

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

AUDITORS' COMMUNICATIONS

YEAR ENDED DECEMBER 31, 2018

TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.

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MANAGEMENT LETTER



April 1, 2019

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

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In planning and performing our audit of the financial statements of Townhomes of Bayshore Condominium Owners Association, Inc. as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

However, during our audit we became aware of the following matters that are opportunities for strengthening internal controls and operating efficiency. The following are our comments and suggestions regarding those matters. This letter does not affect our report dated April 1, 2019 on the financial statements of Townhomes of Bayshore Condominium Owners Association, Inc.

UNINSURED DEPOSITS

The Association has cash balances at several financial institutions. Cash balances with federally insured banks are insured up to \$250,000 per bank by the FDIC, an agency of the federal government. As of December 31, 2018, the Association had deposits which exceeded the federal depository insurance coverage. We recommend the Association work with its banker to minimize this exposure.

MEMBERS OF:

DUE TO REPLACEMENT FUND

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

At December 31, 2018, the operating fund owes the replacement fund \$16,646. We recommend that the Board consider the following actions:

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

- Make a permanent equity transfer between these funds to eliminate the interfund borrowing. This means that the \$16,646 will not be repaid to the replacement fund, but will remain in the operating fund.
- Or, transfer this amount from the operating fund bank account to the replacement fund bank account.

ALLINIAL GLOBAL

The Board should document their decision in the minutes of the board meeting.

UNDERFUNDING OF REPLACEMENT FUND

In March 2019, a reserve study update was conducted by an independent engineering firm. The study is included in the supplementary information of the financial statements. The study estimates that the annual contribution to the replacement fund be \$162,194 for 2019. The budgeted annual contribution is less than that called for by the replacement study. We recommend that the Association increase their annual contribution to the replacement fund to match the amount recommended by the replacement study.

SUPPORTING DOCUMENTATION FOR EXPENDITURES

During our audit, we selected 23 invoices to test for classification, approval, and adequate supporting documentation. Of the 23 selected, 12 invoices, or 52%, were unable to be located. All expenditures should be supported by an invoice or other supporting documentation. We recommend that extra care should be taken to insure that supporting documentation is obtained and properly retained for all expenditures going forward in order to strengthen the system of internal controls over cash disbursements.

CASH MANAGEMENT

The Association has significant cash balances in the replacement fund. During the year ending December 31, 2018, the interest earned on those cash balances was \$3,489. Interest rates have changed. We are helping other associations manage their earnings on excess cash balances without substantial risks. We would welcome the opportunity to discuss our cash management program with you.

Thank you for your confidence in our firm and the cooperation received in the completion of our engagement. Please call John M Stern, Jr., CPA. if we can assist you in any way.

CERTIFIED PUBLIC ACCOUNTANTS

**REQUIRED COMMUNICATIONS WITH
THOSE CHARGED WITH GOVERNANCE**



April 1, 2019

ANDREW M. HAYNIE, CPA
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MEMBERS OF:

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CERTIFIED PUBLIC ACCOUNTANTS

MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

ALLINIAL GLOBAL

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

We have audited the financial statements of Townhomes of Bayshore Condominium Owners Association, Inc. ("the Association") as of and for the year ended December 31, 2018, and have issued our report thereon dated April 1, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated January 29, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Association solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of CIRA's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Association is included in the Summary of Significant Accounting Policies note to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is:

Management's estimate of the allowance for doubtful accounts is based on the age and collectability of individual accounts. We have evaluated the key factors and assumptions used to develop the allowance for doubtful accounts and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosure

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are the Related Party and Commitments footnotes in the notes to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. All material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management.

Please find attached to this letter the Adjusting Journal Entries Report which lists all journal entries proposed as a result of our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Association's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management that are included in the management representation letter dated April 1, 2019.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Association, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Association, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Association's auditors.

Supplementary Information Accompanying the Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Required Supplementary Information

With respect to the supplementary information required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

This letter is intended solely for the information and use of the Board of Directors of Townhomes of Bayshore Condominium Owners Association, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

CERTIFIED PUBLIC ACCOUNTANTS

ADJUSTING JOURNAL ENTRIES

Client: **04520 - Townhomes of Bayshore Condominium Owners Association, Inc.**
Engagement: **18 Bayshore COA**
Period Ending: **12/31/2018**
Trial Balance: **19-01 - Trial Balance**
Workpaper: **19-03 - Adjusting Journal Entries Report**

| Account | Description | W/P Ref | Debit | Credit |
|--|---------------------------------|---------|--------------------------|--------------------------|
| Adjusting Journal Entries | | | | |
| Adjusting Journal Entries JE # 1 26-01 | | | | |
| To adjust insurance expense and prepaid insurance and record prior period adjustment to prepaid insurance. | | | | |
| 1900 | Prepaid Insurance | | 4,594.86 | |
| 5090 | Liability Insurance | | 19,191.09 | |
| 3100 | Retained Earnings | | | 4,934.95 |
| 5060 | Bonding | | | 332.00 |
| 5070 | Building Insurance | | | 17,098.00 |
| 5080 | Director/Officer Insurance | | | 540.00 |
| 5100 | Umbrella Insurance | | | 881.00 |
| Total | | | <u>23,785.95</u> | <u>23,785.95</u> |
| Adjusting Journal Entries JE # 2 34-01 | | | | |
| To adjust accounts payable as of 12.31.18. | | | | |
| 1000 | M&T Checking | | 1,530.35 | |
| 2000 | Accounts Payable | | 22,312.00 | |
| 2000 | Accounts Payable | | | 1,530.35 |
| 5060 | Bonding | | | 320.00 |
| 5090 | Liability Insurance | | | 21,992.00 |
| Total | | | <u>23,842.35</u> | <u>23,842.35</u> |
| Adjusting Journal Entries JE # 3 40-01 | | | | |
| To adjust due to/from balance. | | | | |
| 2100 | Due to Reserve Fund | | 3,819.73 | |
| 1700 | Due from Operating | | | 3,819.73 |
| Total | | | <u>3,819.73</u> | <u>3,819.73</u> |
| Adjusting Journal Entries JE # 4 19-06 | | | | |
| To adjust beginning balances to 12.31.17 statements balances and record prior period adjustment for allowance for doubtful accounts. | | | | |
| 1900 | Prepaid Insurance | | 4,463.47 | |
| 3100 | Retained Earnings | | 8,048.08 | |
| 4060 | Reserve Interest | | 581.31 | |
| 5050 | Office Supplies | | 1,887.97 | |
| 1601 | Allowance for Doubtful Accounts | | | 10,229.48 |
| 4000 | Condo/Owner Dues | | | 2,888.69 |
| 5020 | Tax Payments | | | 154.00 |
| 5210 | Electric - Irrigation | | | 12.11 |
| 5310 | Reserve Fund | | | 1,696.55 |
| Total | | | <u>14,980.83</u> | <u>14,980.83</u> |
| Adjusting Journal Entries JE # 5 40-01 | | | | |
| To reclass beginning reserve fund balance to separate account. | | | | |
| 3050 | Opening Balance Equity | | 164,419.28 | |
| 3100 | Retained Earnings | | 334,040.96 | |
| 3000 | Reserve Fund | | | 498,460.24 |
| Total | | | <u>498,460.24</u> | <u>498,460.24</u> |
| Adjusting Journal Entries JE # 6 40-01 | | | | |
| To close replacement fund activity for 2018. | | | | |
| 99991 | Contra Reserve Income | | 73,945.82 | |
| 3000 | Reserve Fund | | | 73,408.82 |
| 99992 | Contra Reserve Expense | | | 537.00 |
| Total | | | <u>73,945.82</u> | <u>73,945.82</u> |

Adjusting Journal Entries JE # 7

To remove allowance for doubtful accounts for two units being written off as of 12.31.18 per client.

| | | | |
|--------------|---------------------------------|-------------------------|-------------------------|
| 1601 | Allowance for Doubtful Accounts | 10,229.48 | |
| 1600 | Accounts Receivable | | 10,229.48 |
| Total | | <u><u>10,229.48</u></u> | <u><u>10,229.48</u></u> |

23-02

Adjusting Journal Entries JE # 8

To record insurance claim receivable for fire damage insurance claim expenses. Received check in May 2019.

| | | | |
|--------------|----------------------------|------------------------|------------------------|
| 1605 | Insurance Claim Receivable | 6,604.03 | |
| 5120 | Building - Repairs | | 6,604.03 |
| Total | | <u><u>6,604.03</u></u> | <u><u>6,604.03</u></u> |

PBC

Adjusting Journal Entries JE # 9

To reclass unapplied cash payment income against accounts receivable.

| | | | |
|--------------|-----------------------------------|------------------------|------------------------|
| 1600 | Accounts Receivable | 1,365.00 | |
| 4400 | Unapplied Cash Payment Income - 1 | | 1,365.00 |
| Total | | <u><u>1,365.00</u></u> | <u><u>1,365.00</u></u> |

23-01

Adjusting Journal Entries JE # 10

To adjust accounts receivable for adjustments made after reports were printed for audit. Removal of Hofmann, Gwenn Revocable Trust receivable for late fees.

| | | | |
|--------------|---------------------------|---------------------|---------------------|
| 4100 | Interest on Late payments | 5.18 | |
| 5200 | Collections PM | 35.00 | |
| 1600 | Accounts Receivable | | 40.18 |
| Total | | <u><u>40.18</u></u> | <u><u>40.18</u></u> |

23-02

Adjusting Journal Entries JE # 12

To record permanent equity transfer between funds.

| | | | |
|--------------|-------------------|------------------------|------------------------|
| 3000 | Reserve Fund | 4,955.98 | |
| 3100 | Retained Earnings | | 4,955.98 |
| Total | | <u><u>4,955.98</u></u> | <u><u>4,955.98</u></u> |

40-01

Total Adjusting Journal Entries662,029.59 662,029.59**Total All Journal Entries**662,029.59 662,029.59