Borislow Factor & Kaufmann LLC
Certified Public Accountants

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2019

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

DECEMBER 31, 2019

I N D E X

BORISLOW FACTOR & KAUFMANN LLC
BFK
CERTIFIED PUBLIC ACCOUNTANTS

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, 2019 and the related statements of revenues, expenses and comprehensive income (loss), changes in members' equity 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, 2019, 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.

Borislow, Factor & Kaufmann, LLC

December 18, 2020

765 SKIPPACK PIKE, SUITE 100, BLUE BELL, PA 19422 | TEL: 215-643-3100 | FAX: 215-643-7860
WWW.BFKCPA.COM

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

BALANCE SHEET

DECEMBER 31, 2019

ASSETS

	Operating Fund	Capital Reserve Fund	Total
CURRENT ASSETS:			
Cash and Cash Equivalents	$ 48,236	$ -	$ 48,236
Marketable Securities	-	663,055	663,055
Assessments and Other Receivables, Net	59,771	-	59,771
Prepaid Expenses	148,007	229	148,236
Due from Operating Fund	-	187,777	187,777
Total Current Assets	256,014	851,061	1,107,075
EQUIPMENT, FURNITURE AND AND IMPROVEMENTS - Net of Accumulated Depreciation of $55,529	39,693	-	39,693
TOTAL ASSETS	$ 295,707	$ 851,061	$ 1,146,768

LIABILITIES AND MEMBERS' EQUITY

	Operating Fund	Capital Reserve Fund	Total
CURRENT LIABILITIES:			
Accounts Payable and Accrued Expenses	$ 139,810	$ 39,620	$ 179,430
Deferred Revenue	39,157	-	39,157
Due to Reserve Fund	187,777	-	187,777
Total Current Liabilities	366,744	39,620	406,364
Contract Liabilities	-	777,082	777,082
TOTAL LIABILITIES	366,744	816,702	1,183,446
MEMBERS' EQUITY:			
Members' Equity	(71,037)	21,509	(49,528)
Accumulated Other Comprehensive Income	-	12,850	12,850
Total Members' Equity	(71,037)	34,359	(36,678)
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 295,707	$ 851,061	$ 1,146,768

The Accompanying Notes Are an Integral Part of These Financial Statements

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND COMPREHENSIVE INCOME (LOSS)

YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Capital Reserve Fund	Total
REVENUES:			
Member Assessments	$1,946,596	$ -	$1,946,596
Work Order Income	14,162	-	14,162
Move In Fees and Miscellaneous Income	24,075	-	24,075
Allocation from Operating Fund		212,295	212,295
Investment Income	-	21,509	21,509
Total Revenues	1,984,833	233,804	2,218,637
EXPENSES:			
Operating Expenses	2,133,892	-	2,133,892
Income Taxes	-	1,463	1,463
Major Repairs and Replacements	-	210,832	210,832
Total Expenses	2,133,892	212,295	2,346,187
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(149,059)	21,509	(127,550)
OTHER COMPREHENSIVE INCOME - Unrealized Gain on Marketable Securities	-	12,136	12,136
COMPREHENSIVE INCOME (LOSS)	$ (149,059)	$ 33,645	$ (115,414)

The Accompanying Notes Are an Integral Part of These Financial Statements

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

STATEMENT OF CHANGES IN MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2019

	Operating Fund	Capital Reserve Fund	Total Fund Balances	Accumulated Other Comprehensive Income
MEMBERS' EQUITY AT BEGINNING OF YEAR	$ 78,022	$ -	$ 78,022	$ 714
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(149,059)	21,509	(127,550)	-
OTHER COMPREHENSIVE INCOME:				
Unrealized Gain on Marketable Securities	-	-	-	12,136
MEMBERS' EQUITY AT END OF YEAR	$ (71,037)	$ 21,509	$ (49,528)	$ 12,850

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, 2019

	Operating Fund	Capital Reserve Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess (Deficit) of Revenues over Expenses	$(149,059)	$ 21,509	$(127,550)
Adjustments to Reconcile Excess (Deficit) of Revenues over Expenses to Net Cash Provided by Operating Activities:			
Depreciation	1,381	-	1,381
Unrealized Gain on Marketable Securities	-	12,136	12,136
(Increase) Decrease in:			
Assessments and Other Receivables, Net	(6,693)	-	(6,693)
Prepaid Expenses	(16,758)	-	(16,758)
Interfund Transfers	190,456	(190,456)	-
Increase (Decrease) in:			
Accounts Payable and Accrued Expenses	9,468	(47,380)	(37,912)
Deferred Revenue	(21,937)	-	(21,937)
Contract Liabilities	-	285,925	285,925
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,858	81,734	$ 88,592
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in Marketable Securities	-	(81,734)	(81,734)
NET CASH USED BY INVESTING ACTIVITIES	-	(81,734)	(81,734)
INCREASE IN CASH	6,858	-	6,858
CASH AT BEGINNING OF YEAR	41,378	-	41,378
CASH AT END OF YEAR	$ 48,236	$ -	$ 48,236

The Accompanying Notes Are an Integral Part of These Financial Statements

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. Basis of Accounting

The financial statements are presented on the accrual basis of accounting.

C. 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.

D. 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.

(Continued)

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

E. 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.

F. 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 $13,108 that reflects management's best estimate of the amounts that will not be collected. Amounts collected but not billed are recorded as deferred revenue.

G. 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

H. Fair Value of Financial Instruments

The Association's financial instruments consist of cash, investments, short-term receivables and payables. The carrying value of all such instruments, considering the terms, approximates fair value at December 31, 2019.

(Continued)

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 of 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.

J. Contract Liabilities

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment or has received payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities as of the beginning and end of the year were $491,157 and $777,082, respectively.

K. Revenue Recognition

Assessments are billed on the first of each month and revenue is recognized when billed. Capital Reserve assessment income is not recognized as revenue until the performance obligation related to the capital expense has been satisfied.

2. UNINSURED CASH BALANCES:

The Association maintains its cash balances at several financial institutions. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to $250,000. At times, such balances may be in excess of the $250,000 Federal Deposit Insurance Corporation insurance limit.

3. NEW ACCOUNTING GUIDANCE IMPLEMENTATION:

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate-Common Interest Realty Associations, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a common interest realty association (CIRA) expects to be entitled in exchange for those goods or services.

The Association adopted the requirements of new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning members' equity. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to the accounting policies for assessment revenue and contract liabilities related to the capital reserve fund, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balances as of January 1, 2019:

Members' Equity, as previously reported, at January 1, 2019	$ 569,893
Adjustment	(491,157)
Members' Equity, as adjusted, at January 1, 2019	$ 78,736

The effect of the adoption is a decrease in 2019 assessments by $285,925 and a recording of a contract liability at December 31, 2019 of $777,082. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in the 2019 financial statements. Following are the line items from the balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance.

3. NEW ACCOUNTING GUIDANCE IMPLEMENTATION (CONTINUED):

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
Liabilities:			
Contract Liabilities	$ -	$ 777,082	$ 777,082
Total Liabilities	$ 406,364	$ 777,082	$ 1,183,446
Members' Equity:			
Members' Equity	$ 727,554	$ (777,082)	$ (49,528)
Total Members' Equity	$ 740,404	$ (777,082)	$ (36,678)

The following are the line items from the Statement of Revenues and Expenses – Capital Reserve Fund, and the Statement of Cash Flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
Revenue:			
Allocation from Operating Fund	$ 498,220	$ (285,925)	$ 212,295
Excess of Revenues over Expenses	$ 158,375	$ (285,925)	$ (127,550)
Comprehensive Income	$ 170,511	$ (285,925)	$ (115,414)
Cash Flows:			
Excess of Revenues over Expenses	$ 158,375	$ (285,925)	$ (127,550)
Increase in Contract Liabilities	$ -	$ 285,925	$ 285,925

4. EQUIPMENT, FURNITURE AND IMPROVEMENTS:

The following is the common property owned:

Equipment	$ 35,025
Furniture	6,331
Garages and Storage Unit	53,866
	95,222
Accumulated Depreciation	55,529
	$ 39,693

Depreciation expense for the year ended December 31, 2019 was $1,381.

5. 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.

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, 2019:

(Continued)

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

Market Value of Marketable Securities	$ 663,055
Cost	657,126
Accumulated Unrealized Income	$ 5,929

6. 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 expired in 2019, and was renewed through March 2023.

7. INCOME TAXES:

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, 2019, income tax expense was $1,463.

The Association's income tax filings are subject to audit by various taxing authorities. The Association's open audit periods are 2017 through 2019, and it believes their current tax positions are appropriate based on current facts and circumstances

8. 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, 2019 was $13,326.

9. 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.

(Continued)

9. FUTURE MAJOR REPAIRS AND REPLACEMENTS (RESERVE FOR REPLACEMENTS) (CONTINUED):

Accumulated marketable securities in the reserve for replacement fund, which are designated for future major repairs and replacements, totaled $663,055 at December 31, 2019, and are held in a separate account, which generally is not available for operating purposes. These funds 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.

10. SUBSEQUENT EVENTS:

Subsequent events were evaluated through December 18, 2020, which is the date the financial statements were available to be issued.

In September 2020, the Association settled two lawsuits that originated in 2018, resulting in the payment of damages by the Association of $15,000. The Association accrued the settlement payments as of December 31, 2018 as major repairs and replacement expense because both lawsuits related to the cost of repairs made to the building in 2018 due to a broken pipe. This accrual remains a liability on the balance sheet as of December 31, 2019 and is included in Accounts Payable and Accrued Expenses. The settlement payments made in 2020 were paid out of the capital reserve account.

In October 2020, the Association's leadership changed, with three new members taking over the positions of president, treasurer and general council member. The new council is committed to improving the financial processes of the association and increasing transparency around council operations and decisions. Council also hired The Galman Group in October 2020 to manage the property and handle bookkeeping and office responsibilities.

As a result of the current global pandemic, the Association and businesses in general are being affected throughout the country. The financial impact to the Association cannot be estimated at this time. Management of the association, as well as our federal, state and local governments, are addressing how to best manage the situation.

SUPPLEMENTAL INFORMATION

BORISLOW
FACTOR &
KAUFMANN
LLC
BFK
CERTIFIED PUBLIC ACCOUNTANTS

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

We have audited the financial statements of Valley Forge Towers South Condominium Association as of and for the year ended December 31, 2019, and have issued our report thereon dated December 18, 2020, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to December 18, 2020.

The Schedule of Operating Expenses on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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

December 18, 2020

765 SKIPPACK PIKE, SUITE 100, BLUE BELL, PA 19422 | TEL: 215-643-3100 | FAX: 215-643-7860
WWW.BFKCPA.COM

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED DECEMBER 31, 2019

SALARIES AND RELATED EXPENSES:	
Salaries	$ 350,338
Payroll Taxes	29,411
Employee Benefits	47,329
Retirement Contribution	13,326
TOTAL SALARIES AND RELATED EXPENSES	440,404
UTILITIES:	
Cable Television	150,582
Electricity	276,162
Sewer	75,647
Water	85,317
TOTAL UTILITIES	587,708
MAINTENANCE:	
Building Repairs	57,334
Elevator	20,851
Security Services	173,417
Maintenance Supplies	67,920
Trash Removal	35,545
Snow Removal Special Assessment	25,000
Uniforms	489
TOTAL MAINTENANCE	380,556
OTHER OPERATING EXPENSES:	
Community Association Fees	462,240
Bad Debt Expense	8,406
Depreciation	1,381
Insurance	149,740
Office Expenses	46,290
Payroll Service	2,642
Postage	265
Professional Fees:	
Accounting	9,410
Legal	4,013
Service Agreements	33,791
Telephone	7,046
TOTAL OTHER OPERATING EXPENSES	725,224
TOTAL OPERATING EXPENSES	$ 2,133,892

This Statement Must Be Read in Conjunction with the Auditors' Report on Supplemental Information Dated December 18, 2020.