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INDEPENDENT AUDITORS' REPORT

**Board of Directors and Unit Owners
Penthouse Towers Association, Inc.**

Dear Members:

Opinion

We have audited the accompanying financial statements of Penthouse Towers Association, Inc., which comprise the balance sheet as of December 31, 2022, 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.

In our 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, 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 Penthouse Towers Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Effect of Adopting New Accounting Standard

As discussed in Note 4 to the financial statements, as of January 1, 2022, the Association adopted the new revenue guidance FASB ASC 606, *Revenue from Contracts with Customers*, the first applicable year. This new standard supersedes accounting standards that previously existed under GAAP and provides a comprehensive principle-based framework for recognizing revenue. Our opinion is not modified with respect to that matter.

Effect of Adopting New Accounting Standard

As discussed in Note 3 to the financial statements, as of January 1, 2022, the Association adopted FASB ASC 842, *Leases*, the first applicable year which supersedes existing accounting standards for leases and requires associations to account for leases as either finance leases or operating leases and to recognize right-of-use lease assets and corresponding lease liabilities on the balance sheet for all leases other than leases with terms of 12 months or less. Our opinion is not modified with respect to that matter.

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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 Penthouse Towers Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 Penthouse Towers Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Penthouse Towers Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements 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.

Report on Supplementary Information

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Detailed Statement of Operating Revenues and Expenses Budget Comparison is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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.

Gerstle, Rosen & Goldenberg, P.A.

Gerstle, Rosen & Goldenberg, P.A.
Certified Public Accountants
Boca Raton, Florida

August 9, 2023

PENTHOUSE TOWERS ASSOCIATION, INC.

BALANCE SHEET

December 31, 2022

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
ASSETS			
Cash and Cash Equivalents	\$ 226,330	\$ 80,982	\$ 307,312
Accounts Receivable	2,551		2,551
Prepaid Expenses	3,040		3,040
Prepaid Insurance	91,802		91,802
Prepaid Taxes	1,428		1,428
TOTAL ASSETS	<u>\$ 325,151</u>	<u>\$ 80,982</u>	<u>\$ 406,133</u>
LIABILITIES AND FUND BALANCES			
Accounts Payable	\$ 4,000	\$	\$ 4,000
Accrued Expenses	1,409		1,409
Accounts Payable - Elevator		47,000	47,000
Prepaid Maintenance Fees	82,676		82,676
Deferred Contingency Fund	290,139		290,139
Contract Liability - Deferred Reserves		33,735	33,735
TOTAL LIABILITIES	<u>378,224</u>	<u>80,735</u>	<u>458,959</u>
Fund Balances	<u>(53,073)</u>	<u>247</u>	<u>(52,826)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 325,151</u>	<u>\$ 80,982</u>	<u>\$ 406,133</u>

The Accompanying Notes Are An Integral Part Of This Financial Statement.

PENTHOUSE TOWERS ASSOCIATION, INC.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES**

Year Ended December 31, 2022

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
REVENUES			
Maintenance Fees	\$ 1,069,368	\$ 24,975	\$ 1,094,343
Special Assessment - Concrete/Painting		129,580	129,580
Special Assessment - Electrical	136,323		136,323
Special Assessment - Budget Shortfall	81,739		81,739
Apartment Rental Income	6,800		6,800
Interest Income	1,388	247	1,635
Leases & Sales	3,900		3,900
Owner - Admin, Int, Late, Other, NSF Fees	2,912		2,912
Owner Apartment Care & Call Out Fees	11,200		11,200
Laundry Income - Token Sales	8,085		8,085
TOTAL REVENUES	<u>1,321,715</u>	<u>154,802</u>	<u>1,476,517</u>
EXPENSES			
Repairs & Maintenance	259,570		259,570
Utilities	273,554		273,554
Condominium Insurance	348,370		348,370
General & Administrative	38,719		38,719
Payroll	271,946		271,946
Employee Insurance	23,471		23,471
Other	136,357		136,357
Reserve Expenditures		154,555	154,555
TOTAL EXPENSES	<u>1,351,987</u>	<u>154,555</u>	<u>1,506,542</u>
EXCESS REVENUES (OVER EXPENSES)	(30,272)	247	(30,025)
FUND BALANCES - BEGINNING	(23,801)	403,422	379,621
INTERFUND TRANSFER	290,139	(290,139)	0
PRIOR PERIOD ADJUSTMENT	1,000		1,000
CONTRACT LIABILITY RECLASSIFICATION	(290,139)	(113,283)	(403,422)
FUND BALANCES - ENDING	<u>\$ (53,073)</u>	<u>\$ 247</u>	<u>\$ (52,826)</u>

The Accompanying Notes Are An Integral Part Of This Financial Statement.

PENTHOUSE TOWERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2022

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
EXCESS REVENUES (EXPENSES)	\$ (30,272)	\$ 247	\$ (30,025)
ADJUSTMENTS TO RECONCILE EXCESS REVENUES (EXPENSES) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Contract Liability Reclassification	(290,139)	(113,283)	(403,422)
Prior Period Adjustment	1,000		1,000
DECREASE (INCREASE) IN ASSETS:			
Accounts Receivable	(1,715)	65,044	63,329
Prepaid Expenses	4,392		4,392
Prepaid Insurance	(737)		(737)
Prepaid Taxes	(1,036)		(1,036)
Due To/From Funds	(129,679)	129,679	0
INCREASE (DECREASE) IN LIABILITIES:			
Accounts Payable	(1,773)		(1,773)
Accrued Expenses	(9,140)	(47,000)	(56,140)
Payroll Taxes Payable	(8,040)		(8,040)
Accounts Payable - Elevator		47,000	47,000
Prepaid Maintenance Fees	(160)		(160)
Deferred Contingency Fund	290,139		290,139
Contract Liability - Deferred Reserves		33,735	33,735
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(177,160)</u>	<u>115,422</u>	<u>(61,738)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interfund Transfer	290,139	(290,139)	0
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>290,139</u>	<u>(290,139)</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH	112,979	(174,717)	(61,738)
CASH AND CASH EQUIVALENTS			
AT BEGINNING OF PERIOD	<u>113,351</u>	<u>255,699</u>	<u>369,050</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>\$ 226,330</u></u>	<u><u>\$ 80,982</u></u>	<u><u>\$ 307,312</u></u>

The Accompanying Notes Are An Integral Part Of This Financial Statement.

PENTHOUSE TOWERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

1. ORGANIZATION

Penthouse Towers Association, Inc. is a statutory condominium association incorporated on September 3, 1970 in the State of Florida. The Association is responsible for the operation and maintenance of the common property of Penthouse Towers Association, Inc. and consists of 136 units located in Highland Beach, Florida.

2. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 9, 2023, the date that the financial statements were available to be issued.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Association uses the accrual method of accounting, i.e., revenues are recognized as earned and expenses are recorded in the period in which they are incurred.

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.

Member Assessments

Association members are subject to quarterly 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 are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

PENTHOUSE TOWERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
Continued

December 31, 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Member Assessments (Continued)

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments plus late fees, if applicable from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent according to its collection policy. Management determines the allowance for doubtful accounts by identifying troubled accounts through periodic review of accounts receivable aging schedules. No allowance for uncollectible accounts is deemed necessary. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$65,880 and \$2,551, respectively.

Cash and Cash Equivalents

For presentation purposes, cash and cash equivalents consists of checking and money market accounts.

Property and Equipment

Real property and common area property 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 owners in common and not by the Association. Capital Expenditures are charged to the designated funds. Generally, personal property purchased by the Association is expensed.

Use of Estimates

The Association uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Fair Value Measurement

Under FASB ASC 820, *Fair Value Measurements and Disclosures*, fair value is defined 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 on the measurement date.

The Association has determined that there was no material difference between the carrying value and fair value of its financial assets and liabilities at December 31, 2022; therefore, no adjustment for the effect of FASB ASC 820 was made to the Association's financial statements at December 31, 2022.

PENTHOUSE TOWERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS Continued

December 31, 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of FASB ASC 842 - Leases

Effective January 1, 2022, the Association adopted FASB ASC 842, Leases. The Association determines if an arrangement contains a lease at inception based on whether the Association has the right to control the asset during the contract period and other facts and circumstances. The Association elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification. The Association has elected the short-term lease practical expedient related to leases of various equipment, which require that lease payments be expensed on a straight-line basis over the lease term. The adoption of FASB ASC 842 did not have a material impact on the Association's results of operations or cash flows.

4. FUTURE MAJOR REPAIRS AND REPLACEMENTS

Florida Statutes provide that each proposed budget include provisions for reserves for capital improvements and deferred maintenance. These accounts, if adopted, are restricted to their intended purpose unless modified by a qualified unit owner vote. In addition, any special assessments adopted are also restricted to their specific purpose.

At a duly constituted meeting, the Association elected to waive reserve funding for the current fiscal year. The proposed budget included provisions for reserves for capital improvements and deferred maintenance based on a study conducted by the board of directors to estimate the remaining useful lives and the replacement costs of the common property components, as disclosed in the Supplementary Information. If additional funds are needed, the Association has the right to increase regular assessments levy special assessments, or delay major repairs and replacements until funds are available.

The balance of the Replacement Fund at December 31, 2022, consists of the following:

COMPONENTS	BALANCE 12/31/2021	INTEREST/ ASSESSMENTS	TRANSFERS	EXPENDITURES	BALANCE 12/31/2022
Roofing	\$0				\$0
Paving	0				0
Painting	0				0
Deferred Maintenance	240,107	75,007	(290,139)	(24,975)	0
Special Assessment - Concrete/Painting	139,613			(129,580)	10,033
Special Assessment - Elevators	139				139
Washers/Dryers	23,563				23,563
SUB-TOTAL CONTRACT LIABILITY - DEFERRED RESERVES	403,422	75,007	(290,139)	(154,555)	33,735
Fund Balance - Unallocated Interest	0	247			247
TOTAL LIABILITIES AND FUND BALANCE	\$403,422	\$75,254	(\$290,139)	(\$154,555)	\$33,982

PENTHOUSE TOWERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
Continued

December 31, 2022

4. FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The Association's members waive the funding of the statutory future major and replacements annually. However, as part of the quarterly maintenance fees, there is an additional \$75,007 billed for the Deferred Maintenance fund.

The Association does not allocate interest earned on the replacements fund to specific replacement components as earned, but does so periodically depending on projected requirements.

During 2022, the Association transferred the balance of the Deferred Maintenance fund to the operating account as Deferred Contingency Fund (see Note 6).

Special Assessment – Concrete/Painting

During 2019, the Board of Directors approved a special assessment for concrete restoration and painting.

For the current year ended, the Association incurred an additional \$129,580 of expenditures.

FASB ASC 606 New Accounting Standard 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 Association, 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 Association expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of January 1, 2022, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to the beginning fund balances. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to Replacement Fund expenditures/contracts that were not complete as of January 1, 2022. Adoption of the new standard resulted in changes to our accounting policies for assessment revenue and contract liability (assessments received in advance – Replacement Fund), as previously described.

The modified retrospective method of transition requires us to disclose the effect of applying the new standard on each item included in our current year financial statements. The line items from our Balance Sheet as of year-end that were affected, the amounts that would have been reported under the former standard, the effects of applying the new standard, and the balances reported under the new standards are as follows:

PENTHOUSE TOWERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
Continued

December 31, 2022

5. INCOME TAXES (Continued)

For the current year ended, the Association has \$392 of prepaid taxes from the 2021 tax return and \$1,036 of estimated tax payments in 2022 for a total of \$1,428 and is reflected as Prepaid Taxes on the Balance Sheet.

The Association has evaluated its tax positions and concluded that it has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the Income Taxes Topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC").

The Association has no income tax returns under examination by the Internal Revenue Service. The Association believes it is no longer subject to income tax examinations for years prior to 2019.

6. DEFERRED CONTINGENCY FUND

The Association maintains a contingency fund for unbudgeted and/or emergency expenses. In prior years, this fund was reported in the Future Major Repairs and Replacements (see Note 4) as a non-statutory deferred maintenance fund. As of December 31, 2022, the balance of \$290,139 was transferred from the replacement fund to a Deferred Contingency Fund as recognized on the Balance Sheet as advised by the Association's legal counsel.

7. CONCENTRATION OF CREDIT RISK

As of December 31, 2022, the Association maintained cash and cash equivalent balances which exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. The Association has not experienced any losses related to these cash balances and believes it is not exposed to any significant risk on these accounts.

8. PRIOR PERIOD ADJUSTMENT

Prior period adjustments are transactions and corrections relating to prior accounting periods, and are made in order to reflect the current year without distortion. This prior period adjustment is to correct an accrual for Granite Telecommunications.

9. COMMITMENTS

The Association has various contract services to maintain the common property including cable television service, common area landscaping, pool service, trash service, pest control and beach maintenance. These contracts have different expiration dates and renewal terms.

PENTHOUSE TOWERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
Continued

December 31, 2022

4. FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

	Replacement Fund Old Standard	Replacement Fund New Standard
LIABILITIES AND FUND BALANCES		
Contract Liability - Deferred Reserves	\$0	\$33,735
TOTAL LIABILITIES	0	33,735
Fund Balances	33,982	247
TOTAL LIABILITIES AND FUND BALANCES	\$33,982	\$33,982

As a result of the above reference modification, line items from the Statement of Revenues, Expenses and Changes in Fund Balances as of year-end were affected. The recognized maintenance fees for the Replacement Fund changed as follows:

	Replacement Fund Old Standard	Replacement Fund New Standard	
	(Per) (Budget)	(Expenses Less Any) (Allocated Interest)	Variance
Maintenance Fees	\$75,007	\$154,555	(\$79,548)

5. INCOME TAXES

The Association is subject to federal and state taxation and has essentially two methods to determine the amount of tax, if any, it must pay. Under one method, the excess of revenues from members over related expenditures is subject to taxation unless such excess is returned to the unit owners or applied to the following year's assessments (Section 277 of the Internal Revenue Code). The other method enables the Association to elect to exclude from taxation "exempt function income," (Section 528 of the Internal Revenue Code), which generally consists of revenue from unit owner assessments. Under either method, the Association may be subject to tax on investment income and other non-exempt income, but at different rates.

The Association will file its 2022 federal income tax return on Form 1120H under Section 528 of the Internal Revenue Code.

There is no current year provision for income taxes.

PENTHOUSE TOWERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
Continued

December 31, 2022

10. SPECIAL ASSESSEMENT – ELECTRICAL

On May 5, 2022, the Board of Directors approved a special assessment of \$136,323 to fund the removal of aluminum wiring and replace with copper in 121 units. This was due on June 1, 2022 or in two payments due June 1, 2022 and October 1, 2022.

For the current year ended, the Association billed \$136,323 and expended \$136,357. The remaining (\$34) is included in the current year expenses as reflected on the Statement of Revenues, Expenses and Changes in Fund Balances.

11. SPECIAL ASSESSMENT – BUDGET SHORTFALL

On April 12, 2022, the Board of Directors approved a special assessment of \$81,739 to fund the 2021 budget shortfall. This was due on May 15, 2022.

For the current year ended, the Association billed \$81,739 as reflected on the Statement of Revenues, Expenses and Changes in Fund Balances.

12. ASSOCIATION OWNED PROPERTY

The Association owns a unit that was intended to be the maintenance manager's apartment. The Association is currently renting the unit to a long term employee, but discontinued collecting rent after August 1, 2022. The rental income and expenses, if any, are reflected on the Statement of Revenues, Expenses and Changes in Fund Balances.

13. OPERATING FUND DEFICIT

The Association has a current operating deficit of \$30,272, and an accumulated fund deficit of \$53,073. The Association could increase assessments, pass a special assessment or delay expenditures if possible in order to rectify this situation.

14. CONTINGENCIES

Insurance Deductible

The current property insurance policy contains a deductible for hurricane damage. Should the Association incur an uninsured loss, the Association has the right to increase maintenance fees, pass a special assessment or delay repairs until funds are available.

Legal

The Association is from time-to-time subject to complaints and claims, including litigation, arising in the ordinary course of business. As of the date of this report, management believes that there are no claims or complaints of which it is currently aware that will materially affect its business, financial position, or future operating results.

PENTHOUSE TOWERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
Continued

December 31, 2022

14. CONTINGENCIES (Continued)

Legal (Continued)

As of December 31, 2022, the Association has a potential unasserted claim with an elevator company for elevator modernization services, but failed to completely perform such services resulting in damages. The Association withheld funds of \$47,000 and is being reflected as Accounts Payable – Elevator on the Balance Sheet.

Senate Bill 4D – "Milestone Inspections" and "Structural Integrity Reserve Study"

In 2022, the Florida legislature passed Senate Bill 4D regarding condominium building safety laws. Among other things, the new law mandates "milestone inspections" of condominium buildings. The requirements for the inspection vary based on the characteristics of the structure. The new law also requires a "structural integrity reserve study" to be performed at least every ten years and members cannot opt-out of the mandatory funding of reserves for structural integrity components, regardless of a membership vote. The new law takes effect immediately, however, the legislature has provided a two-year period for compliance with many of the requirements.

SUPPLEMENTARY INFORMATION

PENTHOUSE TOWERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS

December 31, 2022
(Unaudited)

The Association has not conducted an independent reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on estimates from historical experience. Actual expenditures may vary from these estimated amounts and the variance may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The following presents significant information about the components of common property:

<u>COMPONENTS</u>	<u>ESTIMATED REMAINING USEFUL LIVES</u>	<u>ESTIMATED CURRENT REPLACEMENT COSTS</u>	<u>2023 FUNDING REQUIREMENT</u>
Building Painting	4 Years	\$400,000	\$100,000
Paving	0 Years	100,000	100,000
Roof	6 Years	640,000	106,666
AC Units & Cooling Tower	11 Years	350,000	31,818
Generator	10 Years	221,000	22,100
Pool	21 Years	200,000	9,524
Elevators	16 Years	1,850,000	115,625
Lobby Furniture	3 Years	50,000	16,667
Electric	0 Years	1,250,000	1,250,000
Plumbing	0 Years	300,000	300,000
Pavers & Pool Fencing	0 Years	200,000	200,000
Concrete Restoration	4 Years	2,500,000	625,000
Sprinkler Fire Pump System	9 Years	135,000	15,000
TOTAL		<u>\$8,196,000</u>	<u>\$2,892,400</u>

For 2023, the membership voted to waive the funding of the future major repairs and replacements.

See independent auditors' report.

PENTHOUSE TOWERS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION

**DETAILED STATEMENT OF OPERATING REVENUES AND EXPENSES
BUDGET COMPARISON**

Year Ended December 31, 2022

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
<u>REVENUES:</u>			
Maintenance Fees	\$1,069,368	\$1,069,313	\$55
Special Assessment - Electrical	136,323	0	136,323
Special Assessment - Budget Shortfall	81,739	0	81,739
Apartment Rental Income	6,800	10,200	(3,400)
Interest Income	1,388	300	1,088
Leases & Sales	3,900	4,500	(600)
Owner - Admin, Interest, Late, Other, NSF Fees	2,912	2,050	862
Owner Apartment Care & Call Out Fees	11,200	12,840	(1,640)
Laundry Income Token Sales	8,085	7,500	585
Total Revenues	<u>1,321,715</u>	<u>1,106,703</u>	<u>215,012</u>
<u>EXPENSES:</u>			
<u>REPAIRS & MAINTENANCE</u>			
Rental Expense	0	1,000	1,000
Beach Cleaning	12,525	4,900	(7,625)
Fire Protection	17,029	18,700	1,671
Elevator Maintenance & Service	18,214	20,000	1,786
Lawn & Landscaping	32,552	30,000	(2,552)
Refuse Removal	16,887	16,000	(887)
Pest Control	5,833	7,700	1,867
Pool Maintenance & Supplies	19,925	9,000	(10,925)
Washer/Dryer Repairs	3,414	3,000	(414)
Electric/Plumbing Repairs	42,926	16,000	(26,926)
Building Maintenance Repairs & Supplies	71,052	45,000	(26,052)
Air Conditioning & Cooling Towers	19,213	7,500	(11,713)
TOTAL REPAIRS & MAINTENANCE	<u>259,570</u>	<u>178,800</u>	<u>(80,770)</u>
<u>UTILITIES</u>			
Cable Television	92,303	90,000	(2,303)
Water	62,897	65,000	2,103
Telephone	5,822	6,500	678
Sewer	52,138	49,000	(3,138)
Electric	49,486	48,000	(1,486)
Bottled Gas & Natural Gas	10,908	13,500	2,592
TOTAL UTILITIES	<u>273,554</u>	<u>272,000</u>	<u>(1,554)</u>

See independent auditors' report.

PENTHOUSE TOWERS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION

**DETAILED STATEMENT OF OPERATING REVENUES AND EXPENSES
BUDGET COMPARISON**

Year Ended December 31, 2022

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
<u>EXPENSES(Continued):</u>			
<u>CONDOMINIUM INSURANCE</u>			
Flood Insurance	19,572	20,500	928
Condo Package, Building & Liability	328,798	309,000	(19,798)
<u>TOTAL CONDOMINIUM INSURANCE</u>	<u>348,370</u>	<u>329,500</u>	<u>(18,870)</u>
<u>GENERAL & ADMINISTRATIVE</u>			
Bookkeeping & Other	6,329	4,200	(2,129)
Audit & Income Taxes	6,500	7,300	800
Bank Service Charges	300	0	(300)
Fines & Penalties	360	0	(360)
Legal/Association/Collections	15,123	10,000	(5,123)
Federal Income Tax Expense	0	2,300	2,300
Office Expenses	8,652	6,900	(1,752)
Licenses, Fees, Corporate Tax	1,455	1,550	95
<u>TOTAL GENERAL & ADMINISTRATIVE</u>	<u>38,719</u>	<u>32,250</u>	<u>(6,469)</u>
<u>PAYROLL</u>			
Wages Allocated to Special Assessment	(2,500)	0	2,500
Salaries & Wages	254,551	242,653	(11,898)
FICA	19,699	23,000	3,301
Payroll Taxes - Other	196	0	(196)
<u>TOTAL PAYROLL</u>	<u>271,946</u>	<u>265,653</u>	<u>(6,293)</u>
<u>EMPLOYEE INSURANCE</u>			
Health Insurance	19,739	23,000	3,261
Insurance - Workers' Compensation	3,732	5,500	1,768
<u>TOTAL EMPLOYEE INSURANCE</u>	<u>23,471</u>	<u>28,500</u>	<u>5,029</u>
<u>OTHER</u>			
Special Assessment - Electrical	136,357	0	(136,357)
<u>TOTAL OTHER</u>	<u>136,357</u>	<u>0</u>	<u>(136,357)</u>
Total Operating Expenses	<u>1,351,987</u>	<u>1,106,703</u>	<u>(245,284)</u>
Excess Operating Revenues (Expenses)	<u>(\$30,272)</u>	<u>\$0</u>	<u>(\$30,272)</u>

See independent auditors' report.