

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
TOWNHOMES OF BAYSHORE
CONDOMINIUM OWNERS ASSOCIATION, INC.
Year ended December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Townhomes of Bayshore Condominium Owners Association, Inc., which comprise the balance sheet as of December 31, 2022, 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.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Townhomes of Bayshore Condominium Owners Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Townhomes of Bayshore Condominium Owners Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Townhomes of Bayshore Condominium Owners Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Townhomes of Bayshore Condominium Owners Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 14 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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 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.

February 14, 2024
Owings Mills, Maryland

Struss & Associates, P.A.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

BALANCE SHEET

December 31, 2022

	<u>ASSETS</u>			
	<u>Operating fund</u>	<u>Operating Reserve fund</u>	<u>Replacement fund</u>	<u>Total</u>
CURRENT ASSETS				
Cash	\$ 42,448	\$ 26,050	\$ 760,346	\$ 828,844
Prepaid expenses	<u>8,039</u>	<u>-</u>	<u>32,000</u>	<u>40,039</u>
 Total current assets	 <u>\$ 50,487</u>	 <u>\$ 26,050</u>	 <u>\$ 792,346</u>	 <u>\$ 868,883</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 850	\$ 850
Assessments received in advance	24,105	-	-	24,105
Income taxes payable	<u>-</u>	<u>-</u>	<u>2,282</u>	<u>2,282</u>
 Total current liabilities	 24,105	 -	 3,132	 27,237
 FUND BALANCES	 <u>26,382</u>	 <u>26,050</u>	 <u>789,214</u>	 <u>841,646</u>
 Total liabilities and fund balances	 <u>\$ 50,487</u>	 <u>\$ 26,050</u>	 <u>\$ 792,346</u>	 <u>\$ 868,883</u>

See accompanying notes to financial statements.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

Year ended December 31, 2022

	Operating fund	Operating Reserve fund	Replacement fund	Total
REVENUES				
Assessments	\$ 116,593	\$ -	\$ 155,000	\$ 271,593
Interest income	545	-	13,182	13,727
Other income	624	-	-	624
	<u>117,762</u>	<u>-</u>	<u>168,182</u>	<u>285,944</u>
EXPENSES				
Administrative	3,344	-	-	3,344
Capital improvements	-	-	224,997	224,997
Exterminating	3,252	-	-	3,252
Grounds	17,800	-	-	17,800
Income taxes	-	-	2,282	2,282
Insurance	47,166	-	-	47,166
Professional fees	2,590	-	1,569	4,159
Repairs and maintenance	29,152	-	-	29,152
Snow removal	3,241	-	-	3,241
	<u>106,545</u>	<u>-</u>	<u>228,848</u>	<u>335,393</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	11,217	-	(60,666)	(49,449)
FUND BALANCES				
- beginning of year	15,165	26,050	849,880	891,095
FUND BALANCES				
- end of year	<u>\$ 26,382</u>	<u>\$ 26,050</u>	<u>\$ 789,214</u>	<u>\$ 841,646</u>

See accompanying notes to financial statements.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

Year ended December 31, 2022

	<u>Operating fund</u>	<u>Operating Reserve fund</u>	<u>Replacement fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ 11,217	\$ -	\$ (60,666)	\$ (49,449)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
(Increase) decrease in:				
Assessments receivable	44	-	-	44
Accrued interest receivable	-	-	454	454
Prepaid expenses	2,008	-	(32,000)	(29,992)
Increase (decrease) in:				
Accounts payable	(240)	-	850	610
Assessments received in advance	(6,680)	-	-	(6,680)
Income taxes payable	-	-	895	895
	<u>6,349</u>	<u>-</u>	<u>(90,467)</u>	<u>(84,118)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
	<u>6,349</u>	<u>-</u>	<u>(90,467)</u>	<u>(84,118)</u>
NET INCREASE (DECREASE) IN CASH	6,349	-	(90,467)	(84,118)
CASH AT BEGINNING OF YEAR	<u>36,099</u>	<u>26,050</u>	<u>850,813</u>	<u>912,962</u>
CASH AT END OF YEAR	<u><u>\$ 42,448</u></u>	<u><u>\$ 26,050</u></u>	<u><u>\$ 760,346</u></u>	<u><u>\$ 828,844</u></u>

SUPPLEMENTAL DISCLOSURE

Income taxes paid	\$ 1,387	\$ -	\$ -	\$ 1,387
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See accompanying notes to financial statements.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE A - ORGANIZATION, PURPOSE, AND MANAGEMENT

Townhomes of Bayshore Condominium Owners Association, Inc., a non-stock corporation incorporated in the State of Delaware in November 2003, exists for the private benefit of its members having as its purpose the general upkeep and maintenance of the common elements of the development and any other common expenses of the unit owners. The Association, located in Millsboro, Delaware, is comprised of 146 condominium units. The Association is self-managed.

NOTE B - DATE OF MANAGEMENT'S REVIEW

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 14, 2024, the date the financial statements were available to be issued.

In January 2024, a lawsuit was filed against the Association by a unit owner regarding alleged defamation. The matter, for which a claim has been filed with the Association's directors & officers insurance policy, is ongoing as the outcome is unknown at this time.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant policies consistently applied in the preparation of the accompanying statements follows:

1. Method of accounting

The financial statements are presented on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

2. Funds

The Association uses fund accounting, which requires that funds, such as operating, operating reserve and replacement funds, be classified separately for accounting and reporting purposes. The operating fund is used to account for financial resources available for the general operations of the Association. The operating reserve fund is used to account for excess operating expenses. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Income taxes

Condominium associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2022, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest earned, at 30% by the federal government. Exempt function income, which consists primarily of member assessments, is not taxable.

The Association's policy is to recognize any tax penalties and interest as an expense when incurred. For the year ended December 31, 2022, 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.

4. Member assessments

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are also satisfied over time on a pro-rata basis using the input method. The Association's policy is to retain legal counsel to help in the collection of unit owners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year.

The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$44 and \$0, respectively.

5. Common property

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 properties are owned by the individual unit owners in common and not by the Association.

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE D - CASH

As of December 31, 2022, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type of account</u>	<u>Cash</u>
Farmers Bank of Willards	Checking	\$ 164,116
Tidemark Federal Credit Union	Money Market	207,497
The Central Trust Bank	Savings	85,499
Del-One Federal Credit Union	Certificate of Deposit	271,223
Tidemark Federal Credit Union	Certificate of Deposit	<u>100,508</u>
		<u>\$ 828,843</u>

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2022

NOTE E - UNINSURED CASH BALANCES

The Association maintains its cash and bank deposit accounts which at times throughout the year may exceed federally insured limits. The Association does not believe that it is exposed to any significant credit risk.

NOTE F - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

The Association levied assessments of \$155,000 during the year ended December 31, 2022, for estimated future major repairs and replacements.

An outside consulting firm conducted a study in September 2023 to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information of future major repairs and replacements is based on the study.

The Association is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Actual expenditures 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 all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE G – RELATED PARTY TRANSACTIONS

The spouse of the Association's president of the Board of Directors worked as the bookkeeper for the Association. She received no compensation for these services.

SUPPLEMENTARY INFORMATION

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND
REPLACEMENTS

December 31, 2022

(Unaudited)

An outside consulting firm conducted a study in September 2023 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 date of the study. Estimated current replacement costs have not been revised since that date 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 table is based on the study and presents significant information about the components of common property.

<u>COMPONENTS</u>	<u>ESTIMATED REMAINING USEFUL LIFE</u>	<u>ESTIMATED CURRENT REPLACEMENT COST</u>
Building	0-49	\$ 4,942,090
Grounds	0-26	<u>202,030</u>
TOTAL		<u>\$ 5,144,120</u>