>			
Payments on Note Payable	0	(242,287)	(242,287)
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>0</b>	<b>(242,287)</b>	<b>(242,287)</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>20,074</b>	<b>251,551</b>	<b>271,625</b>
Cash and Cash Equivalents - Beginning	36,720	835,273	871,993
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 56,794</b>	<b>\$ 1,086,824</b>	<b>\$ 1,143,618</b>

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

# **Dana Point Condominium Association**

## **Notes to Financial Statements**

### **December 31, 2010**

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

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##### **A. Nature of the Organization**

The 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. Recognition of Assessments and Expenses**

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 fees due from unit owners. The Association's policy is to retain legal counsel and places liens on the properties of unit owners whose assessments are considered delinquent. At December 31, 2010, the Association had assessments receivable of \$62,470 and \$28,995 for the operating and replacement funds respectively, of which \$42,275 and \$3,087 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 \$32,700 and \$2,300 are deemed necessary for the operating and replacement funds, respectively, as of December 31, 2010.

See Independent Auditor's Report.

# **Dana Point Condominium Association**

## **Notes to Financial Statements**

### **December 31, 2010**

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

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##### **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 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.

##### **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, 2010 reflect payments of \$16,085 for interest.

##### **E. Management**

The Association entered into a management agreement with Property Specialists Inc., Arlington Heights, Illinois, which requires the management company to be responsible for the day-to-day administration of the Association. Management fees totaled \$142,090 for the year ended December 31, 2010.

##### **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.

See Independent Auditor's Report.

# **Dana Point Condominium Association**

## **Notes to Financial Statements**

### **December 31, 2010**

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

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##### **G. Cash Balances in Excess of Insured Limits**

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.

##### **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, 2010. 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. There was no income tax liability for the year ended December 31, 2010.

The Association accounts for any potential interest or penalties related to 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 2007.

##### **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 those 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.

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

The Association evaluated all significant events or transactions that occurred through March 31, 2011, the date these financial statements were available to be issued. During this period, the Association did not have any material recognizable subsequent events.

See Independent Auditor's Report.

# **Dana Point Condominium Association**

## **Notes to Financial Statements**

### **December 31, 2010**

#### **Note (2) 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.

#### **Note (3) Other Transfers**

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During the year ended December 31, 2010, \$28,353 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, \$28,353 is shown as a transfer from the replacement fund to the operating fund.

#### **Note (4) Special Assessment**

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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, 2010, the Association had special assessments receivable balance of \$28,995.

# **Dana Point Condominium Association**

## **Notes to Financial Statements**

### **December 31, 2010**

#### **Note (5) Note Payable**

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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 matures on September 21, 2011 and is 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 are required. The balance on this note is \$136,149 at December 31, 2010.

#### **Note (6) Commitments**

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The Association signed contracts with Quality Restoration, Kellermeyer Godfryt Hart and Brickman Landscaping for various capital projects. Per the contracts, approximately \$31,000 is to be completed and paid in 2011.

#### **Note (7) Rental Income**

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The Association owns five units that it is leasing on a one year term to third parties. The monthly rental income is between \$1,050 and \$1,200 per month. Total rental income for the year ended December 31, 2010 was \$59,070.

See Independent Auditor's Report.





## **Supplementary Information**

**Dana Point Condominium Association**  
**Schedule of Expenses - Actual vs. Budget**  
**For the Year Ended December 31, 2010**

	Actual	Budget
<b>Administrative Expenses</b>		
Management Fees	\$ 142,090	\$ 142,136
Accounting Fees	3,850	7,000
Bank Charges	3,503	3,764
Legal Fees	15,120	8,300
Legal Fees - Real Estate Tax Appeal	42,119	0
Office	12,314	8,975
Printing and Copying	3,195	6,563
Postage	1,912	2,471
Miscellaneous	1,987	2,200
<b>Total Administrative Expenses</b>	<b>\$ 226,090</b>	<b>\$ 181,409</b>

<b>Operating Expenses</b>		
Building Equipment	\$ 4,549	\$ 8,750
Uniforms	553	1,200
Scavenger and Exterminator	44,776	44,200
Janitor Services	98,360	100,000
Fees and Permits	1,210	3,360
Pool Contract	25,350	25,845
Rental Expense	5,433	5,100
Snow Removal	26,686	36,975
Telephone	26,898	27,600
<b>Total Operating Expenses</b>	<b>\$ 233,815</b>	<b>\$ 253,030</b>

<b>Payroll and Related Expenses</b>		
Insurance - Workers Comp	\$ 5,610	\$ 4,941
Salaries and Wages	143,081	141,165
Payroll Processing	1,360	1,092
Payroll Taxes	11,956	11,234
Employee Benefits	11,325	9,316
<b>Total Payroll and Related Expenses</b>	<b>\$ 173,332</b>	<b>\$ 167,748</b>

See Independent Auditor's Report.

**Dana Point Condominium Association**  
**Schedule of Expenses - Actual vs. Budget -**  
**Continued**  
**For the Year Ended December 31, 2010**

	Actual	Budget
<b>Repairs and Maintenance Expenses</b>		
Elevator	\$ 23,207	\$ 25,200
Carpet Cleaning	31,840	28,660
Plumbing	17,331	15,120
HVAC Services	12,802	15,000
Supplies	23,301	24,350
Masonry	6,805	11,000
Vehicle	652	775
Electrical	3,875	1,440
Paving	10,776	55,798
Repairs	37,715	23,050
Decorating and Painting	429	9,900
Landscaping	116,134	110,790
Keys, Locks and Doors	3,975	2,500
Security	18,437	17,460
Fire Monitoring	10,476	13,300
Pool	5,712	3,150
Garage	18,764	20,004
Garbage Chute - Compactor	1,052	3,000
<b>Total Repairs and Maintenance Expenses</b>	<b>\$ 343,283</b>	<b>\$ 380,497</b>
<b>Utilities Expense</b>		
Electric	\$ 86,782	\$ 95,621
Water	108,096	99,684
Gas	98,410	96,435
<b>Total Utilities Expense</b>	<b>\$ 293,288</b>	<b>\$ 291,740</b>
<b>Insurance Expense</b>	<b>\$ 111,527</b>	<b>\$ 110,854</b>

See Independent Auditor's Report.

**Dana Point Condominium Association**  
**Schedule of Expenses - Actual vs. Budget -**  
**Continued**  
**For the Year Ended December 31, 2010**

	<b>Actual</b>	<b>Budget</b>
<b>Capital Expenses</b>		
Balcony	\$ 26,300	\$ 168,956
Garage	2,985	0
HVAC	54,365	28,086
Boiler	5,686	9,838
Water Heater	17,829	0
Office	2,375	0
Elevator	50,710	137,475
Carpet/Flooring	182	0
Fencing	11,584	0
Fire System	10,137	0
Carpentry	3,817	0
Plumbing	25,370	0
Structural	197,409	405,020
Clubhouse	1,867	0
Reserve Study	2,550	0
Rental Units	12,461	0
Door	10,565	0
Landscaping	70,533	92,400
Pool	4,829	3,935
Asphalt Street	31,150	0
Asphalt/Concrete	66,897	107,590
<b>Total Capital Expenses</b>	<b>\$ 609,601</b>	<b>\$ 953,300</b>

See Independent Auditor's Report.

# **Dana Point Condominium Association**

## **Schedule of Future Major Repairs and Replacements**

### **December 31, 2010**

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 on inflation between the date of the study and the date that the components will require repair or replacement.

The following is based on the study and presents significant information about the components of the common property:

<b>Components</b>	<b>Remaining Life</b>	<b>Current Cost of Replacement</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>

See Independent Auditor's Report.

