



PENTHOUSE TOWERS
ASSOCIATION, INC.

March 4, 2022

3101 SOUTH OCEAN BOULEVARD (A1A)
HIGHLAND BEACH • FLORIDA 33487

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Dear Owners,

Thank you for your patience on the 2021 audit, it took a little longer due to full review on entire concrete project. Please find attached the final audit review for 2021. No discrepancies were found, and all money billed and received has been accounted for.

The final accounting of the 2021 Actual Operating Expenses exceeded the 2021 Budget resulting in a shortfall of \$81,770. The major categories that caused this increase included landscaping, building repairs/maintenance, water and sewer, building insurance, legal and wages.

We need to replace the money that we are short for the 2021 year in order to keep our financial accounting accurate. The Board does not want to take money from the Replacement Fund. Due to not funding reserves, we feel that this fund needs to be built up and have at least \$150,000 to \$200,000 for emergencies. Lending requirements have dramatically changed, and we have the Town of Highland Beach Re-certifications (both structural and electric) which we need to complete this year.

A Special Members Meeting will be held on April 5, 2022 at 4:30 pm regarding a Special Assessment to make up the \$81,770 with a one-time cost as follows:

2 Bedroom Units - \$601.00
1 Bedroom Units - \$481.00
3 Bedroom Units - \$721.00

2021 Budget Shortfall Money will be due on May 15, 2022.

We feel that the budget prepared for 2022, which was calculated last October 2021 and based upon actual's to-date is sufficient for our 2022 Operating Expenses. As you know we had a significant increase to our

2022 budget. The biggest portion of the 2022 budget increase was building insurance, water and sewer and building repairs maintenance and supplies.

This has been a challenging year for all of us, but I think we can all agree that our building looks extremely nice, and we have gotten somewhat ahead of the curve from a code perspective as a result of this work being completed. Penthouse Towers is the best beach building in Highland Beach.

Sincerely,

A handwritten signature in blue ink, appearing to read "Phil Garretson", with a stylized, cursive script.

Phil Garretson
President



PENTHOUSE TOWERS ASSOCIATION, INC.

Financial Statements and
Supplementary Information

For The Year Ended December 31, 2021

PENTHOUSE TOWERS ASSOCIATION, INC.

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Penthouse Towers Association, Inc

I have audited the accompanying financial statements of Penthouse Towers Condominium Association, Inc., which comprise the balance sheet as of December 31, 2021, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Penthouse Towers Association, Inc. as of December 31, 2021, 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.

Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expenses - Budget and Actual on page 10 and supplementary Schedule of Changes in Replacement Fund Balances on page 11 are presented for purposes of additional analysis and are 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 (except for the budget information, which was compiled without audit or review from information that is the representation of management, on which I do not express an opinion or any other form of assurance) 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Future Major Repairs and Replacements

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information, because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Raisa Pakanati, CPA, MBA

Orlando, Florida

February 22, 2022

PENTHOUSE TOWERS ASSOCIATION, INC.
BALANCE SHEET
December 31, 2021

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash, including interest-bearing deposits	\$ 113,351	255,699	\$ 369,049
Assessments receivable	836	65,044	65,880
Due from Operating fund		129,679	129,679
Prepaid insurance	91,065		91,065
Prepaid Fed income tax	392		392
Prepaid expenses	7,432		7,432
TOTAL ASSETS	<u>\$ 213,076</u>	<u>\$ 450,422</u>	<u>\$ 663,498</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 5,773	-	5,773
Accrued expenses	10,549	47,000	57,549
Assessments received in advance	82,836		82,836
Due to Replacement fund	129,679		129,679
Payroll liabilities	8,040		8,040
Total Liabilities	<u>236,877</u>	<u>47,000</u>	<u>283,877</u>
<u>FUND BALANCES (DEFICIT)</u>	<u>(23,801)</u>	<u>403,422</u>	<u>379,621</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 213,076</u>	<u>\$ 450,422</u>	<u>\$ 663,498</u>

See Accompanying Notes to Financial Statements

PENTHOUSE TOWERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
Year Ended December 31, 2021

	2021		
	Operating Fund	Replacement Fund	Total
REVENUES			
Maintenance assessments	\$ 881,574	\$ 62,875	\$ 944,449
Special assessments		1,150,424	1,150,424
Apartment care	11,675		11,675
Leases & Sales	13,737		13,737
Laundry income		6,945	6,945
Interest Income	484	436	920
Other income	2,778	3,868	6,646
Total Revenues	910,248	1,224,548	2,134,796
EXPENSES			
Employee Expenses	288,001		288,001
Contracts	161,885		161,885
Utilities	162,968		162,968
Insurance	255,914		255,914
Repairs and Maintenance	85,341		85,341
Administrative	37,909		37,909
Major repairs and replacements	-	1,245,995	1,245,995
Total Expenses	992,018	1,245,995	2,238,013
EXCESS/(DEFICIENCY) OF REVENUE OVER EXPENSES	(81,770)	(21,447)	(103,217)
BEGINNING FUND BALANCES	57,969	424,869	482,838
ENDING FUND BALANCES (DEFICIT)	\$ (23,801)	\$ 403,422	\$ 379,621

See Accompanying Notes to Financial Statements

PENTHOUSE TOWERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2021

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (Deficiency) of Revenue Over Expenses	\$ (81,770)	\$ (21,447)	\$ (103,217)
Adjustments to reconcile deficiency of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	10,991	21,114	32,105
Due from Operating fund	-	(129,440)	(129,440)
Prepaid insurance	(3,807)	-	(3,807)
Prepaid Fed income tax	(225)	-	(225)
Prepaid expenses	1,554	-	1,554
Increase (decrease) in:			
Accounts payable	(4,800)	-	(4,800)
Accrued expenses	2,413	-	2,413
Assessments received in advance	(43,087)	-	(43,087)
Due to Replacement fund	129,440	-	129,440
Payroll liabilities	(3,727)	-	(3,727)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,982</u>	<u>(129,774)</u>	<u>(122,791)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,982	(129,774)	(122,791)
CASH AND CASH EQUIVALENTS			
Beginning of year	106,368	385,473	491,840
END OF YEAR	<u>\$ 113,350</u>	<u>\$ 255,699</u>	<u>\$ 369,049</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	\$ 1,425		\$ 1,425

See Accompanying Notes to Financial Statements

PENTHOUSE TOWERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 – NATURE OF ORGANIZATION

Penthouse Towers Association, Inc. is incorporated as a not-for-profit corporation in the State of Florida on September 2, 1970. The Association is responsible for the operation and maintenance of the common property of the Penthouse Towers condominium. Penthouse Towers condominium consists of 136 residential units located in Highland Beach, 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 February 22, 2022, 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 governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

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

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

Disbursements from the operating fund are generally at the discretion of the Board of Directors. Disbursements from the replacement funds may be made only for their designated purposes.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include demand deposits and money market funds.

Interest Earned

The Association's policy is to allocate interest to the fund that earns the interest with income taxes being paid from the operating fund.

PENTHOUSE TOWERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

Member Assessments

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Quarterly member assessments are reported in the Association's financial statements in the period that they are assessed as revenue.

Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are forty-five days or more delinquent. Any excess assessments at year-end are retained by the Association for use in the succeeding year. On December 31, 2021, the Association had delinquent assessments of \$65,879.96. It is the opinion of the board of directors that the Association will ultimately prevail against homeowners with delinquencies and, accordingly, no allowance for uncollectible accounts is deemed necessary.

Income Taxes

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2021. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, nonmembership transactions, and capital transactions.

For federal tax purposes, the Association is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files Form 1120, which has flat effective tax rates of 21% that is applied to net taxable income.

For state income tax purposes, the Association also is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses. Any net membership income is not subject to taxation. The tax rate that is applied to net taxable income is 5.5 %.

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. It is the Association's policy that personal properties are expensed in the operating fund and are not included as assets in the financial statements.

The Association's property is subject to a recreation lease with the Developer (lessor) for beachfront

PENTHOUSE TOWERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

property adjoining the condominium for a period of ninety-nine (99) years, beginning October 1, 1970, and ending October 31, 2069. The recreation lease provides for quarterly payments directly to the lessor by each unit owner of \$150 due the first day of each January, April, July, and October. The lease payments are subject to change according to the terms of the recreation lease included in the condominium documents. Those payments are the responsibility of the unit owners and are not reflected in these financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 4 – UNINSURED CASH BALANCES

The Association has interest-bearing deposits in two financial institutions located in Delray Beach, Florida, and Winter Haven, Florida. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. The uninsured balance is approximately \$38,467.83 on December 31, 2021.

NOTE 5 – ASSESSMENTS RECEIVED IN ADVANCE

Assessments received in advance for \$82,836 consisted of 2022 maintenance assessments received by the Association before January 1, 2022.

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES

As shown in the accompanying financial statements, Interfund Receivables and Payables (Due from / Due to) for \$129,679 represent balances that the Operating fund owed to the Replacement fund on December 31, 2021.

During the year ended December 31, 2021, the Association collected \$1,224,548 in funds, designated for future major repairs and replacements, which are reported as revenue of the replacement fund in the accompanying financial statements. As of December 31, 2021, funds in the amount of \$129,679 were not transferred/deposited to the replacement fund.

NOTE 7 – INSURANCE SETTLEMENT

In April 2021, the Association received \$120,787 from Travelers insurance company for damages sustained to the electrical equipment on 12/15/2020. The actual necessary electrical repairs amounted to \$124,597. These repairs were paid from replacement fund monies and recognized as replacement fund expenditures net of insurance proceeds in the accompanying financial statements.

PENTHOUSE TOWERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 8 – UNASSERTED / ASSERTED CLAIMS

On May 11, 2021, the Association received a collection claim for \$4,035 from Collection Experts, Inc., which represents Granite Communications. This claim has reference to fees for telecommunication services allegedly incurred by the Association during the Calendar year 2020. In December 2020, the Association accrued \$1,000 pertaining to probable telecommunication fees incurred during the year.

On May 12, 2021, the Association repudiated the asserted claim in its entirety. As of December 31, 2021, the claim has not been closed, and it is possible that the Association may incur legal costs to resolve this claim. No legal expenses have been accrued on December 31, 2021

NOTE 9 – CONTINGENCIES

As shown in the accompanying financial statements, the Association's operating expenses exceeded its revenue by \$81,770 during the year ended December 31, 2021, and as of that date, the Operating fund's total liabilities exceeded its total assets by \$23,801. Those factors, as well as the negative cash flows, create uncertainty about the Association's ability to meet imminent financial obligations.

The Board of Directors of the Association has evaluated these conditions and intends to determine a plan of action, which would alleviate this uncertainty, at the BOD meeting in March 2022.

NOTE 10 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

By Florida Statute, generally, all major repairs and replacements over \$10,000 must be funded over the estimated useful lives of the components, based on the estimates of current replacement costs and considering amounts previously accumulated in the fund. The Association's board of directors conducted an informal study during 2021 to estimate the remaining useful lives and the replacement costs of the common property components. The membership, nevertheless, is allowed by vote, at a meeting of a majority of voting interests, to waive reserve funding. A majority of voting interests elected not to fund estimated reserves for 2021 in the amount of \$628,892. The Association is funding major repairs or replacements through special assessments on an as-needed basis.

NOTE 11 – SPECIAL ASSESSMENTS

In 2021, the Association collected an additional special assessment of 1,150,424 to be used for concrete restoration and painting. As of December 31, 2021, funds in the amounts of \$1,229,183 were used.

During 2017, the membership approved by more than two-thirds of voting interests, a special assessment for \$1,495,000 to be used for the elevator refurbishment. As of December 31, 2021, funds were used in full; however, the Association retains \$47,000 that is payable upon satisfactory completion by the contractor on its deficiency list.

The Schedule of Changes in Replacement Fund Balance on page 11 shows the detail of the special assessment funds.

PENTHOUSE TOWERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events were evaluated through February 22, 2022, which is the date the financial statements were available to be issued.

In January 2022, the Association received a report from its Building Committee, which is working with engineers to meet the need for re-certification of the building's structural and electrical integrity, which could bear significant expenditures. The Committee's analyses are in their early stages, and the outcome cannot be determined at this time.

SUPPLEMENTARY INFORMATION

PENTHOUSE TOWERS ASSOCIATION, INC.
SCHEDULE OF OPERATING EXPENSES - BUDGET AND ACTUAL
Year Ended December 31, 2021

	<u>Actual</u>	<u>Budget</u>	<u>(Over) / Under</u>
Employee Expenses:			
6308 · Salaries and Wages	245,011	231,098	(13,913)
6355 · Health Insurance	19,716	21,313	1,597
6360 · Workers Comp. Insurance	4,725	4,707	(18)
6310 · Payroll taxes	18,548	21,876	3,328
	<u>288,001</u>	<u>278,994</u>	<u>(9,007)</u>
Contracts:			
6020 · Beach cleaning	3,643	4,900	1,257
6152 · Cable television	81,528	84,626	3,098
6014 · Elevator maint & service	7,905	18,000	10,095
6016 · Fire protection	11,241	18,700	7,459
6013 · Lawn & landscaping	36,219	25,800	(10,419)
6012 · Refuse removal	15,755	15,752	(3)
6011 · Pest control	5,595	7,700	2,105
	<u>161,885</u>	<u>175,478</u>	<u>13,593</u>
Utilities:			
6157 · Bottled gas & Natural Gas	10,060	12,300	2,240
6156 · Electric	43,968	43,450	(518)
6154 · Sewer	44,206	33,050	(11,156)
6153 · Telephone	5,262	6,500	1,238
6151 · Water	59,473	54,000	(5,473)
	<u>162,968</u>	<u>149,300</u>	<u>(13,668)</u>
Insurance:			
6192 · Condo Pkg Policy Bldg & Liab	238,670	213,984	(24,686)
6191 · Flood Insurance	17,245	17,896	651
	<u>255,914</u>	<u>231,880</u>	<u>(24,034)</u>
Repairs and Maintenance:			
6010 · A/C & cooling towers	6,860	7,500	640
6002 · Bldg maint repairs & supp	47,846	24,000	(23,846)
6018 · Rental unit maint & repairs	376	1,000	624
6003 · Electric/plumbing repairs	20,757	13,400	(7,357)
6006 · Washer/Dryer Repairs	3,263	2,075	(1,188)
6004 · Pool maint & supplies	6,239	9,000	2,761
	<u>85,341</u>	<u>56,975</u>	<u>(28,366)</u>
Administrative:			
6203 · Audit & Income taxes	8,618	7,025	(1,593)
6205 · Bookkeeping & other	4,425	-	(4,425)
6202 · Legal/Assoc	13,473	6,000	(7,473)
6212 · License, Fee, Corp Tax	2,881	3,850	969
6207 · Office general	8,512	6,900	(1,612)
	<u>37,909</u>	<u>23,775</u>	<u>(14,134)</u>
Total Operating Expenses	<u>\$ 992,018</u>	<u>\$ 916,402</u>	<u>(75,616)</u>

PENTHOUSE TOWERS ASSOCIATION, INC.
 SUPPLEMENTARY SCHEDULE OF CHANGES IN REPLACEMENT FUND BALANCES
 December 31, 2021
 (UNAUDITED)

	<u>Begin. Fund Balance</u>	<u>Interest</u>	<u>Late payment Charges</u>	<u>Additions to Fund</u>	<u>Charges to Funds</u>	<u>Endin. Fund Balance</u>
Replacement Fund						
Deferred Maintenance	\$ 189,283	\$ 168	-	\$ 62,875	\$ 12,219	\$ 240,107
SA - Concrete restor. & Painting	214,335	169	3,868	1,150,424	1,229,183	139,613
SA - Elevators (\$47K retainer)	68	71	-			139.05
Washer / Dryer	21,182	28	-	6,945	4,592	23,563
TOTAL REPLACEMENT FUNDS	<u>\$ 424,869</u>	<u>\$ 436</u>	<u>\$ 3,868</u>	<u>\$ 1,220,244</u>	<u>\$ 1,245,995</u>	<u>\$ 403,422</u>

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
 December 31, 2021
 (UNAUDITED)

The Board of Directors conducted an informal study during 2021 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. At a duly called membership meeting, the members elected not to fund the amount recommended by the study. Accordingly, no amounts have been included in the 2021 budget. The following table is based on the informal study and presents significant information about the components of common property:

<u>Common Area Component</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Current Replacement Cost</u>	<u>2021 Funding Requirement</u>	<u>Components of Fund Balance at Dec. 31, 2021</u>
Plumbing	16	\$ 285,000	\$ 17,813	-
Pool	13	99,000	7,615	-
Roof	14	350,000	25,000	-
Paving	3	50,000	16,667	-
Painting	7	350,000	50,000	-
Elevators	23	1,250,000	54,348	-
Generator	25	155,000	6,200	-
Concrete Restoration	10	1,200,000	120,000	-
Club House	2	250,000	125,000	-
Lighting	4	25,000	6,250	-
Cooling Towers	1	200,000	200,000	-
		<u>\$ 4,214,000</u>	<u>\$ 628,892</u>	<u>-</u>