VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS AND

SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of Valley Forge Towers South Condominium Association, which comprise the balance sheet as of December 31, 2022, 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.

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, 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 Valley Forge Towers South Condominium Association 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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 Valley Forge Towers South Condominium Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities 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 Valley Forge Towers South Condominium Association'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 Valley Forge Towers South Condominium Association'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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expenses on page 20 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Future Major Repairs and Replacements on pages 18-19 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.

McCarthy & Co., P.C.

September 13, 2023
Blue Bell, PA

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

BALANCE SHEET

DECEMBER 31, 2022

ASSETS

	Operating Fund	Capital Reserve Fund	Total
CURRENT ASSETS			
Cash and Cash Equivalents	$ 458,633	$ 622,184	$ 1,080,817
Marketable Securities	-	230,030	230,030
Assessments and Other Receivables, Net	16,014	-	16,014
Prepaid Expenses	115,248	-	115,248
Due from Operating Fund	-	527,185	527,185
TOTAL CURRENT ASSETS	589,895	1,379,399	1,969,294
PROPERTY AND EQUIPMENT			
Property, Improvements and Equipment	309,921	-	309,921
Less: Accumulated Depreciation	(37,466)	-	(37,466)
NET PROPERTY AND EQUIPMENT	272,455	-	272,455
OTHER ASSETS			
Operating Lease Right of Use Assets - Net of Accumulated Amortization	3,490	-	3,490
TOTAL OTHER ASSETS	3,490	-	3,490
TOTAL ASSETS	$ 865,840	$ 1,379,399	$ 2,245,239

See independent auditors' report and notes to financial statements.

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

BALANCE SHEET

DECEMBER 31, 2022

LIABILITIES AND FUND BALANCES

	Operating Fund	Capital Reserve Fund	Total
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	$ 187,568	$ 8,065	$ 195,633
Due to Capital Reserve Fund	527,185	-	527,185
Other Liabilities	53,277	-	53,277
Lease Liability - Operating - Short Term	1,127	-	1,127
TOTAL CURRENT LIABILITIES	769,157	8,065	777,222
LONG-TERM LIABILITIES			
Lease Liability - Operating - Long Term	2,363	-	2,363
Deferred Income Tax	27,445	-	27,445
Contract Liabilities	25,569	1,365,428	1,390,997
TOTAL LONG-TERM LIABILITIES	55,377	1,365,428	1,420,805
TOTAL LIABILITIES	824,534	1,373,493	2,198,027
FUND BALANCES			
Fund Balances	41,306	8,356	49,662
Accumulated Other Comprehensive (Loss)	-	(2,450)	(2,450)
TOTAL FUND BALANCES	41,306	5,906	47,212
TOTAL LIABILITIES AND FUND BALANCES	$ 865,840	$ 1,379,399	$ 2,245,239

See independent auditors' report and notes to financial statements

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2022

	Operating Fund	Capital Reserve Fund	Total
REVENUES			
Member Assessments	$ 2,266,122	$ -	$ 2,266,122
Work Order Income	66,544	-	66,544
Move In Fees and Miscellaneous Income	17,541	-	17,541
Allocation from Operating Fund	-	354,955	354,955
TOTAL REVENUES	2,350,207	354,955	2,705,162
EXPENSES			
Operating Expenses	2,211,568	-	2,211,568
Depreciation	7,947	-	7,947
Major Repairs and Replacements	-	354,955	354,955
TOTAL EXPENSES	2,219,515	354,955	2,574,470
OTHER INCOME/(EXPENSE)			
Investment Income	-	10,657	10,657
Realized (Loss) on Sale of Investments	-	(56,371)	(56,371)
Unrealized Gain on Equity Investments	-	(37)	(37)
TOTAL OTHER INCOME	-	(45,751)	(45,751)
EXCESS/(DEFICIT) OF REVENUES OVER EXPENSES BEFORE INCOME TAX	130,692	(45,751)	84,941
Income Tax	27,445	-	27,445
EXCESS/(DEFICIT) OF REVENUES OVER EXPENSES	103,247	(45,751)	57,496
OTHER COMPREHENSIVE (LOSS)			
Unrealized (Loss) on Debt Security Investments	-	(1,439)	(1,439)
COMPREHENSIVE INCOME	$ 103,247	$ (47,190)	$ 56,057

See independent auditors' report and notes to financial statements.

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2022

	Operating Fund	Capital Reserve Fund	Total Fund Balances	Accumulated Other Comprehensive Income/(Loss)
Balance at January 1, 2022	$ (61,941)	$ 54,107	$ (7,834)	$ (1,011)
Excess/(Deficit) of Revenues Over Expenses	103,247	(45,751)	57,496	-
Unrealized (Loss) on Debt Security Investments	-	-	-	(1,439)
Balance at December 31, 2022	$ 41,306	$ 8,356	$ 49,662	$ (2,450)

See independent auditors' report and notes to financial statements.

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2022

	Operating Fund	Capital Reserve Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess/(Deficit) of Revenues Over Expenses	$ 103,247	$ (45,751)	$ 57,496
Adjustments to reconcile excess of revenues over expenses to net cash (used in)/provided by operating activities:			
Depreciation	7,947	-	7,947
Amortization of Operating Right of Use Assets	1,122	-	1,122
Deferred Taxes	27,445	-	27,445
Realized Loss on Sale of Investments		56,371	56,371
Unrealized Gain on Equity Investments	-	37	37
ASSETS - (INCREASE)/DECREASE			
Assessments and Other Receivables	1,799	-	1,799
Prepaid Expenses	(1,563)	-	(1,563)
Insurance Claim Receivable	-	320,897	320,897
Other Current Assets	11,606	-	11,606
Due from Operating Fund	-	(124,957)	(124,957)
LIABILITIES - INCREASE/(DECREASE)			-
Accounts Payable and Accrued Expenses	28,690	(521,992)	(493,302)
Deferred Revenue	(32,407)	-	(32,407)
Due to Capital Reserve Fund	124,957	-	124,957
Contract Liabilities	25,569	238,034	263,603
Other Current Liabilities	53,277	-	53,277
Lease Liability - Operating	(1,122)	-	(1,122)
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	350,567	(77,361)	273,206
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Marketable Securities	-	600,000	600,000
Purchase of Marketable Securities	-	(102,343)	(102,343)
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	497,657	497,657
NET INCREASE IN CASH AND CASH EQUIVALENTS	350,567	420,296	770,863
TOTAL CASH AND CASH EQUIVALENTS AT JANUARY 1, 2022	108,066	201,888	309,954
TOTAL CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2022	$ 458,633	$ 622,184	$ 1,080,817

See independent auditors' report and notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ORGANIZATION

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 251 residential and commercial units located in King of Prussia, Pennsylvania.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Use of Estimates

The preparation of financial statements in accordance 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 revenue and expenses during the reporting period. Actual results could differ from the estimates.

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.

Cash and Cash Equivalents

Cash includes 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Member Assessments and Revenue Recognition

The Association follows Financial Accounting Standards Board (FASB) Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, 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 an entity expects to be entitled in exchange for those goods or services. The guidance also added Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, to the ASC to require the deferral of incremental costs of obtaining a contract with a customer.

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 transaction 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 capital reserve 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 rely on its management company to pursue collection from homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. At December 31, 2022, the Association reserved an allowance of $12,350 that reflects management's best estimate of the outstanding assessments that will not be collected. Amounts collected but not billed are recorded as deferred revenue. For the year ended December 31, 2022, the Association incurred $7,349 in bad debt expense.

The Association treats uncollectible assessments as bad debt. Methods, inputs and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and the residents' status as current or former owners. The balance of assessments receivable, gross of the allowance for bad debt, as of December 31, 2022 is $28,364.

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. The Association capitalizes real and personal property at cost. Normal maintenance and repairs are generally charged to operations when incurred. Depreciation is calculated using both the straight-line and accelerated methods over the estimated useful lives of the assets, which range from 5-7 years for equipment and furniture and 39 years for condominium units. Depreciation expense for the year ended December 31, 2022, is $7,947.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022.

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 capital reserve assessments. The change in contract liabilities for the year ended December 31, 2022 is as follows:

Balance – January 1, 2022	$ 1,127,394
2022 Capital Reserve Contributions	592,989
2022 Capital Reserve Expenditures	(354,955)
Balance – December 31, 2022	$ 1,365,428

Investments in Marketable Securities

The FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This standard changes the accounting related to the classification and measurement of certain equity investments. Equity investments with readily determinable fair values must be measured at fair value. All changes in fair value will be recognized in net income as opposed to other comprehensive income.

The Association classifies its marketable debt securities as available for sale. Debt securities classified as available for sale are carried in the financial statements at fair value. Realized gains and losses on available for sale debt securities are included in earnings; unrealized holding gains and losses are reported in other comprehensive income. Equity securities are carried in the financial statements at fair value, and both realized and unrealized gains and losses are included in earnings.

Accounting Standards Update

In February 2016, the FASB issued an ASU requiring lessees to recognize most leases on their Balance Sheet as operating lease liabilities with corresponding operating lease right-of-use (ROU) assets and to disclose key information about lease arrangements. Recognition of expense on the Statement of Revenue, Expenses and Comprehensive Income continues in a manner similar to previous guidance. The Association adopted this guidance on January 1, 2022.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Standards Update (Continued)

In connection with the new lease guidance, the Association completed a comprehensive review of its lease arrangements in order to determine the impact of this ASU on its financial statements and related disclosures. See Note 11 for further information.

The Association adopted Accounting Standards Codification 842 (“ASC 842” or the "new lease standard") using the modified retrospective transition approach with an adjustment that recognized "Operating Lease Right-of-use Assets," "Current Operating Lease Liabilities" and "Noncurrent Operating Lease Liabilities" on the Consolidated Balance Sheet on January 1, 2022. Comparative period information and disclosures were not revised as a result of the recognition and measurement of leases. Adoption of the new lease standard resulted in the recognition of operating lease liabilities and associated operating lease right-of-use assets of $4,412, as of January 1, 2022 on the Balance Sheet. There was no material impact to the Statement of Revenues, Expenses and Comprehensive Income or Statement of Cash Flows as a result of adoption. See Note 11 for further information on the impact of adopting the new lease standard.

As permitted under the transition guidance upon adoption of ASC 842, the Association elected the following practical expedients:

- the simplified approach to not recast comparative periods and to apply the new lease standard on a prospective basis beginning in the year of initial adoption;

- the package of practical expedients to not reassess the lease determination, lease classification or initial direct costs for leases commenced prior to adoption;

- the component election to not separate lease and non-lease components in all arrangements that contain a lease; and

- the short-term lease recognition exemption whereby lease-related assets and liabilities are not recognized for arrangements with initial lease terms of one year or less. Lease expense is recognized for these leases on a straight-line basis over the lease term.

Leases

The Association has operating and financing leases for certain equipment. The Company’s lease has remaining lease terms of 4 years as of December 31, 2022. The determination of whether an arrangement is a lease is made at the lease’s inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Association uses the implicit rate when it is readily determinable. Since most of the Association's leases do not provide an implicit rate, the Company uses its risk-free rate, as permitted by *Accounting Standards Update No. 2021-09, Leases (Topic 842): Discount Rates for Lessees That Are Not Public Business Entities*, based on the information available at the commencement date in determining the present value of lease payments. Operating and financing lease ROU assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Association's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise the option As of December 31, 2022 the Association has not entered into any lease agreements with extension options.

NOTE 3 – 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, 2022, prepaid income tax was $0.

The Association's policy is to record interest expense or penalties related to income tax in operating expenses. For the year ended December 31, 2022 no interest or penalties were paid or accrued.

NOTE 4 - CONCENTRATIONS OF CREDIT RISK

The Association maintains its cash balances in three financial institutions. The balances maintained in checking and savings accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Association's capital reserve fund cash is held in an investment money market account, which is not insured by the FDIC. At December 31, 2022, the Association had uninsured cash balances of $123,184.

NOTE 5 – CONDOMINIUM UNITS, EQUIPMENT, FURNITURE AND IMPROVEMENTS

The following is the common property owned as of December 31, 2022:

Garages and Storage Unit	$ 53,866
Condominium Units	256,055
	309,921
Accumulated Depreciation	(37,466)
	$ 272,455

NOTE 6 –COMMON PROPERTY - CONDOMINIUM UNITS

In January 2020, the Association purchased commercial units 115 and 116 for $256,055 (including all related settlement costs), using Capital Reserve funds. The Association intends to keep one unit to use as an office for the maintenance staff. The Association intended to sell the other unit, and has listed it for sale. However, no offers were received. The member assessments and the other costs of maintaining these units have been absorbed by the homeowners. The Association's council plans to replenish the Capital Reserve Fund for the cost to purchase these units.

NOTE 7 – COMMITMENTS

In August 2019, the Association and Comcast of Southeast Pennsylvania, LLC entered into a contract to provide cable television and other premium services to the building. The contract expires in March 2023. Monthly payments are variable based on rates that are set by Comcast and updated periodically.

NOTE 8 – MARKETABLE SECURITIES

Debt securities categorized as available-for-sale are stated at fair value, with unrealized gains and losses reported in fund balance as accumulated other comprehensive income. Equity and other securities with readily determinable fair value are carried in the financial statements at fair value, and both realized and unrealized gains and losses are included in earnings.

Cost and fair value of marketable debt and equity securities at December 31, 2022 are as follows:

Fair Value – Net Income:

Investment	Cost	Estimated Fair Value	Unrealized Loss
Equity	$ 69,745	$ 69,708	$ (37)

Fair Value – Other Comprehensive Income:

Investment	Cost	Estimated Fair Value	Unrealized Loss
Debt	$ 162,772	$ 160,322	$ (2,450)

The fair value of all investments held by the Company totaled $230,030 at December 31, 2022.

The change in net unrealized holding gains and losses on debt securities available for sale in the amount of ($1,439) has been charged to other comprehensive loss for the year ended December 31, 2022. The change in net unrealized holding gains and losses on equity and other securities in the amount of ($37) has been included in excess of revenues over expenses for the year ended December 31, 2022. All of the unrealized gains and losses recognized during the year ended December 31, 2022 are for equity securities still held at year end.

The fair value of all debt and equity securities has been measured on a recurring basis using Level 1 inputs, which are based on unadjusted quoted market prices within active markets, in accordance with ASC 820, Fair Value Measurements and Disclosures. There have been no changes in valuation approaches or techniques and related inputs.

NOTE 9 – FAIR VALUE MEASUREMENT

The Association defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The Association has no level 2 investments as of December 31, 2022.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs. The Association has no level 3 investments as of December 31, 2022.

The Association's adoption of ASC 820 did not have a material impact on our financial statements. The Association has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

NOTE 10 – 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, 2022 was $5,614.

NOTE 11 – LEASES

The Association has an operating lease arrangement related to equipment, which generally have terms of five years. The Company assesses whether an arrangement is a lease, or contains a lease, upon inception of the related contract.

The following table summarizes the location of lease related costs in the income statement for the year ended December 31, 2022:

Lease Cost	Classification	Amount
Operating Lease Cost:		
Fixed Lease Costs	Operating Expenses/ Office Expenses	$ 1,140
Net Lease Cost		$ 1,140

NOTE 11 – LEASES (CONTINUED)

The following summarizes the weighted average remaining lease term and discount rate as of December 31:

	Weighted Average Remaining Lease Term	Weighted Average Discount Rate
Operating Leases	3.09 Years	0.46%

The maturities of operating lease liabilities as of December 31, 2022 were as follows:

Year Ended December 31,	Operating
2023	$ 1,140
2024	1,140
2025	1,140
2026	94
Total future minimum lease payments	3,514
Less: Interest	(24)
Present Value of Lease Liabilities	$ 3,490

The following summarizes cash flow information related to leases for the year ended December 31:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 1,140
Lease assets obtained in exchange for lease obligations:	
Operating Leases	$ 4,612

NOTE 12– FUTURE MAJOR REPAIRS AND REPLACEMENTS (RESERVE FOR REPLACEMENTS)

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate $1,365,428, and are presented on the accompanying balance sheet as a contract liability at December 31, 2022, are held in separate accounts and are generally not available for operating purposes. These funds have not been allocated to specific components of common property, but are available in total to fund major repairs and replacements.

The Association engaged an independent engineer who conducted a study in August 2021 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs.

NOTE 12– FUTURE MAJOR REPAIRS AND REPLACEMENTS (RESERVE FOR REPLACEMENTS) (CONTINUED)

If additional funds are needed, however, the Association has the right, subject to Council approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 13 – INSURANCE CLAIM AND RELATED RECEIVABLE

In June 2020, the building experienced significant storm damage, including the structure of the roof, the lightening rod system, the heating, ventilation and air conditioning units that were stationed on the roof, and various other structural elements. During 2020, Council and the Management Company worked with consultants to determine the extent of the damage, and to pursue an insurance claim that would maximize its ability to recover the costs of the damage. The total amount of insurance proceeds received is $1,328,446, which excluded the estimated recoverable depreciation on the claim. As of December 31, 2022, costs of $1,633,002 were incurred to repair the damage.

According to ASC 610-30, *Revenue Recognition – Other Income – Gains and Losses on Involuntary Conversions*, the casualty loss should be recognized in the year in which the loss was incurred. Generally, a full replacement of property requires a write-off of the asset and accumulated depreciation, and the addition of the new asset for the replacement cost. The Association does not consider the building structure or its components fixed assets, as discussed in Note 2, and should recognize the cost incurred to replace the property, net of insurance proceeds, as a capital reserve expense in the period the expenses are incurred.

As of December 31, 2022 the work is complete. The excess of repair costs over insurance proceeds in the amount of $304,551 was recognized as a capital reserve expense during the year ended December 31, 2022.

NOTE 14 – SUBSEQUENT EVENTS

Management has considered subsequent events through September 13, 2023, which is the date the financial statements were available to be issued. Management has determined there are no material subsequent events that require disclosure in accordance with generally accepted accounting principles as practiced in the United States.

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS

YEAR ENDED DECEMBER 31, 2022

Kipcon Incorporated conducted a study in August 2021 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 2% and interest at 1%, net of taxes, on amounts funded for future major repairs and replacements.

The following table is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs	2023 Funding Requirement
Waterproofing			
Main Roof	20	$ 560,000	$ 28,000
Lower Roof	4	85,000	13,909
Garage Roofs	14	562,500	35,753
Brick Repointing (50%)	12	817,000	55,084
Garage Brick Repointing (50%)	12	32,500	2,191
Exposed Aggregate Façade (50%)	20	630,000	25,717
Exterior			
Balcony Contingency Fund	10	1,350,000	105,850
Balcony Railings	15	396,000	20,700
Rooftop Railings	15	75,600	3,952
Interior			
Carpeting	7	298,243	34,940
Porcelain Tile	20	122,053	5,224
Vinyl Tile	15	10,929	650
Tile Flooring	20	23,783	1,086
Common Aread Furnishing	5	50,000	7,841
Elevator Cab Refurbishment	5	30,000	4,704
Wallpaper	7	250,000	29,288
Electrical			
Interior Lighting	10	85,000	6,665
Exterior Lighting	10	10,000	784
Fire Safety Equipment	10	110,000	8,625
Security System	8	25,000	2,495
Intercom System	8	15,000	1,497
Breaker Closet Replacement Fund	3	670,000	141,355

See independent auditors' report and notes to financial statements.

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

YEAR ENDED DECEMBER 31, 2022

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs	2023 Funding Requirement
Mechanical			
Elevator (Passengers)	20	613,981	26,280
Elevator (Service)	20	309,162	13,233
Heat Pump (1st Floor)	12	44,189	3,046
Heat Pumps (Units)	1	184,122	184,122
Hot Water Heater	1	20,462	20,462
Trash Compactor	2	22,506	6,782
Portable A/C Units	7	5,000	550
Transformers	25	300,000	9,409
Generator	20	96,936	4,149
Entry Air Curtain	10	4,000	314
Sprinkler System	10	20,000	1,568
Rooftop Unit	10	40,000	3,136
		$ 7,868,966	$ 809,361

See independent auditors' report and notes to the financial statements

VALLEY FORGE TOWERS SOUTH CONDOMINIUM ASSOCIATION

SCHEDULE OF OPERATING EXPENSES

YEAR ENDED DECEMBER 31, 2022

SALARIES AND RELATED EXPENSES		
Salaries	$	112,188
Payroll Taxes		8,045
Employee Benefits		34,960
Retirement Contribution		5,614
TOTAL SALARIES AND RELATED EXPENSES		160,807
UTILITIES		
Cable Televsion		285,914
Electricity		220,848
Sewer and Water		214,553
TOTAL UTILITIES		721,315
MAINTENANCE		
Building Repairs		55,829
Elevator		19,687
Security Services		216,611
Trash Removal		61,113
TOTAL MAINTENANCE		353,240
OTHER OPERATING EXPENSES		
Community Associations Fees		490,345
Bad Debt Expense		7,349
Insurance		131,359
Management Fees		264,523
Office Expenses		14,161
Payroll Service		1,707
Professional Fees		
Accounting		10,940
Legal		4,357
Other Professional Fees		12,897
Real Estate and Other Taxes		3,577
Service Agreements		26,565
Telephone		8,426
TOTAL OTHER OPERATING EXPENSES		976,206
TOTAL OPERATING EXPENSES	$	2,211,568

See independent auditors' report and notes to the financial statements