



**FRANK HAJEK & ASSOCIATES, P.A.**

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CERTIFIED PUBLIC  
ACCOUNTANTS

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

January 3, 2018

Board of Directors

Townhomes of Bayshore Condominium Owners Association, Inc.

c/o Seascape Property Management, Inc.

17563 Nassau Commons Boulevard, Suite 3

Lewes, DE 19958

Dear Board Members:

It is a customary practice to issue what is known as a management letter whenever an audit is conducted to supplement the report. Its purpose is to communicate observations made during the audit and present recommendations that can improve operations, controls, and hopefully enhance availability of resources.

The records held by Seascape Property Management, Inc. were examined and nothing came to our attention that would cause us to believe that there were any material misstatements.

The effects of the modifications to the accrual basis of accounting for presentation purposes include income to represent assessments billed rather than collected, and expenses as incurred rather than as disbursed.

In addition, we have audited the financial statements of Townhomes of Bayshore Condominium Owners Association, Inc. for the year ended December 31, 2015, and have issued our report thereon dated January 3, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 3, 2018. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practice*

Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by Townhomes of Bayshore Condominium Owners Association, Inc. are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Association during the year for which there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### *Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on managements' 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 significantly from those expected. The most sensitive estimates affecting the financial statement were:

Management's estimate of the allowance for doubtful accounts and is based on the estimated probability of similar past due assessments being collected. We evaluated the key factors and assumptions used to develop the estimated allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

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

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements indentified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 3, 2018.

There were several issues that were considered in the financial statements that are described below to provide additional information:

#### Assessments Receivable

Assessments receivable represents the amounts owed to the Association by various homeowners and as of December 31, 2015, the amount owed was \$12,106. The allowance for doubtful accounts was \$6,875 as of December 31, 2015 and is based on a specific allowance of all account balances over 90 days past due.

#### Assessments Received in Advance

At December 31, 2015, assessments received in advance were \$5,602. This amount represents 2016 homeowner assessments paid prior to December 31, 2015.

#### Common Real Property

The prevalent industry practice for capitalizing common real property is that condominium and homeowner associations do not capitalize common real property directly associated with the units (i.e. exterior walls, roofs, public hallways, underlying land, sidewalks, driveways, roads, some parking spaces and greenbelts).

However, in certain circumstances property that is not directly associated with the units must be capitalized (i.e. recreational facilities, swimming pools, tennis courts, club houses, manager's apartments, and properties that are primarily used for commercial operations directed at non-unit owners or at unit owners for which they pay a fee based upon usage).

The circumstances that would support capitalization would be either that the Association has title or other evidence of ownership of the property and either of the following conditions are met:

- (a) The Association can dispose of the property, at the discretion of its Board of Directors, for cash or claims to cash, and the Association can retain the proceeds, or
- (b) The property is used by the Association to generate significant cash flows from members on the basis of usage, or from non-members.

The operative phrase in the above criteria is “significant cash flow”. In your situation, it does not appear appropriate to capitalize any of the real property for the year ended December 31, 2015.

#### Common Personal Property

The AICPA guide requires CIRAs to capitalize common personal property, such as furnishings, recreational and maintenance equipment, and work vehicles. CIRAs generally hold title to personal property and CIRAs Board of Directors usually is able to sell personal property at its discretion and retain the proceeds. Thus, the property qualifies for asset recognition.

Most of the personal property of the Association was transferred by the developer. This type of transaction represents non-monetary transactions not to be capitalized but should be disclosed that “it was not practicable to determine the fair market value of the assets within reasonable limits.” The disclosure approach, rather than the capitalization treatment, was deemed sufficient primarily due to the absence of any significant tax benefits regardless of option elected.

However, purchased personal property should be capitalized based upon the establishment of a capitalization policy. It is recommended that only major personal property purchases (item cost in excess of \$5,000 and expected useful life that exceeds one year) be capitalized and depreciated.

#### Association Tax Election

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2015, 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, 2015 was \$0.

### Replacement Funds

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which include \$58,477 of cash equivalents and \$303,703 of certificates of deposit, aggregating to \$362,180 at December 31, 2015, are held in separate accounts and are generally not available for operating purposes. Expenditures for major replacements for the year ended December 31, 2015 were \$6,448, which represents driveway paving and irrigation repairs. Contributions to the replacement fund were \$56,279 for the year ended December 31, 2015.

The Association authorized a study in November 2014 to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The study provided a current estimate of replacement costs, amounts previously accumulated, and future contributions. Per the independent study, the recommended replacement reserve balance as of December 31, 2015 is \$380,536. The Association's replacement reserve balance as of December 31, 2015 was \$362,180, which is \$18,356 below the recommended levels, but a complete analysis of the study recommendations and actual income and expenses incurred has not been done.

The reserve study anticipated capital expenditures for the current and four subsequent years to be: \$0 in 2015; \$0 in 2016; \$0 in 2017; \$25,000 in 2018; and \$25,000 in 2019.

### Operating Budget

We recommend the Association continue to use an annual operating budget in order to ensure the efficient use of its financial resources. We also recommend the Association analyze the current expense variance and adopt those findings into the current operating budget.

### Board Minutes

We recommend that all Board actions and decisions be documented in Board minutes.

### Financial Records

The Associations' records were found to be neat, orderly and easy to comprehend.

### Other Audit Findings or Issue

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the 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

If you have any questions regarding the audit report for the year ended December 31, 2015, or this letter, please do not hesitate to contact us.

Sincerely,

Frank Hajek & Associates, P.A.

A handwritten signature in black ink, appearing to read 'F. Hajek', with a long horizontal flourish extending to the right.

Franklin J. Hajek  
Certified Public Accountant, MBA

# Management Representation Letter

January 3, 2018

Frank Hajek and Associates, P.A.  
25 W. Courtland Street  
Bel Air, MD 21014

This representation letter is provided in connection with your audit of the 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, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of January 3, 2018, the following representations made to you during your audit.

## Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 9, 2017, including our responsibility for the preparation and fair presentation of the financial statements.
- The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- We acknowledge our responsibility 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. There were no uncorrected misstatements issued.
- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- Material concentrations have been properly disclosed in accordance with U.S. GAAP.
- Guarantees, whether written or oral, under which the Association is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.
- Transfers or designations of fund balance or interfund borrowings have been properly authorized and approved and have been properly recorded or disclosed in accordance with GAAP.
- Uncollectible interfund loans have been properly accounted for and disclosed in accordance with GAAP.

**Information Provided:**

- We have provided you with:
  - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the Association from whom you determined it necessary to obtain audit evidence.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the Association and involves:
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements

- We have no knowledge of any allegations of fraud or suspected fraud affecting the Association's financial statements communicated by employees, former employees, regulators, or others.
- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. We take responsibility of all such legal representations and have presented to the auditors that we will not issue a legal letter based on all current legal items.
- We have disclosed to you the identity of the Association's related parties and all the related party relationships and transactions of which we are aware.
- The Association has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- We acknowledge our responsibilities for presenting the required supplementary information (RSI) in accordance with U.S. GAAP. The RSI is measured and presented within prescribed guidelines, and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- We acknowledge our responsibility for presenting the supplementary information in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in prior period, and we disclosed to you include significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
- The Association's allocation of expenses against exempt and nonexempt function income conforms with IRS rules, which require that the allocation be made "on a reasonable basis." We have adequately documented such allocation.
- The Association has excess membership income in the current year and for tax purposes has elected to either (a) offset it against next year's assessments or (b) refund it to the members. We have adequately documented such election in the current year.
- We understand that management is responsible for the Association's choice of Filing [Form 1120 or Form 1120-H] and the consequences thereof.

Signature: \_\_\_\_\_

Title: \_\_\_\_\_



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CERTIFIED PUBLIC  
ACCOUNTANTS

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

January 3, 2018

Board of Directors

Townhomes of Bayshore Condominium Owners Association, Inc.

We are engaged to audit the financial statements of Townhomes of Bayshore Condominium Owners Association, Inc. for the year ended December 31, 2015. Professional standards require that we provide you with the following information related to our audit. We would also appreciate the opportunity to meet with you to discuss the information further since a two-way dialogue can provide valuable information for the audit process.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 9, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information required by the Financial Accounting Standards Board, as described by professional standards, is to apply certain limited procedures to the information about management's methods of preparing the information; however, we will not express an opinion or any assurance on the information.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the Association and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violation of laws or governmental regulations that are attributable to the Association or to acts by management or employees acting on behalf of the Association. We will generally communicate our significant finding at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

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

Sincerely,

Frank Hajek & Associates, P.A.

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Franklin J. Hajek  
Certified Public Accountant, MBA

# Management Representation Letter

January 3, 2018

Frank Hajek and Associates, P.A.  
25 W. Courtland Street  
Bel Air, MD 21014

This representation letter is provided in connection with your audit of the 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, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of January 3, 2018, the following representations made to you during your audit.

## Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated October 9, 2017, including our responsibility for the preparation and fair presentation of the financial statements.
- The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- We acknowledge our responsibility 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. There were no uncorrected misstatements issued.
- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- Material concentrations have been properly disclosed in accordance with U.S. GAAP.
- Guarantees, whether written or oral, under which the Association is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.
- Transfers or designations of fund balance or interfund borrowings have been properly authorized and approved and have been properly recorded or disclosed in accordance with GAAP.
- Uncollectible interfund loans have been properly accounted for and disclosed in accordance with GAAP.

**Information Provided:**

- We have provided you with:
  - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the Association from whom you determined it necessary to obtain audit evidence.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the Association and involves:
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements

- We have no knowledge of any allegations of fraud or suspected fraud affecting the Association's financial statements communicated by employees, former employees, regulators, or others.
- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. We take responsibility of all such legal representations and have presented to the auditors that we will not issue a legal letter based on all current legal items.
- We have disclosed to you the identity of the Association's related parties and all the related party relationships and transactions of which we are aware.
- The Association has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- We acknowledge our responsibilities for presenting the required supplementary information (RSI) in accordance with U.S. GAAP. The RSI is measured and presented within prescribed guidelines, and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- We acknowledge our responsibility for presenting the supplementary information in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in prior period, and we disclosed to you include significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
- The Association's allocation of expenses against exempt and nonexempt function income conforms with IRS rules, which require that the allocation be made "on a reasonable basis." We have adequately documented such allocation.
- The Association has excess membership income in the current year and for tax purposes has elected to either (a) offset it against next year's assessments or (b) refund it to the members. We have adequately documented such election in the current year.
- We understand that management is responsible for the Association's choice of Filing [Form 1120 or Form 1120-H] and the consequences thereof.

Signature: \_\_\_\_\_

Title: \_\_\_\_\_



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

January 3, 2018

Board of Directors  
Townhomes of Bayshore Condominium Association, Inc.  
c/o Seascape Property Management, Inc.  
17563 Nassau Commons Boulevard, Suite 3  
Lewes, DE 19958

Dear Board Members:

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, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Townhomes of Bayshore Condominium Owners Association, Inc.'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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the 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.

Sincerely,

Frank Hajek & Associates, P.A.

A handwritten signature in black ink, appearing to read 'F. Hajek', with a long horizontal flourish extending to the right.

Franklin J. Hajek  
Certified Public Accountant, MBA

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Year Ended  
December 31, 2015**

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CERTIFIED PUBLIC  
ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

25 West Courtland 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, 2015, 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, 2015, 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.



Bel Air, Maryland  
January 3, 2018

**TOWNHOMES OF DAYSHORE CONDOMINIUM OWNERS' ASSOCIATION, INC.**

**BALANCE SHEET  
DECEMBER 31, 2015**

|                                                                             | <u>OPERATING<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>TOTAL</u>      |
|-----------------------------------------------------------------------------|---------------------------|-----------------------------|-------------------|
| <b>ASSETS</b>                                                               |                           |                             |                   |
| Cash-including interest bearing accounts                                    | \$ 733                    | \$ 58,477                   | \$ 59,210         |
| Investments                                                                 | -                         | 303,703                     | 303,703           |
| Assessments receivable (less allowance<br>for doubtful accounts of \$6,875) | 5,231                     | -                           | 5,231             |
| Prepaid insurance                                                           | 7,935                     | -                           | 7,935             |
|                                                                             | <hr/>                     | <hr/>                       | <hr/>             |
| <b>TOTAL ASSETS</b>                                                         | <b>\$ 13,899</b>          | <b>\$ 362,180</b>           | <b>\$ 376,079</b> |
|                                                                             | <hr/>                     | <hr/>                       | <hr/>             |
| <b>LIABILITIES AND FUND BALANCES</b>                                        |                           |                             |                   |
| Accounts payable                                                            | \$ 240                    | \$ -                        | \$ 240            |
| Assessments received in advance                                             | 5,602                     | -                           | 5,602             |
|                                                                             | <hr/>                     | <hr/>                       | <hr/>             |
| <b>TOTAL LIABILITIES</b>                                                    | <b>5,842</b>              | <b>-</b>                    | <b>5,842</b>      |
|                                                                             | <hr/>                     | <hr/>                       | <hr/>             |
| Fund Balances                                                               | 8,057                     | 362,180                     | 370,237           |
|                                                                             | <hr/>                     | <hr/>                       | <hr/>             |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>                                  | <b>\$ 13,899</b>          | <b>\$ 362,180</b>           | <b>\$ 376,079</b> |
|                                                                             | <hr/>                     | <hr/>                       | <hr/>             |

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, 2015**

|                                                                  | <u>OPERATING<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>TOTAL</u>      |
|------------------------------------------------------------------|---------------------------|-----------------------------|-------------------|
| <b>REVENUES</b>                                                  |                           |                             |                   |
| Homeowner assessments                                            | \$ 201,480                | \$ -                        | \$ 201,480        |
| Other income                                                     | 1,080                     | -                           | 1,080             |
| Interest income                                                  | -                         | 1,723                       | 1,723             |
|                                                                  | <u>202,560</u>            | <u>1,723</u>                | <u>204,283</u>    |
| <b>EXPENSES</b>                                                  |                           |                             |                   |
| Operating                                                        | 176,410                   | -                           | 176,410           |
| Capital expenditures                                             | -                         | 6,448                       | 6,448             |
|                                                                  | <u>176,410</u>            | <u>6,448</u>                | <u>182,858</u>    |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENSES</b> | 26,150                    | (4,725)                     | 21,425            |
| <b>BEGINNING FUND BALANCES</b>                                   | 38,186                    | 310,626                     | 348,812           |
| Replacement fund contributions                                   | <u>(56,279)</u>           | <u>56,279</u>               | <u>-</u>          |
| <b>ENDING FUND BALANCES</b>                                      | <u>\$ 8,057</u>           | <u>\$ 362,180</u>           | <u>\$ 370,237</u> |

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

**TOWNHOMES C. BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2015**

|                                                                                                                                                           | <u>OPERATING<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>TOTAL</u>     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                                                               |                           |                             |                  |
| Excess (deficiency) of revenues over (under) expenses                                                                                                     | \$ 26,150                 | \$ (4,725)                  | \$ 21,425        |
| Adjustments to reconcile excess (deficiency) of revenues over<br>(under) expenses to net cash provided by operating activities<br>(Increase) decrease in: |                           |                             |                  |
| Assessments receivable                                                                                                                                    | 5,319                     | -                           | 5,319            |
| Prepaid insurance                                                                                                                                         | (2,028)                   | -                           | (2,028)          |
| Increase (decrease) in:                                                                                                                                   |                           |                             |                  |
| Accounts payable                                                                                                                                          | (9,785)                   | -                           | (9,785)          |
| Assessments received in advance                                                                                                                           | 5,602                     | -                           | 5,602            |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>                                                                                                   | <u>25,258</u>             | <u>(4,725)</u>              | <u>20,533</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                                                                               |                           |                             |                  |
| Purchase of certificates of deposit                                                                                                                       | -                         | (100,000)                   | (100,000)        |
| Reinvestment of earnings                                                                                                                                  | -                         | (1,627)                     | (1,627)          |
| <b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>                                                                                                   | <u>-</u>                  | <u>(101,627)</u>            | <u>(101,627)</u> |
| <b>NET INCREASE (DECREASE) IN CASH</b>                                                                                                                    | 25,258                    | (106,352)                   | (81,094)         |
| <b>CASH AT BEGINNING OF YEAR</b>                                                                                                                          | 31,754                    | 108,550                     | 140,304          |
| Replacement fund contributions                                                                                                                            | <u>(56,279)</u>           | <u>56,279</u>               | <u>-</u>         |
| <b>CASH AT END OF YEAR</b>                                                                                                                                | <u>\$ 733</u>             | <u>\$ 58,477</u>            | <u>\$ 59,210</u> |
| <b>Supplemental Disclosure</b>                                                                                                                            |                           |                             |                  |
| Cash paid in the year for interest                                                                                                                        | <u>\$ -</u>               | <u>\$ -</u>                 | <u>\$ -</u>      |
| Cash paid in the year for income taxes                                                                                                                    | <u>\$ -</u>               | <u>\$ -</u>                 | <u>\$ -</u>      |

**TOWNHOMES OF BAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**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, 2015, the development consists of 146 residential units. The property manager for the year ended December 31, 2015 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 3, 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 BAYSIDE SHORE CONDOMINIUM OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**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, 2015, 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, 2015 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, 2015, 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 BAY SHORE CONDOMINIUM OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**CASH**

The Association's cash at December 31, 2015 consists of the following:

|                                                               | <u>2015</u>      |
|---------------------------------------------------------------|------------------|
| Designated by homeowners for future repairs and replacements: |                  |
| M&T Bank – money market                                       | \$ 58,477        |
| Sub-Total                                                     | <u>58,477</u>    |
| Undesignated:                                                 |                  |
| M&T Bank – checking                                           | <u>733</u>       |
| Sub-Total                                                     | <u>733</u>       |
| Total Cash                                                    | <u>\$ 59,210</u> |

**INVESTMENTS**

The Association's investments are certificates of deposit with maturities over three months. The Association's investments at December 31, 2015 consist of the following:

|                         | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Balance</u>    |
|-------------------------|----------------------|----------------------|-------------------|
| Community Bank Delaware | 01/18/2016           | 0.20%                | \$ 76,535         |
| Community Bank Delaware | 01/18/2016           | 0.20%                | 76,535            |
| Community Bank Delaware | 01/21/2016           | 0.20%                | 75,000            |
| Community Bank Delaware | 10/23/2016           | 0.75%                | <u>75,633</u>     |
| Total investments       |                      |                      | <u>\$ 303,703</u> |

The Association maintains certificates of deposit balances which exceeded federally insured limits during the year. The Association does not believe that this results in any significant credit risk.

**ASSESSMENTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

Assessments receivable represents the amounts owed to the Association by various homeowners and as of December 31, 2015, the amount owed was \$12,106. The allowance for doubtful accounts was \$6,875 as of December 31, 2015 and is based on a specific allowance of all account balances over 90 days past due.

**TOWNHOMES OF BAY SHORE CONDOMINIUM OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2015**

**ASSESSMENTS RECEIVED IN ADVANCE**

At December 31, 2015, assessments received in advance were \$5,602. This amount represents 2016 homeowner assessments paid prior to December 31, 2015.

**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 \$58,477 of cash equivalents and \$303,703 of certificates of deposit, aggregating to \$362,180 at December 31, 2015, are held in separate accounts and are generally not available for operating purposes. Expenditures for major replacements for the year ended December 31, 2015 were \$6,448, which represents driveway paving and irrigation repairs. Contributions to the replacement fund were \$56,279 for the year ended December 31, 2015.

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.

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

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                  | 69,080            | 58,002            | (11,078)           |
| Expenditures                            | <u>-</u>          | <u>(6,448)</u>    | <u>(6,448)</u>     |
| Ending balance as of December 31, 2015  | <u>\$ 380,536</u> | <u>\$ 362,180</u> | <u>\$ (18,356)</u> |

**TOWNHOMES OF BAY SHORE CONDOMINIUM OWNER ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2015**

**FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)**

For the year ended December 31, 2015, the reserve study recommended replacement contributions to be \$69,080. For the year ended December 31, 2016, the reserve study recommends replacement contributions of \$69,080.

**SUBSEQUENT EVENTS**

Subsequent events were evaluated through January 3, 2018, which is the date the financial statements were available to be issued. As of January 3, 2018, no subsequent events were reported.

**SUPPLEMENTARY INFORMATION**

**TOWNHOMES OF DAYSHORE CONDOMINIUM OWNERS ASSOCIATION, INC.**  
**SCHEDULE OF OPERATING AND REPLACEMENT FUND REVENUES AND EXPENSES**  
**-BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2015**

|                                                                                                                                | (Compiled)<br>Budget | Actual             | (Compiled)<br>Variance |
|--------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------------|------------------------|
| <b>Revenues:</b>                                                                                                               |                      |                    |                        |
| Homeowner assessments                                                                                                          | \$ 201,480           | \$ 201,480         | \$ -                   |
| Other income                                                                                                                   | -                    | 1,080              | 1,080                  |
| <b>Total revenues</b>                                                                                                          | <u>201,480</u>       | <u>202,560</u>     | <u>1,080</u>           |
| <b>Expenses:</b>                                                                                                               |                      |                    |                        |
| Accounting fees                                                                                                                | 260                  | 260                | -                      |
| Bad debt expense                                                                                                               | -                    | 9,179              | (9,179)                |
| Gas and electric                                                                                                               | 1,500                | 1,232              | 268                    |
| Grounds and lawn maintenance                                                                                                   | 43,100               | 44,401             | (1,301)                |
| Insurance                                                                                                                      | 44,350               | 44,759             | (409)                  |
| Legal fees and collections                                                                                                     | 1,500                | 4,036              | (2,536)                |
| Management fees                                                                                                                | 27,800               | 27,447             | 353                    |
| Office expense                                                                                                                 | 225                  | 421                | (196)                  |
| Pest control                                                                                                                   | 2,500                | 5,400              | (2,900)                |
| Repairs and maintenance                                                                                                        | 19,480               | 34,967             | (15,487)               |
| Snow removal                                                                                                                   | 3,500                | 4,308              | (808)                  |
| <b>Total expenses</b>                                                                                                          | <u>144,215</u>       | <u>176,410</u>     | <u>(32,195)</u>        |
| Excess (deficiency) of operating fund revenues<br>over (under) operating fund expenses                                         | 57,265               | 26,150             | (31,115)               |
| Replacement fund contributions                                                                                                 | <u>(57,265)</u>      | <u>(56,279)</u>    | <u>986</u>             |
| Excess (deficiency) of operating fund revenues<br>over (under) operating fund expenses<br>after replacement fund contributions | <u>\$ -</u>          | <u>\$ (30,129)</u> | <u>\$ (30,129)</u>     |
| <b>Replacement fund activity</b>                                                                                               |                      |                    |                        |
| Interest income                                                                                                                | <u>\$ -</u>          | <u>\$ 1,723</u>    | <u>\$ 1,723</u>        |
| Capital expenditures                                                                                                           | <u>\$ -</u>          | <u>\$ 6,448</u>    | <u>\$ (6,448)</u>      |

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