

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**Year Ended
December 31, 2016**

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CERTIFIED PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

25 West Courtlund Street • Suite 103
Bel Air, Maryland 21014

To the 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, 2016, 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.

Auditor's 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 of 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 auditor's 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, 2016, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 11 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Association's management and 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that future major repairs and replacements on pages 9 and 10 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquires, 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.

A handwritten signature in black ink, appearing to read "A. H. ... PA", is written over the text of the disclaimer section.

Bel Air, Maryland
January 12, 2018

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2016

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash-including interest bearing accounts	\$ 8,599	\$ 120,693	\$ 129,292
Investments	-	304,996	304,996
Assessments receivable (less allowance for doubtful accounts of \$9,892)	11,193	-	11,193
Prepaid insurance	3,120	-	3,120
	<u>\$ 22,912</u>	<u>\$ 425,689</u>	<u>\$ 448,601</u>
TOTAL ASSETS			
 LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 621	\$ 4,000	\$ 4,621
Assessments received in advance	1,364	-	1,364
	<u>1,985</u>	<u>4,000</u>	<u>5,985</u>
TOTAL LIABILITIES			
Fund Balances	<u>20,927</u>	<u>421,689</u>	<u>442,616</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 22,912</u>	<u>\$ 425,689</u>	<u>\$ 448,601</u>

The accompanying notes are an integral part of these financial statements.
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TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2016

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
REVENUES			
Homeowner assessments	\$ 201,480	\$ -	\$ 201,480
Insurance claim proceeds	5,398	-	5,398
Other income	5,473	-	5,473
Interest income	-	1,442	1,442
	<u>212,351</u>	<u>1,442</u>	<u>213,793</u>
EXPENSES			
Operating	132,041	-	132,041
Capital expenditures	-	9,373	9,373
	<u>132,041</u>	<u>9,373</u>	<u>141,414</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES			
	80,310	(7,931)	72,379
BEGINNING FUND BALANCES			
	8,057	362,180	370,237
Replacement fund contributions	<u>(67,440)</u>	<u>67,440</u>	<u>-</u>
ENDING FUND BALANCES			
	<u>\$ 20,927</u>	<u>\$ 421,689</u>	<u>\$ 442,616</u>

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, 2016

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over (under) expenses	\$ 80,310	\$ (7,931)	\$ 72,379
Adjustments to reconcile excess (deficiency) of revenues over (under) expenses to net cash provided by operating activities			
(Increase) decrease in:			
Assessments receivable	(5,962)	-	(5,962)
Prepaid insurance	4,815	-	4,815
Increase (decrease) in:			
Accounts payable	381	4,000	4,381
Assessments received in advance	(4,238)	-	(4,238)
	75,306	(3,931)	71,375
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	75,306	(3,931)	71,375
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from certificates of deposit	-	75,102	75,102
Purchase of certificates of deposit	-	(75,000)	(75,000)
Reinvestment of earnings	-	(1,395)	(1,395)
	-	(1,293)	(1,293)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	(1,293)	(1,293)
NET INCREASE (DECREASE) IN CASH	75,306	(5,224)	70,082
CASH AT BEGINNING OF YEAR	733	58,477	59,210
Replacement fund contributions	(67,440)	67,440	-
CASH AT END OF YEAR	\$ 8,599	\$ 120,693	\$ 129,292
Supplemental Disclosure			
Cash paid in the year for interest	\$ -	\$ -	\$ -
Cash paid in the year for income taxes	\$ -	\$ -	\$ -

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

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NATURE OF ORGANIZATION

Townhomes of Bayshore Condominium Owners Association, Inc. was organized in the State of Delaware. The Association is responsible for the operation and maintenance of the common property within the development. The development is located in Sussex County, Delaware. At December 31, 2016, the development consists of 146 residential units. The property manager for the year ended December 31, 2016 was Seascape Property Management.

DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 12, 2018, as acknowledged in the management representation letter and the date the financial statements were available to be issued.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Association members are subject to quarterly 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 fees due from members. The Association's policy is to retain legal counsel and place liens on the properties of members whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years.

Interest Income

Interest income is allocated to the operating and replacement fund in proportion to the interest-bearing deposits of each fund.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the 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 contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For purposes of reporting cash flow, cash and cash equivalents include money market accounts and any highly liquid debt instruments purchased with a maturity of three months or less.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2016, the Association elected to be taxed as homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest income and investment earnings, less expenses specifically allocated to non-exempt income at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. Income tax expense for year ended December 31, 2016 was \$0.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the year ended December 31, 2016, the Association incurred no penalties and interest related to income taxes. Tax returns are subject to examination by the Internal Revenue Service for three years after they are filed.

Recognition of Assets

Real and personal common property acquired by the original owners from the developer is not recognized on the Association's financial statements because it is commonly owned by individual owners and its disposition by the Association is restricted.

Replacements and improvements to common property are not recognized as assets (but are expensed) because their disposition is restricted.

**TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

CASH

The Association's cash at December 31, 2016 consists of the following:

	<u>2016</u>
Designated by homeowners for future repairs and replacements:	
M&T Bank – money market	\$ 120,693
Sub-Total	120,693
Undesignated:	
M&T Bank – checking	8,599
Sub-Total	8,599
Total Cash	\$ 129,292

INVESTMENTS

The Association's investments are certificates of deposit with maturities over three months. The Association's investments at December 31, 2016 consist of the following:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance</u>
Community Bank Delaware	01/18/2017	0.45%	\$ 76,881
Community Bank Delaware	07/17/2017	0.65%	76,919
Del-One Federal Credit Union	07/25/2017	1.00%	75,137
Community Bank Delaware	10/23/2017	0.75%	76,059
Total investments			\$ 304,996

ASSESSMENTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Assessments receivable represents the amounts owed to the Association by various homeowners and as of December 31, 2016, the amount owed was \$21,085. The allowance for doubtful accounts was \$9,892 as of December 31, 2016 and is based on a specific allowance of all account balances over 90 days past due.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

ACCOUNTS PAYABLE

At December 31, 2016, the Association reflected an accounts payable balance of \$4,621, which was comprised of \$621 in the operating fund and \$4,000 in the replacement fund. The accounts payable consists of the following:

Capital expenditures	\$	4,000
Legal fees and collections		605
Gas and electric		16
Total accounts payable	\$	<u>4,621</u>

As of report date, the accounts payable balance as of December 31, 2016 has been fully paid.

ASSESSMENTS RECEIVED IN ADVANCE

At December 31, 2016, assessments received in advance were \$1,364. This amount represents 2017 homeowner assessments paid prior to December 31, 2016.

FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which include \$120,693 of cash equivalents, \$304,996 of certificates of deposit, less \$4,000 of accounts payable, aggregating to \$421,689 at December 31, 2016, are held in separate accounts and are generally not available for operating purposes. Expenditures for major replacements for the year ended December 31, 2016 were \$9,373, which represents repairs to the Association's shutters, doors, and drywall. Contributions to the replacement fund were \$67,440 for the year ended December 31, 2016.

The Association's Board of Directors engaged an independent engineering firm to conduct a study which was finalized in November 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the end of their useful lives.

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

Components	Estimated Remaining Useful Life (Years)	Replacement Cost Present Dollars
Townhouse exteriors	6 to 21	\$ 1,991,523
General site improvements	11 to 35	<u>10,570</u>
Total		<u>\$ 2,002,093</u>

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

The following information is the engineering study's recommended receipt and disbursement requirements compared to actual receipt and disbursement activity:

	<u>Study</u>	<u>Actual</u>	<u>Difference</u>
Beginning balance as of January 1, 2015	\$ 311,456	\$ 310,626	\$ (830)
Contributions / Income	138,160	126,884	(11,276)
Expenditures	-	<u>(15,821)</u>	<u>(15,821)</u>
Ending balance as of December 31, 2016	<u>\$ 449,616</u>	<u>\$ 421,689</u>	<u>\$ (27,927)</u>

For the year ended December 31, 2016, the reserve study recommended replacement contributions to be \$69,080. For the year ended December 31, 2017, the reserve study recommends replacement contributions of \$69,080.

INSURANCE PROCEEDS

During the year ended December 31, 2016, the Association incurred a water damage incident as a result of a leaking hot water heater, which was reported to its insurance company. The total cost to repair the unit was \$5,898. The insurance coverage was \$5,398 and the Association incurred related repair expenses of \$500, which represents the insurance deductible. As of December 31, 2016, the insurance claim and damage repairs have been finalized.

SUBSEQUENT EVENTS

Subsequent events were evaluated through January 12, 2018, which is the date the financial statements were available to be issued. As of January 12, 2018, no subsequent events were reported.

SUPPLEMENTARY INFORMATION

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.
SCHEDULE OF OPERATING AND REPLACEMENT FUND REVENUES AND EXPENSES
-BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2016

	(Compiled) Budget	Actual	(Compiled) Variance
Revenues:			
Homeowner assessments	\$ 201,480	\$ 201,480	\$ -
Insurance claim proceeds	-	5,398	5,398
Other income	-	5,473	5,473
Total revenues	201,480	212,351	10,871
Expenses:			
Accounting fees	260	4,035	(3,775)
Bad debt expense	-	3,196	(3,196)
Gas and electric	1,000	932	68
Grounds and lawn maintenance	30,100	26,847	3,253
Insurance	44,350	45,772	(1,422)
Insurance claim expenses	-	5,898	(5,898)
Legal fees and collections	1,500	3,299	(1,799)
Management fees	27,800	26,563	1,237
Office expense	225	303	(78)
Pest control	3,000	740	2,260
Repairs and maintenance	19,665	12,944	6,721
Snow removal	4,500	1,512	2,988
Total expenses	132,400	132,041	359
Excess (deficiency) of operating fund revenues over (under) operating fund expenses	69,080	80,310	11,230
Replacement fund contributions	(69,080)	(67,440)	1,640
Excess (deficiency) of operating fund revenues over (under) operating fund expenses after replacement fund contributions	<u>\$ -</u>	<u>\$ 12,870</u>	<u>\$ 12,870</u>
Replacement fund activity			
Interest income	<u>\$ -</u>	<u>\$ 1,442</u>	<u>\$ 1,442</u>
Capital expenditures	<u>\$ -</u>	<u>\$ 9,373</u>	<u>\$ (9,373)</u>

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