



VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2016

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Valley Forge Towers South Condominium Association
King of Prussia, Pennsylvania

We have audited the accompanying financial statements of Valley Forge Towers South Condominium Association, which comprise the balance sheet as of December 31, 2016 and the related statements of revenues, expenses and comprehensive income, and changes in fund balance 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 from 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.

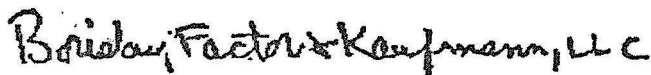
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Forge Towers South Condominium Association as of December 31, 2016, and 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.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted supplementary information about future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.



October 9, 2017

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

BALANCE SHEET

DECEMBER 31, 2016

ASSETS

	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>	<u>Total</u>
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 52,203	\$ -	\$ 52,203
Marketable Securities	-	689,041	689,041
Assessments and Other Receivables, Net	129,608	-	129,608
Prepaid Expenses	<u>107,565</u>	<u>-</u>	<u>107,565</u>
 Total Current Assets	 <u>289,376</u>	 <u>689,041</u>	 <u>978,417</u>
 EQUIPMENT, FURNITURE AND AND IMPROVEMENTS - Net			
of Accumulated Depreciation of \$51,386	<u>43,836</u>	<u>-</u>	<u>43,836</u>
	<u>\$ 333,212</u>	<u>\$ 689,041</u>	<u>\$ 1,022,253</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES:			
Accounts Payable and Accrued Expenses	\$ 140,998	\$ 6,238	\$ 147,236
Deferred Revenue	<u>11,855</u>	<u>197,127</u>	<u>208,982</u>
 Total Current Liabilities	 <u>152,853</u>	 <u>203,365</u>	 <u>356,218</u>
 FUND BALANCES:			
Fund Balances	180,359	483,084	663,443
Accumulated Other Comprehensive Income	<u>-</u>	<u>2,592</u>	<u>2,592</u>
	<u>\$ 333,212</u>	<u>\$ 689,041</u>	<u>\$ 1,022,253</u>

The Accompanying Notes Are an Integral Part of These Financial Statements

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2016

	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>	<u>Total</u>
REVENUES:			
Member Assessments	\$1,937,138	\$ 758,818	\$2,695,956
Work Order Income	21,477	-	21,477
Move In Fees and Miscellaneous Income	24,201	-	24,201
Bad Debt Recoveries	10,502	-	10,502
Investment Income	-	20,573	20,573
	<u>1,993,318</u>	<u>779,391</u>	<u>2,772,709</u>
EXPENSES:			
Operating Expenses	1,932,740	-	1,932,740
Income Taxes	-	6,777	6,777
Major Repairs and Replacements	-	609,922	609,922
	<u>1,932,740</u>	<u>616,699</u>	<u>2,549,439</u>
EXCESS OF REVENUES OVER EXPENSES	60,578	162,692	223,270
OTHER COMPREHENSIVE INCOME -			
Unrealized Gain on Marketable Securities	-	2,592	2,592
	<u>60,578</u>	<u>165,284</u>	<u>225,862</u>
COMPREHENSIVE INCOME	<u>\$ 60,578</u>	<u>\$ 165,284</u>	<u>\$ 225,862</u>

The Accompanying Notes Are an Integral Part of These Financial Statements

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2016

	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Fund Balances</u>	<u>Accumulated Other Comprehensive Income</u>
FUND BALANCES AT BEGINNING OF YEAR	\$ 119,781	\$ 320,392	\$ 440,173	\$ -
EXCESS OF REVENUES OVER EXPENSES	60,578	162,692	223,270	-
OTHER COMPREHENSIVE INCOME: Unrealized Gain on Marketable Securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,592</u>
FUND BALANCES AT END OF YEAR	<u>\$ 180,359</u>	<u>\$ 483,084</u>	<u>\$ 663,443</u>	<u>\$ 2,592</u>

The Accompanying Notes Are an Integral Part of These Financial Statements

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of Revenues Over Expenses	\$ 60,578	\$ 162,692	\$ 223,270
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Used by Operating Activities:			
Depreciation	880	-	880
(Increase) Decrease in:			
Assessments and Other Receivables, Net	(54,477)	-	(54,477)
Prepaid Expenses	6,920	39	6,959
Increase (Decrease) in:			
Accounts Payable and Accrued Expenses	(11,725)	6,238	(5,487)
Deferred Revenue	<u>(16,194)</u>	<u>(298,609)</u>	<u>(314,803)</u>
 NET CASH USED BY OPERATING ACTIVITIES	 (14,018)	 (129,640)	 \$ (143,658)
 CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of Marketable Securities	-	(686,449)	(686,449)
Purchase of Equipment, Furniture and Fixtures and Improvements	<u>(29,286)</u>	<u>-</u>	<u>(29,286)</u>
 NET CASH USED BY INVESTING ACTIVITIES	 (29,286)	 (686,449)	 (715,735)
 DECREASE IN CASH	 <u>(43,304)</u>	 <u>(816,089)</u>	 <u>(859,393)</u>
 CASH AT BEGINNING OF YEAR	 <u>95,507</u>	 <u>816,089</u>	 <u>911,596</u>
 CASH AT END OF YEAR	 <u>\$ 52,203</u>	 <u>\$ -</u>	 <u>\$ 52,203</u>

The Accompanying Notes Are an Integral Part of These Financial Statements

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:

A. Nature of Operations

Valley Forge Towers South Condominium Association (the Association) is a statutory condominium association incorporated in the Commonwealth of Pennsylvania on September 23, 1982. The Association is responsible for the operation and maintenance of the common property of Valley Forge Towers South Condominium. Valley Forge Towers South Condominium consists of 274 residential and commercial units located in King of Prussia, Pennsylvania.

B. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

C. 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 purposes.

Operating Fund

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

Capital Reserve Fund

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

D. Cash and Cash Equivalents

Cash equivalents include cash on hand and in banks. The Association also considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

E. Member Assessments

Association members are subject to monthly 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 unit owners, reduced by the valuation allowance of \$62,690 that reflects management's best estimate of the amounts that will not be collected. Amounts collected but not billed are recorded as deferred revenue.

F. Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

Depreciation of property and equipment is provided utilizing both the straight-line and accelerated methods over the estimated useful lives of the respective assets as follows:

Equipment and Furniture	5 – 7 years
Building and Improvements	39 years

G. Fair Value of Financial Instruments

The Association's financial instruments consist of cash, short-term receivables and payables. The carrying value of all such instruments, considering the terms, approximates fair value at December 31, 2016.

H. Revenue Recognition

Assessments are billed on the first of each month and revenue is recognized when billed. Other income is recognized when received.

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

I. Impairment of Long-Lived Assets

The Association assesses whether there has been impairment in the value of its long-lived assets whenever events or change in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such assets are considered to be impaired, the amount of impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported as the lower of carrying amount or fair value, less costs to sell.

Management believes no impairment in the net carrying values of the property and equipment has occurred for the year presented.

2. EQUIPMENT, FURNITURE AND IMPROVEMENTS:

The following is the common property owned:

Equipment	\$ 35,025
Furniture	6,331
Garages and Storage Unit	<u>53,866</u>
	95,222
Accumulated Depreciation	<u>51,386</u>
	<u>\$ 43,836</u>

Depreciation expense for the year ended December 31, 2016 was \$880.

3. FAIR VALUE MEASUREMENT OF MARKETABLE SECURITIES:

As defined in the FASB's guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants. The FASB defines a fair value hierarchy, which prioritizes inputs, or valuation techniques by level. The valuation hierarchy is based upon transparency of inputs into the valuation of the fair value of the assets or liability at the measurements date.

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016

3. FAIR VALUE MEASUREMENT OF MARKETABLE SECURITIES (CONTINUED):

These three levels are defined as follows:

Level 1- Represented by quoted prices that are available in an active market.

Level 2 - Represented by assets and liability similar to Level 1 where quoted prices are not available, but observable, either directly or indirectly through corroboration with observable market data and estimated using pricing models or discounted cash flows.

Level 3 - Represented by financial instruments where this is limited activity or unobservable markets prices and pricing models significant to determining the fair value measurement including the reporting entity's own assumption about the market risk.

The Association investments are in short-term mutual and bond funds with Vanguard. These investments are reported at fair value based on Level 1 inputs.

The following accumulated unrealized gains are reflected as a component of fund balances at December 31, 2016:

Market Value of Marketable Securities	\$ 689,041
Cost	<u>686,449</u>
Accumulated Unrealized Gain	<u>\$ 2,592</u>

4. COMMITMENTS:

In August 2009, the Association and Comcast of Southeast Pennsylvania, LLC entered into a ten year contract to provide cable television and other premium services. The contract expires in July, 2019.

5. FEDERAL INCOME TAX:

The Association has elected to be taxed as an organization under Section 277 of the Internal Revenue Code. Under this code section, all income is taxed at corporate rates or the Association may make an election to pay income tax on nonexempt function income only, such as interest income, dividend income and capital gains, at a flat rate of 30%. The method used is the one that results in lesser tax. For the year ended December 31, 2016, income tax expense was \$6,777.

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016

6. UNINSURED CASH BALANCES:

The Association maintains its cash balances at one financial institution. This account is secured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016, there were no uninsured cash balances.

7. RETIREMENT PLAN:

The Association sponsors a salary reduction simplified employee pension plan. A salary reduction of up to 5% is allowed for eligible employees, a portion of which is matched by the Association. The retirement contribution for the year ended December 31, 2016 was \$15,000.

8. SPECIAL ASSESSMENTS:

In July 2013, the membership approved a \$500,000 special assessment for replacement of the fire alarm system, to be paid over a twenty-four month period. Prior to 2016, \$495,736 of the assessment had been collected. Work started in January 2016 and \$298,609 has been spent as of December 31, 2016. The balance of \$197,127 for the replacement of the fire alarm system is included in deferred revenue at December 31, 2016.

9. GARAGE PURCHASE:

On August 11, 2016, the Association purchased Garage 21 for \$29,286. The Association intends to use this unit as additional space to provide maintenance for Residential and Mall unit owners, and conduct business on behalf of the Association.

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2016

10. FUTURE MAJOR REPAIRS AND REPLACEMENTS (RESERVE FOR REPLACEMENTS):

Reserve for replacements is determined by Council and funded by the members' monthly assessments. In order to budget proper additions to the reserve for the replacements (as required in the by-laws), Council engaged an outside engineering firm in 2003 to estimate the remaining useful lives of the structural and mechanical components of the common property. The information for the plan was supplied by a variety of sources, including published data, local contractors, and the Association.

Accumulated cash and cash equivalents in the reserve for replacement fund, which are designated for future major repairs and replacements, totaled \$689,041 at December 31, 2016, and are held in a separate account, which generally is not available for operating purposes. These funds (except for the special assessment for the fire alarm system replacement) have not been allocated to specific components of common property, but are available in total to fund reserve expenditures. It is the Association's policy that interest earned on funds designated for future major repairs and replacements is used for reserve purposes.

Actual expenditures may vary from the estimated amounts, and these variations may be material. Therefore, amounts designated for future major repairs and replacements may not be adequate to meet future needs. If the reserves are deemed to be inadequate for any reason, Council may, at any time, levy additional assessments.

11. CONCENTRATIONS:

As of December 31, 2016, one unit owner owed a balance of \$48,886 representing 38% of the Assessments and Other Receivables, Net.

12. SUBSEQUENT EVENTS:

Subsequent events were evaluated through October 9, 2017, which is the date the financial statements were available to be issued. As of October 9, 2017, no significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

SUPPLEMENTAL INFORMATION

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of Valley Forge Towers South Condominium Association:

We have audited the financial statements of Valley Forge Towers South Condominium Association as of and for the year ended December 31, 2016, and our report thereon dated October 9, 2017, which expressed an unmodified opinion on those financial statements, appears on Page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expenses is presented for purposes of additional analysis and is not a required part of the 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.

Borislow Factor & Kaufmann, LLC

October 9, 2017

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED DECEMBER 31, 2016

SALARIES AND RELATED EXPENSES:

Salaries	\$ 333,320
Payroll Taxes	33,158
Employee Benefits	51,763
Retirement Contribution	<u>15,000</u>
 TOTAL SALARIES AND RELATED EXPENSES	 <u>433,241</u>

UTILITIES:

Cable Television	124,716
Electricity	324,259
Sewer	69,828
Water	<u>80,799</u>
 TOTAL UTILITIES	 <u>599,602</u>

MAINTENANCE:

Building Repairs	31,653
Elevator	17,245
Security Services	137,485
Maintenance Supplies	51,374
Trash Removal	26,659
Uniforms	<u>1,306</u>
 TOTAL MAINTENANCE	 <u>265,722</u>

OTHER OPERATING EXPENSES:

Community Association Fees	435,079
Depreciation	880
Insurance	129,176
Office Expenses	21,840
Payroll Service	4,290
Postage	291
Professional Fees:	
Accounting	8,400
Legal	2,822
Service Agreements	27,492
Telephone	<u>3,905</u>
 TOTAL OTHER OPERATING EXPENSES	 <u>634,175</u>

TOTAL OPERATING EXPENSES \$ 1,932,740

This Statement Must Be Read in Conjunction with the Auditors' Report
on Supplemental Information Dated October 9, 2017.