

TOWN SHORES MASTER ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2022

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

Town Shores Master Association, Inc.
Gulfport, Florida

Opinion

We have audited the accompanying financial statements of Town Shores Master 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 Town Shores Master 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 Town Shores Master 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.

Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 4 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

Responsibilities of Management 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, 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.

To the Board of Directors
Town Shores Master Association, Inc.

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 Town Shores Master 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 Responsibility 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 Town Shores Master 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 Town Shores Master 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.

To the Board of Directors
Town Shores Master Association, Inc.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of changes in replacement fund, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Supplementary information on future major repairs and replacements on page 13 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.



BASHOR & LEGENDRE, LLP
Certified Public Accountants
Tampa, Florida

July 21, 2023

TOWN SHORES MASTER ASSOCIATION, INC.

BALANCE SHEET

AS OF DECEMBER 31, 2022

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 538,468	\$ 423,619	\$ 962,087
Assessments receivable	744	-	744
Prepaid expenses	13,523	-	13,523
Deposits	3,700	-	3,700
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Total Assets	\$ 556,435	\$ 423,619	\$ 980,054
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCES</u>			
Accounts payable	\$ 28,190	\$ -	\$ 28,190
Prepaid assessments	3,990	-	3,990
Security deposits	7,450	-	7,450
Contract liabilities (Assessments received in advance-replacement fund)	-	401,883	401,883
	<hr/>	<hr/>	<hr/>
Total Liabilities	39,630	401,883	441,513
	<hr/>	<hr/>	<hr/>
Fund Balances	516,805	21,736	538,541
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	\$ 556,435	\$ 423,619	\$ 980,054
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The accompanying notes are an integral part of these financial statements.

TOWN SHORES MASTER ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>REVENUES</u>			
Regular assessments	\$ 1,272,159	\$ 260,344	\$ 1,532,503
Other income	78,752	-	78,752
Interest income	948	853	1,801
Total Revenues	<u>1,351,859</u>	<u>261,197</u>	<u>1,613,056</u>
<u>EXPENSES</u>			
General and administrative	131,041	-	131,041
Insurance	107,922	-	107,922
Payroll	572,973	-	572,973
Repairs and maintenance	189,968	-	189,968
Security	139,936	-	139,936
Taxes	140	-	140
Utilities	138,636	-	138,636
Replacement expenses	-	260,344	260,344
Total Expenses	<u>1,280,616</u>	<u>260,344</u>	<u>1,540,960</u>
<u>EXCESS/(DEFICIT) OF REVENUES OVER EXPENSES</u>	71,243	853	72,096
<u>BEGINNING FUND BALANCES</u>	<u>445,562</u>	<u>20,883</u>	<u>466,445</u>
<u>ENDING FUND BALANCES</u>	<u>\$ 516,805</u>	<u>\$ 21,736</u>	<u>\$ 538,541</u>

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

TOWN SHORES MASTER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Excess/(Deficit) of Revenues over Expenses	\$ 71,243	\$ 853	\$ 72,096
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash from operating activities:			
(Increase) Decrease in:			
Assessments receivable	1,760	-	1,760
Other receivables	19,819	-	19,819
Prepaid expenses	(154)	-	(154)
Increase (Decrease) in:			
Accounts payable	(4,448)	-	(4,448)
Prepaid assessments	1,217	-	1,217
Security deposits	218	-	218
Contract liabilities (Assessments received in advance-replacement fund)	-	(177,705)	(177,705)
<u>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</u>	89,655	(176,852)	(87,197)
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	448,813	600,471	1,049,284
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	\$ 538,468	\$ 423,619	\$ 962,087

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

TOWN SHORES MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 1 - NATURE OF ORGANIZATION

Description of Business

Town Shores Master Association, Inc. (“Association”) was incorporated on January 13, 1987 as a corporation, not-for-profit, under the terms and provisions of Chapter 617, Florida Statutes. The Association, which operates under Florida Statute 718, is responsible for the operation and maintenance of the common property within the development. The development consists of 18 buildings comprised of 1,328 residential units located in Gulfport, Florida.

NOTE 2 - DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 21, 2023 , the date that the financial statements were available to be issued.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association’s governing documents provide certain guidelines for carrying out 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

TOWN SHORES MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Recognition of Assets and Depreciation Policy

Real property and common areas acquired from the developer and related improvements to such property are not reflected on the Association's financial statements. Those properties are owned by the individual unit owners in common and not by the Association. The Association recognizes personal property assets at cost. The property is depreciated over its estimated useful life using the accelerated method of depreciation.

Member Assessments

Association members are subject to monthly 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 transactions amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are seriously delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. At December 31, 2022, the Association had net assessments receivable of \$744. It is the opinion of the Board that an allowance for doubtful accounts is not necessary at December 31, 2022 to cover anticipated losses from doubtful accounts.

The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of net assessments receivable as of the beginning and end of the year are \$2,504 and \$744, respectively.

Interest Earned

The Association's policy is to allocate interest earned to the operating and replacement fund in proportion to the interest bearing deposits of each fund.

TOWN SHORES MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Fair Value of Financial Instruments

The Association's financial instruments consist primarily of cash and cash equivalents, assessments receivable, deposits, accounts payable, security deposits, and contract liabilities. The carrying amounts of such financial instruments approximate their respective estimated fair values due to the short-term maturities and approximate market interest rates of these instruments. The estimated fair values are not necessarily indicative of the amounts the Association would realize in a current market exchange or from future earnings or cash flows.

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.

Contract Liabilities (Assessments received in advance-replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance-replacement fund) as of the beginning and end of the year are \$579,588 and \$401,883, respectively.

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents provide certain guidelines for governing its financial activities. The Association maintains an operating fund available for general operations and a replacement fund designated for future major repair and replacements. Replacement funds are presented on the accompanying balance sheet as contract liabilities (assessments received in advance-replacement fund) and replacement fund balance which are held in separate bank accounts and generally are not available for expenditures for normal operations.

TOWN SHORES MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

During the last quarter of the year, the Board, in conjunction with management and vendors, estimated the remaining useful lives and the replacement costs of the components of common property. At this time, the Board has not conducted an independent formal study of all the common property components which results may differ. The table included in the supplementary information on Future Major Repairs and Replacements is based on the informal study.

The Board 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. The reserve funding per the reserve schedule for 2023 is \$116,203 and the Association is funding \$152,573.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, 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 to increase regular assessments, pass special assessments, or delay major repairs and replacement until funds are available.

The Association is required to provide for reserves in accordance with Florida Statutes. Per Florida Statutes, it must prepare a fully funded proposed budget including reserves. The Association must fully fund reserves unless waived or reduced by a proper membership vote. We could not obtain evidence that a proper budget and membership vote was conducted as required by Florida Statutes. No adjustments have been made to these financial statements regarding the above.

NOTE 5 - OWNERS' ASSESSMENTS

Monthly assessments to owners were approximately \$3,320 to \$11,919 per unit, based on each unit's percent of ownership, for 2022. Of these amounts, approximately \$203 to \$730 was designated for the replacement fund.

The annual budget and assessments of owners are determined by the Board. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

TOWN SHORES MASTER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 6 - 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 earnings. Exempt function income, which consists primarily of member assessments, is not taxable.

NOTE 7 - INSURANCE DEDUCTIBLE

Although insurance coverage has been obtained for damage caused by windstorm, the deductible is typically three percent (3%) to five percent (5%) of the insured value for hurricane and wind. The Association is therefore responsible for losses up to this amount and has the right to increase its assessments, levy a special assessment, or delay repairs until such funds are available.

NOTE 8 - CONCENTRATION OF CREDIT RISK

The Association maintains accounts with financial institutions. Accounts at each institution are insured subject to FDIC limits.

SUPPLEMENTARY INFORMATION

TOWN SHORES MASTER ASSOCIATION, INC.
SCHEDULE OF CHANGES IN REPLACEMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2022
(unaudited)

The balances of the components of the replacement fund at December 31, 2022 are as follows:

<u>Components</u>	<u>Balance</u> <u>01/01/22</u>	<u>Additions</u> <u>to Fund</u>	<u>Charges</u> <u>to Fund</u>	<u>Transfers</u>	<u>Balance</u> <u>12/31/22</u>
<u>Contract Liabilities</u>					
Painting	\$ 8,350	\$ 1,021	\$ -	\$ -	\$ 9,371
Paving	37,813	179	(20,050)	-	17,942
Roofing	29,876	967	(6,000)	-	24,843
A/C and heat	2,273	1,644	(6,892)	4,618	1,643
Master grounds	6,432	875	(5,400)	-	1,907
Docks/marina	71,766	-	-	-	71,766
Elevator	30,593	-	-	-	30,593
Deferred capital	64,315	4,496	(67,245)	-	1,566
Master renovation	240,210	65,110	(111,762)	-	193,558
Mechanical	7,717	655	(7,824)	-	548
Office	4,618	-	-	(4,618)	-
Pools	29,964	5,207	(35,171)	-	-
Seawall	45,661	2,485	-	-	48,146
Total Contract Liabilities	579,588	82,639	(260,344)	-	401,883
<u>Fund Balance</u>					
Interest	20,883	853	-	-	21,736
Total Liabilities and Fund Balance	<u>\$ 600,471</u>	<u>\$ 83,492</u>	<u>\$ (260,344)</u>	<u>\$ -</u>	<u>\$ 423,619</u>

TOWN SHORES MASTER ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND
REPLACEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

(unaudited)

During the last quarter of the year the Board, in conjunction with management and vendors, estimated the remaining useful lives and the replacement costs of the components of common property. At this time the Board has not conducted an independent formal study of all the common property components, which results may differ. The informal study conducted may not be all inclusive. 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 Lives</u>	<u>Estimated Remaining Lives</u>	<u>Estimated Current Replacement Costs</u>	<u>2023 Required Funding</u>	<u>2023 Proposed Budgeted Funding</u>
Painting	7	5	\$ 16,000	\$ 1,326	\$ 1,326
Paving	20	14	40,000	1,576	1,576
Roofing	20	16	40,000	947	947
A/C and heat	15	15	27,000	1,690	1,690
Master grounds	10	4	15,000	3,273	3,273
Docks/marina	40	35	350,000	7,435	43,805
Elevator	40	9	32,970	264	264
Deferred capital	5	1	105,000	25,460	25,460
Master renovation	1	1	125,930	31,872	31,872
Mechanical	5	1	15,000	14,452	14,452
Pools	10	1	75,000	24,351	24,351
Seawall	15	7	70,000	3,557	3,557
			<u>\$ 911,900</u>	<u>\$ 116,203</u>	<u>\$ 152,573</u>