

**TOWNHOMES OF BAYSHORE CONDOMINIUM
OWNERS ASSOCIATION, INC.**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

ANDREW M. HAYNIE, CPA

SUSAN P. KEEN, CPA

MICHAEL C. KLEGER, CPA

E. LEE McCABE, CPA

JEFFREY A. MICHALIK, CPA

ROBERT L. MOORE, CPA

DANIEL M. O'CONNELL II, CPA

JOHN M. STERN, JR., CPA

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE

P.O. Box 72

SALISBURY, MD 21803

TEL: 410.546.5600

Ocean City

12216 OCEAN GATEWAY

SUITE 800

OCEAN CITY, MD 21842

TEL: 410.213.7185

Lewes

1143 SAVANNAH ROAD

SUITE 1

LEWES, DE 19958

TEL: 302.645.5757

MEMBERS OF:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors

Townhomes of Bayshore Condominium Owners Association, Inc.

We have audited the accompanying financial statements of Townhomes of Bayshore Condominium Owners Association, Inc., which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' 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 from 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 auditors' 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, 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 Townhomes of Bayshore Condominium Owners Association, Inc. as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
April 1, 2019

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2018

ASSETS

	Operating Fund	Replacement Fund	Total
Cash	\$ 21,221	\$ 240,088	\$ 261,309
Certificates of deposit		311,861	311,861
Assessments receivable	1,838	726	2,564
Prepaid insurance	9,058		9,058
Insurance claim receivable	6,604		6,604
Due from other fund		16,646	16,646
Total assets	<u>\$ 38,721</u>	<u>\$ 569,321</u>	<u>\$ 608,042</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	\$ 4,605	\$	\$ 4,605
Prepaid assessments	4,147	2,408	6,555
Due to other fund	<u>16,646</u>		<u>16,646</u>
Total liabilities	<u>25,398</u>	<u>2,408</u>	<u>27,806</u>

FUND BALANCES

	<u>13,323</u>	<u>566,913</u>	<u>580,236</u>
Total liabilities and fund balances	<u>\$ 38,721</u>	<u>\$ 569,321</u>	<u>\$ 608,042</u>

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

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2018

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments	\$ 131,031	\$ 70,457	\$ 201,488
Interest, late fees, and other income	615	3,489	4,104
Total revenues	131,646	73,946	205,592
EXPENSES			
Administrative	82,062		82,062
Utilities	940		940
Maintenance	72,320	537	72,857
Total expenses	155,322	537	155,859
Net revenues over (under) expenses	(23,676)	73,409	49,733
FUND BALANCES, BEGINNING OF YEAR, RESTATED			
	32,043	498,460	530,503
Permanent equity transfer	4,956	(4,956)	
FUND BALANCES, END OF YEAR			
	\$ 13,323	\$ 566,913	\$ 580,236

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

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net revenues over (under) expenses	\$ (23,676)	\$ 73,409	\$ 49,733
Adjustment for non cash item:			
Permanent equity transfer	4,956	(4,956)	
(Increase) decrease			
Assessments receivable	6,693	(726)	5,967
Prepaid insurance	340		340
Insurance claim receivable	(6,604)		(6,604)
Increase (decrease)			
Accounts payable	4,593		4,593
Income taxes payable	(154)		(154)
Prepaid assessments	(388)	2,408	2,020
Net cash provided (used) by operating activities	<u>(14,240)</u>	<u>70,135</u>	<u>55,895</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in certificates of deposit		(3,297)	(3,297)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund borrowings	16,646	(16,646)	
Net increase in cash	2,406	50,192	52,598
CASH, BEGINNING OF YEAR	<u>18,815</u>	<u>189,896</u>	<u>208,711</u>
CASH, END OF YEAR	<u>\$ 21,221</u>	<u>\$ 240,088</u>	<u>\$ 261,309</u>

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

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

ORGANIZATION

The Association was incorporated in the State of Delaware in November 2003. The Association is responsible for the operation and maintenance of the common property Townhomes of Bayshore Condominium. Townhomes of Bayshore Condominium consists of 146 residential units and is located in Sussex County, Delaware.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements are presented using the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when the product or service has been received and the liability incurred.

Fund accounting

In accordance with industry standards and practices, the Association has segregated its activities into two funds: the operating fund and the replacement fund.

Operating fund - provides working capital for operations, contingencies, and replacements where specific funds have not been designated. If the operating fund is inadequate to meet funding requirements for any reason, the Board of Directors may levy at any time a further assessment.

Replacement fund - provides funding for future major repairs and replacements. Expenditures from this fund may be used only for designated purposes.

Total columns on combined statements

Total columns on the combined statements are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Cash equivalents

Investments with an original maturity of three months or less that are not restricted from immediate withdrawal and do not require a substantial penalty for early withdrawal are considered cash equivalents.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Real property and common areas acquired by the original owners from the developer are not capitalized on the Association financial statements, as they are owned by the individual owners and not the Association. Common areas are restricted to use by Association members, their tenants, and guests. Replacements and improvements to the real property and common areas are not capitalized, as the improvements would also belong to the owners and not the Association.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Association's management has evaluated subsequent events through April 1, 2019, which is the date the financial statements were available to be issued.

UNINSURED CASH BALANCES

The Association maintains cash in several financial institutions with insurance provided by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each bank. The Association had deposits in excess of the FDIC limit of \$10,233 at December 31, 2018.

MEMBER ASSESSMENTS

Association members are subject to assessments to provide funds for the Association's operating expenses, capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date are reported at the amount management expects to collect from unit owners. The Association's declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner. Based on an assessment of the current status of individual accounts, management provides for uncollectible amounts through a charge to expense with an offsetting entry to an allowance for doubtful accounts. As of December 31, 2018, all assessments receivable are considered collectible. Any excess assessments at year end are retained by the Association for use in future years.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

PREPAID ASSESSMENTS

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

INCOME TAXES

The Association has elected to file as a homeowners association under Internal Revenue Code Section 528 for the year ended December 31, 2018. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and other revenues received from nonmembers, is taxed at 30% by the federal government. It is the Association's policy that penalties and interest assessed by income taxing authorities, if any, are included in operating expenses.

FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes. Contributions to the replacement fund were \$70,457 for the year ended December 31, 2018. It is the Association's policy that interest earned in the replacement fund remains in the replacement fund as an additional contribution.

The Association engaged an independent engineer who performed a reserve study update in March 2019 of a study originally conducted in 2015 to estimate the remaining useful lives and the replacement costs of the common property components. The amounts are based on current estimated replacement costs adjusted for the effects of inflation. The table included in the supplementary information is based on the study.

The Association has elected to only partially adopt the funding requirements based on the study. For that reason, and because actual expenditures may vary from estimated amounts and variations may be material, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Board of Directors has the right, subject to membership approval, to increase regular assessments, levy special assessments or delay major repairs and replacements until funds are available.

Replacement fund expenses for the year ended December 31, 2018 was \$537 for an inspection of cracks and doors.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

PERMANENT TRANSFER

The Association approved a permanent equity transfer of \$4,956 from the replacement fund to the operating fund for the year ended December 31, 2018.

RELATED PARTY

Beginning December 1, 2018, the spouse of the Association's president of the Board of Directors took over as the bookkeeper of the Association. As of December 31, 2018, she was not paid for her services.

COMMITMENTS

In December 2018, the Association entered into a landscaping maintenance contract for two years with Maxwell Lawn and Maintenance, Inc. beginning January 1, 2019. The agreement calls for an annual fee of \$25,650 to be paid in 12 monthly installments of \$2,137.

CONTINGENCY

As of December 31, 2018, the Association was a defendant in a civil lawsuit filed in July 2017 in the Delaware Court of Chancery captioned as Michael Bragden, Plaintiff, v. Bayshore Property Owners Association, Inc. and Townhomes of Bayshore Condominium Owners Association, Inc., Defendants.

In April 2019, a settlement agreement was reached and the lawsuit was dismissed. As a result of the agreement, the Association is responsible for paying \$45,000 to the Law Office of Dean A. Campbell, P.A., which is expected to be covered by the Association's insurance policy.

PRIOR PERIOD ADJUSTMENTS

Balances reported in the previously issued financial statements for the year ended December 31, 2017 have been restated. The previously reported allowance for doubtful accounts and bad debt expense were understated by \$2,622. In addition, the previously reported prepaid insurance was understated and insurance expense was overstated by \$4,935, respectively. As a result, the December 31, 2017 operating fund balance was increased by \$2,313. There was no effect on fund balance for the year ended December 31, 2018.

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

ANDREW M. HAYNIE, CPA
SUSAN P. KEEN, CPA
MICHAEL C. KLEGER, CPA
E. LEE McCABE, CPA
JEFFREY A. MICHALIK, CPA
ROBERT L. MOORE, CPA
DANIEL M. O'CONNELL II, CPA
JOHN M. STERN, JR., CPA

Board of Directors and Management
Townhomes of Bayshore Condominium Owners Association, Inc.

Report on Supplementary Information

We have audited the financial statements of Townhomes of Bayshore Condominium Owners Association, Inc. as of and for the year ended December 31, 2018, and our report thereon dated April 1, 2019, 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 operating fund revenues and expenses - budget and actual, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major 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 and comparing the

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE
P.O. BOX 72
SALISBURY, MD 21803
TEL: 410.546.5600

Ocean City

12216 OCEAN GATEWAY
SUITE 800
OCEAN CITY, MD 21842
TEL: 410.213.7185

Lewes

1143 SAVANNAH ROAD
SUITE 1
LEWES, DE 19958
TEL: 302.645.5757

MEMBERS OF:

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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.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
April 1, 2019

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

**SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES
BUDGET AND ACTUAL**

YEAR ENDED DECEMBER 31, 2018

	Budget (Unaudited)	Actual
REVENUES		
Member assessments	\$ 201,480	\$ 201,488
Less: replacement fund contributions	(70,457)	(70,457)
Net member assessments	131,023	131,031
Late fees and other income		615
Total revenues	<u>131,023</u>	<u>131,646</u>
EXPENSES		
Administrative		
Management fees	21,900	20,678
Insurance	42,950	49,882
Audit and tax preparation	6,375	5,029
Office expense	25	2,015
Legal fees	4,000	4,458
Meeting expense	200	
	<u>75,450</u>	<u>82,062</u>
Utilities		
Electric - irrigation	880	940
Maintenance		
Grounds contract	25,600	23,562
Painting		9,000
Snow removal	3,740	4,380
Building maintenance	19,553	29,672
Pest control	4,100	5,476
Irrigation	1,700	230
	<u>54,693</u>	<u>72,320</u>
Total expenses	<u>131,023</u>	<u>155,322</u>
Net revenues under expenses	<u>\$</u>	<u>\$ (23,676)</u>

See independent auditors' report on supplementary information.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS**

**DECEMBER 31, 2018
(Unaudited)**

The Whayland Group, LLC conducted a reserve study update in March 2019 to estimate the remaining useful life and replacement costs of the components of common property. The amounts are based on current estimated replacement costs adjusted for the effects of inflation at 2.5%. Funding has been projected with a net investment rate of 1.5% per year. The study recommends an annual funding of \$162,194.

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

Components	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Costs
Building components			
Brick repointing	15	1	\$ 4,420
Exterior doors	30	16 - 20	248,200
Exterior windows	30	16 - 20	803,000
Fascia and soffit	40	26 - 30	162,000
Gutter and downspout	40	26 - 30	100,800
Metal roof	40	26 - 30	44,625
Overhead doors	25	11 - 15	124,100
Roof shingles	20	6 - 10	1,012,400
Vinyl siding and trim	40	26 - 30	1,029,600
Grounds components			
Asphalt paving - driveways - overlay	30	16	58,400
Asphalt paving - driveways - sealcoat	5	1	5,840
Asphalt paving - overflow parking - overlay	30	16	32,840
Asphalt paving - overflow parking - sealcoat	5	1	3,284
Pedestal mount mailboxes	30	16	10,950
Privacy fences	20	6	60,000
Site grading/drainage allowance	10	1	25,000
			\$ 3,725,459

See independent auditors' report on supplementary information.