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MARYLAND ASSOCIATION OF
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DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

PKF INTERNATIONAL

February 19, 2016

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

We are pleased to provide this management letter containing comments, observations, and recommendations on the procedures of Townhomes of Bayshore Condominium Owners Association, Inc. This letter is based on our review of the financial statements of the Association for the year ended December 31, 2015. We would be glad to discuss the matters raised in this letter or any other concerns that you may have.

Due to Replacement Fund

As of December 31, 2015, the operating fund owes the replacement fund \$989. This amount was generated from the replacement assessments not being transferred to the replacement fund checking account. We recommend these funds be transferred as soon as possible.

Cash Balances

Cash balances with a federally insured bank are insured up to \$250,000 by the FDIC, an agency of the federal government. As of December 31, 2015, the Association had deposits which exceeded the federal depository insurance coverage by \$53,703. We recommend the Association work with its banker to minimize any risk.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Association, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for your continued confidence in our firm and the cooperation received in the completion of our engagement. Please call Julie Wiltbank if we can assist you in any way.

PKS & Company, P.A.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying financial statements of Townhomes of Bayshore Condominium Owners Association, Inc., which comprise the balance sheet as of December 31, 2015, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion on the Financial Statements

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
February 19, 2016

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2015

ASSETS

	Operating Fund	Replacement Fund	Total
Cash	\$ 733	\$ 58,477	\$ 59,210
Certificates of deposit		303,703	303,703
Assessments receivable, net of allowance for doubtful accounts	1,505		1,505
Prepaid insurance	8,667		8,667
Due from other fund		989	989
Total assets	\$ 10,905	\$ 363,169	\$ 374,074

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	\$ 726	\$	\$ 726
Prepaid assessments	5,364		5,364
Due to other fund	989		989
Total liabilities	7,079		7,079

FUND BALANCES

	3,826	363,169	366,995
Total liabilities and fund balances	\$ 10,905	\$ 363,169	\$ 374,074

See accompanying notes and independent accountants' review report.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES**

YEAR ENDED DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUES			
Member assessments	\$ 144,213	\$ 57,267	\$ 201,480
Interest and late fee income	1,250	1,723	2,973
Miscellaneous income	130		130
	<hr/>	<hr/>	<hr/>
Total revenues	145,593	58,990	204,583
	<hr/>	<hr/>	<hr/>
EXPENSES			
Administrative	45,925		45,925
Buildings	41,041	6,447	47,488
Grounds	48,959		48,959
Insurance	44,028		44,028
	<hr/>	<hr/>	<hr/>
Total expenses	179,953	6,447	186,400
	<hr/>	<hr/>	<hr/>
Net revenues over (under) expenses	(34,360)	52,543	18,183
	<hr/>	<hr/>	<hr/>
FUND BALANCES, BEGINNING OF YEAR	38,186	310,626	348,812
	<hr/>	<hr/>	<hr/>
FUND BALANCES, END OF YEAR	\$ 3,826	\$ 363,169	\$ 366,995
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes and independent accountants' review report.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

	Operating Fund	Replacement Fund	Total
	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net revenues over (under) expenses	\$ (34,360)	\$ 52,543	\$ 18,183
Adjustments for non-cash transactions			
Bad debt expense	13,444		13,444
(Increase) decrease			
Assessments receivable	(4,399)		(4,399)
Prepaid insurance	(2,760)		(2,760)
Increase (decrease)			
Accounts payable	(9,299)		(9,299)
Prepaid assessments	5,364		5,364
Net cash provided (used) by operating activities	<u>(32,010)</u>	<u>52,543</u>	<u>20,533</u>
 CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in certificates of deposit		<u>(101,627)</u>	<u>(101,627)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund borrowings	<u>989</u>	<u>(989)</u>	
 Net decrease in cash	(31,021)	(50,073)	(81,094)
 CASH, BEGINNING OF YEAR	<u>31,754</u>	<u>108,550</u>	<u>140,304</u>
 CASH, END OF YEAR	<u><u>\$ 733</u></u>	<u><u>\$ 58,477</u></u>	<u><u>\$ 59,210</u></u>

See accompanying notes and independent accountants' review report.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

ORGANIZATION

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

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, 2015

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

Management has evaluated subsequent events through February 19, 2016, which is the date the financial statements were available to be issued.

CASH BALANCES

Cash balances with a federally insured bank are insured up to \$250,000 by the FDIC, an agency of the federal government. As of December 31, 2015, the Association had deposits which exceed the federal depository insurance coverage.

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, 2015, the allowance for doubtful accounts was \$13,444. 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, 2015

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, 2015. 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 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 do not require funds to be accumulated for future major repairs and replacements. However, a fund has been established for this purpose. Accumulated funds are held in separate accounts and are generally not available for operating purposes. It is the Association's policy that interest earned in the replacement fund remains in the replacement fund as an additional contribution.

During 2014, the Association engaged an independent engineer to perform a replacement reserve study to estimate the remaining useful lives and the replacement costs of the common property components. The estimates were based on current estimated replacement costs. The table included in the supplementary information is based on the study.

The Association had already passed the 2015 budget when the recently completed reserve study was finalized, because of this the Board of Directors elected to adopt the funding requirement based on the study in the 2016 budget. Accordingly, \$57,267 was contributed to the replacement fund during the year ended December 31, 2015. For that reason, and because actual expenditures may vary from estimated amounts and the variations may be material, 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 to levy special assessments.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

COMMITMENTS

The Association entered into a management agreement with Seascope Property Management to manage the operations of the Association.

SUPPLEMENTARY INFORMATION



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INDEPENDENT ACCOUNTANTS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors

Townhomes of Bayshore Condominium Owners Association, Inc.

Our report on our review of the basic financial statements of Townhomes of Bayshore Condominium Owners Association, Inc. for 2015 appears on pages one and two. The objective of that review was to perform procedures to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. The supplementary information in the schedule of operating fund revenues and expenses - budget and actual, is the representation of management. It is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the supplementary information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the supplementary information and, accordingly, do not express an opinion on it. We have compiled the budget information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the budget information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 14 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, which 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 not

audited, reviewed, or compiled the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on it.

PKS & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Salisbury, Maryland
February 19, 2016

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

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

YEAR ENDED DECEMBER 31, 2015

	Budget (Compiled)	Actual
REVENUES		
Member assessments	\$ 144,215	\$ 144,213
Interest and late fee income		1,250
Miscellaneous income		130
	144,215	145,593
EXPENSES		
Administrative		
Accounting	260	260
Management fees	27,800	27,788
Meeting expense	200	178
Legal	1,500	4,036
Miscellaneous	25	219
Bad debt		13,444
	29,785	45,925
Buildings		
Pest control	2,500	5,400
Electric	1,500	1,222
Maintenance - routine	9,480	14,128
Maintenance - operating improvements	10,000	20,291
	23,480	41,041
Grounds		
Irrigation maintenance	5,000	1,770
Landscaping	23,100	23,225
Shrubs and plants	15,000	19,656
Allowance for storm damage	3,500	4,308
	46,600	48,959

See independent accountants' report on supplementary information.

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

**SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES
BUDGET AND ACTUAL
(Continued)**

YEAR ENDED DECEMBER 31, 2015

	<u>Budget (Compiled)</u>	<u>Actual</u>
EXPENSES (Continued)		
Insurance		
Insurance	44,000	43,458
Bonding insurance	350	570
	<u>44,350</u>	<u>44,028</u>
Total expenses	<u>144,215</u>	<u>179,953</u>
Net revenues under expenses	<u>\$</u>	<u>\$ (34,360)</u>

See independent accountants' report on supplementary information.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC

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

DECEMBER 31, 2015

The Association engaged Miller and Dodson Associates, Inc. to perform a Level 2, update with site visit/on site review replacement reserve study in 2014, to estimate the remaining useful lives and the replacement costs of the common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The study did not account for interest earnings and assumed an annual inflation rate of 4.5% for the first three years of the study, with no adjustments made for inflation beginning in year four. The study recommends an annual funding amount under the cash flow funding method of \$69,080 per year beginning in 2015.

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

<u>Components</u>	<u>Estimated Useful Life (Years)</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Costs</u>
General site improvements	20-50	11-35	\$ 10,570
Townhouse exteriors	5-100	3-25	<u>1,991,523</u>
			<u>\$ 2,002,093</u>

See independent accountants' report on supplementary information.