

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY

REVIEWED FINANCIAL STATEMENTS

**Year Ended September 30, 2023
(With Comparative Totals for 2022)**

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors and Owners
Summer Winds Condominiums, Inc.
and Subsidiary
Indian Beach, North Carolina

I have reviewed the accompanying financial statements of Summer Winds Condominiums, Inc. and its subsidiary, which comprise the consolidated balance sheet as of September 30, 2023, and the consolidated statements of revenues, expenses, and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the organizations' management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the combined financial statements taken as a whole. Accordingly, I do not express such an opinion.

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.

Accountant's Responsibility

My responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

I am required to be independent of Summer Winds Condominiums, Inc. and its subsidiary, and to meet my other ethical responsibilities in accordance with the relevant ethical requirements related to my review.

Accountant's Conclusion on the Combined Financial Statements

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

Summarized Comparative Information

I have previously reviewed Summer Winds Condominiums, Inc. and its subsidiary September 30, 2022, financial statements and issued a review report on those financial statements dated October 24, 2024. The summarized comparative information presented herein as of and for the year ended September 30, 2022, is consistent, in all material respects, with the reviewed financial statements from which they were derived.

G. Lee Carroll, Jr., CPA

November 5, 2024

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Consolidated Balance Sheet
September 30, 2023
(With Comparative Totals for 2022)

	<u>OPERATING</u> <u>FUND</u>	<u>REPLACEMENT</u> <u>FUND</u>	<u>TOTALS</u>	
			<u>2023</u>	<u>2022</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 243,592	\$ 386,870	\$ 630,462	\$ 433,787
Receivable:				
Assessments	29,198	-	29,198	20,746
Other	1,643	-	1,643	17,486
Inventory	7,222	-	7,222	8,659
Prepaid expenses	<u>109,892</u>	<u>-</u>	<u>109,892</u>	<u>97,706</u>
Total current assets	<u>391,547</u>	<u>386,870</u>	<u>778,417</u>	<u>578,384</u>
PROPERTY AND EQUIPMENT				
Property and equipment, net of accumulated depreciation	<u>168,949</u>	<u>-</u>	<u>168,949</u>	<u>182,699</u>
TOTAL ASSETS	<u>\$ 560,496</u>	<u>\$ 386,870</u>	<u>\$ 947,366</u>	<u>\$ 761,083</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	\$ 31,757	\$ 4,644	\$ 36,401	\$ 44,340
Prepaid assessments	70,116	-	70,116	64,613
Current maturities of long-term debt	<u>18,417</u>	<u>234,839</u>	<u>253,256</u>	<u>17,656</u>
Total current liabilities	120,290	239,483	359,773	126,609
Long-term debt, less current maturities	<u>111,630</u>	<u>727,427</u>	<u>839,057</u>	<u>133,184</u>
FUND BALANCES	<u>328,576</u>	<u>(580,040)</u>	<u>(251,464)</u>	<u>501,290</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 560,496</u>	<u>\$ 386,870</u>	<u>\$ 947,366</u>	<u>\$ 761,083</u>

See accompanying notes and independent accountant's review report.

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Consolidated Statement of Revenues, Expenses, and Changes in Fund Balances
Year Ended September 30, 2023
(With Comparative Totals for 2022)

	OPERATING FUND	REPLACEMENT FUND	TOTALS 2023	2022
REVENUES				
Monthly dues assessments	\$ 1,059,951	\$ -	\$ 1,059,951	\$ 1,018,921
Special assessment	-	-	-	19,239
Maintenance future repair/replacement assessments	-	316,682	316,682	425,546
Insurance assessments	686,577	-	686,577	359,386
Sales goods/services	109,115	-	109,115	94,971
Rental income	105,280	-	105,280	102,237
Interest income	5	36	41	47
Other income	49,776	-	49,776	58,227
Total revenues	2,010,704	316,718	2,327,422	2,078,574
EXPENSES				
Selling Expenses	48,643	-	48,643	45,860
General and administrative expenses:				
Salaries, wages and related taxes	532,771	-	532,771	542,155
Repairs and maintenance	274,373	995,262	1,269,635	983,980
Electricity and gas	80,356	-	80,356	82,467
Water service	48,072	-	48,072	59,742
Cable service	94,282	-	94,282	57,575
Pest control	9,248	-	9,248	6,687
Trash collections	40,185	-	40,185	31,283
Elevator service	31,612	-	31,612	31,870
Depreciation	22,424	-	22,424	15,194
Insurance	736,303	-	736,303	483,629
Professional fees	66,315	-	66,315	34,512
Office expenses	14,488	-	14,488	15,867
Operating expense	5,947	-	5,947	10,591
Taxes and license	5,236	-	5,236	6,574
Telephone	12,522	-	12,522	15,456
Retirement	5,213	-	5,213	5,886
Interest expense	7,792	30,672	38,464	6,825
Other expense	18,460	-	18,460	20,248
Gain on sale of equipment	-	-	-	(2,000)
Total expenses	2,054,242	1,025,934	3,080,176	2,454,401
REVENUES OVER (UNDER)				
EXPENSES	\$ (43,538)	\$ (709,216)	\$ (752,754)	\$ (375,827)
FUND BALANCES, BEGINNING	309,341	191,949	501,290	877,117
Transfers	62,773	(62,773)	-	-
FUND BALANCES, ENDING	\$ 328,576	\$ (580,040)	\$ (251,464)	\$ 501,290

See accompanying notes and independent accountant's review report.

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Consolidated Statement of Cash Flows
Year Ended September 30, 2023
(With Comparative Totals for 2022)

	OPERATING FUND	REPLACEMENT FUND	TOTALS	
			2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES				
Revenues over (under) expenses	\$ (43,538)	\$ (709,216)	\$ (752,754)	\$ (375,827)
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:				
Depreciation	22,424	-	22,424	15,194
Gain on sale of equipment	-	-	-	(2,000)
Net transfers	62,773	(62,773)	-	-
Changes in assets and liabilities:				
Receivables	7,391	-	7,391	14,738
Inventory	1,437	-	1,437	(2,386)
Prepaid expense	(12,186)	-	(12,186)	1,629
Accounts payable and accrued expenses	(11,644)	3,705	(7,939)	1,639
Prepaid assessments	7,647	(2,144)	5,503	13,130
Deferred revenue	-	-	-	(121,869)
Net cash provided (used) by operating activities	<u>34,304</u>	<u>(770,428)</u>	<u>(736,124)</u>	<u>(455,752)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(8,675)	-	(8,675)	(15,000)
Proceeds from sale of equipment	-	-	-	2,000
Net cash provided (used) by investing activities	<u>(8,675)</u>	<u>-</u>	<u>(8,675)</u>	<u>(13,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term borrowings	-	996,781	996,781	3,219
Principal payments on long-term borrowings	(17,573)	(37,734)	(55,307)	(16,833)
Net cash provided (used) by financing activities	<u>(17,573)</u>	<u>959,047</u>	<u>941,474</u>	<u>(13,614)</u>
NET INCREASE (DECREASE) IN CASH	8,056	188,619	196,675	(482,366)
CASH AT BEGINNING OF YEAR	<u>235,536</u>	<u>198,251</u>	<u>433,787</u>	<u>916,153</u>
CASH AT END OF YEAR	<u>\$ 243,592</u>	<u>\$ 386,870</u>	<u>\$ 630,462</u>	<u>\$ 433,787</u>
Supplemental Disclosure of Cash Flow Information				
Cash payments for interest on debt	<u>7,792</u>	<u>30,675</u>	<u>38,467</u>	<u>6,925</u>

See accompanying notes and independent accountant's review report.

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Notes to Financial Statements

NOTE 1 NATURE OF ORGANIZATION

Summer Winds Condominiums, Inc. (the "Association") was incorporated as a condominium association in 1983, primarily to operate and maintain common buildings and residential property in Indian Beach, North Carolina pursuant to Chapter 55A of the General Statutes of North Carolina as a non-profit corporation. Individual property owners own outright their respective individual dwelling units and an undivided interest in common areas and facilities. Responsibility for maintaining the 210 condominium units and the common areas and facilities is generally vested with the property owners and the Association, respectively.

Summer Winds Services, Inc. (the "Subsidiary") was incorporated in 1986 as a business corporation to manage the lease of a rental building on the aforementioned property and other common areas and to provide for the sales of food and beverages to the Association's members, guests, and non-members.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The consolidated financial statements include the accounts of Summer Winds Condominiums, Inc. and its wholly owned subsidiary, Summer Winds Services, Inc. All significant inter-company accounts and transactions have been eliminated.

Fund accounting – The Association utilizes fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are for normal maintenance and service activities and are generally at the discretion of the board of directors and property manager. Disbursements from the replacement fund are for major repairs and replacement activities.

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association. For the consolidated financial statements, the operation fund balance contains the subsidiary retained loss and contributed capital.

Replacement Fund – This fund is used for major repairs and replacements activities.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - For purposes of reporting cash flows, the Association considers all time deposits with maturities of three months or less at the date acquired to be cash equivalents. The Association maintains deposits with a high credit quality financial institution, the balances of which, at times, may exceed federally insured limits.

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Notes to Financial Statements

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assessment accounts receivable – Assessment accounts receivable include assessments billed for monthly dues, insurance, maintenance, future repairs and replacement, and any special assessments billed at original invoice. Historically, management has reviewed the collectability of each member's assessments to determine if any allowance for doubtful accounts is necessary. The balance of all receivables are deemed collectible by management and have not been reduced for any doubtful receivables.

Assessment account receivables are considered to be past due if any portion of the receivable balance is outstanding for more than 60 days. After 60 days a \$75 collection fee is assessed and interest is charged at the rate of 1.5% per month.

Other accounts receivable – Other receivables are carried at original invoice amount and are discounted for doubtful collection if applicable. Management determines the allowance by evaluating individual customer's outstanding receivables along with the customer's financial condition, credit history and current economic conditions. Other receivables are written off in the year they are deemed to be uncollectible and any recoveries of previously written off accounts will be recorded as other revenue in the year received.

Receivables are considered to be past due if any portion of the receivable balance is outstanding for more than 60 days. No interest is charged on other receivables.

Inventory – Summer Winds Services, Inc. maintains inventory at cost under the first in, first out method for Ginger's Café consisting of drinks, snacks, and other miscellaneous items.

Property and equipment – Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed primarily by accelerated methods over the estimated useful lives of the assets. The Association has a capitalization threshold of \$2,500 and does not capitalize common property. Capital expenditures for common property are reflected as an expense in the consolidated statement of revenue and expense and changes in fund balances.

Prepaid assessments – Prepaid assessments represent funds received for monthly dues, insurance and maintenance future repair and replacement assessments applicable to subsequent year operations.

Revenue recognition – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of the revenue model is that revenue is recognized when a customer/member obtains control of a good or service. A customer/member obtains control when it has the ability to direct the use and obtains benefits from the good or service. In addition, the new guidance requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers/members. The Association and

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Notes to Financial Statements

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiary adopted the standard effective October 1, 2018. Adoption of the new revenue standard had no impact to beginning or ending net assets or cash provided by or used in operating, financing or investing on the consolidated statement of cash flows.

The Association is a non-profit corporation with revenue derived from member dues and assessments. The Subsidiary is a corporation which manages the lease of a rental building on the Association's property and other common areas and provides for the sales of food and beverages to the Association's members, guests, and non-members.

The Association records member dues and assessments as revenue in the month that they are assessed. Special assessments are reported as revenue in the period that they are levied unless they are designated for specific costs that have not yet been incurred, in which case they are deferred and thereafter reported as revenues when the corresponding liabilities and expenses are reported. In both cases, this is the point in time when the Association and Subsidiary's performance obligation is satisfied.

Rental income is recorded on a monthly basis, sale of goods are recorded as revenue upon delivery of these goods at the time of sale, service income is recognized when the underlying related expenditures have occurred which is when the performance obligation is satisfied.

Income taxes - The Association can elect to file its income tax return as a regular corporation and by doing so, section 277a of the Internal Revenue Code (IRC) provides that a membership organization separate its income and expenses that relate to its members and non-members and apply the graduated corporate rates to the taxable income.

Alternatively, the Association may elect to be taxed under IRC section 528. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenue from assessments to owners. The nonexempt income is taxed at a 30 percent flat rate on net income in excess of \$100.

For North Carolina income tax purposes, the Association is taxed on all net income from non-membership activities reduced only by losses from non-membership activities for which a profit motive exists. Non-membership 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 2.5%.

The Subsidiary files as a regular or C corporation and pays tax at the applicable corporate rate on its taxable income, if any.

Subsequent events – The Association and Subsidiary have evaluated its subsequent events through November 5, 2024 the date the financial statements were available to be issued.

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Notes to Financial Statements

NOTE 3 CASH

Cash breakdown as of September 30, 2023 and 2022 consisted of the following:

Summer Winds Condominiums, Inc.:	<u>2023</u>	<u>2022</u>
Truist – Checking	\$ 64,921	\$ 17,583
Truist – Replacement Account	386,870	198,251
Truist – Insurance Assessment Account	123,529	61,600
Cash on hand	100	100
Summer Winds Services, Inc.:		
Truist – Checking	53,042	154,253
Cash on hand	<u>2,000</u>	<u>2,000</u>
Total Cash	<u>\$ 630,462</u>	<u>\$ 433,787</u>

UNINSURED CASH BALANCES

The Association and Subsidiary maintains its cash balances at Truist Bank located in Morehead City, North Carolina. The Federal Deposit Insurance Corporation insures balances up to \$250,000. Uninsured balances as of September 30, 2023 and 2022 were approximately \$328,000 and \$100,000, respectively.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment in the accompanying financial statements is presented net of accumulated depreciation. Property, furniture, and equipment consist of the following at September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Condo Unit #418	\$ 315,288	\$ 315,288
Vehicle	15,000	15,000
Furniture & equipment	<u>114,810</u>	<u>106,136</u>
	445,098	436,424
Accumulated Depreciation	<u>(276,149)</u>	<u>(253,725)</u>
	<u>\$ 168,949</u>	<u>\$ 182,699</u>

Total depreciation expense for the September 30, 2023 and 2022 was \$22,424 and \$15,194, respectively.

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Notes to Financial Statements

NOTE 5 FUND BALANCES

The Association's fund balances and the Subsidiary's accumulated operating losses were composed of the following at September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Fund balance – operating - undesignated	\$ 516,274	\$ 587,014
Accumulated operating losses	(187,798)	(277,773)
Contributed capital	100	100
Fund balance – replacement	<u>(580,040)</u>	<u>191,949</u>
Total	<u>\$ (251,464)</u>	<u>\$ 501,290</u>

NOTE 6 INCOME TAX MATTERS

The Association has elected to file its federal income tax return under IRC Section 528 as explained above in Note 1. No provision for income taxes was made due to the amount being immaterial to the financial statements.

The Subsidiary has net operating loss carry-forwards as of September 30, 2023 that expire during the following years (totaling \$135,895):

<u>Years Ending September 30</u>	<u>Amount</u>
2034	\$ 44,704
2035	<u>91,191</u>
	<u>\$ 135,895</u>

NOTE 7 REPLACEMENT FUND – SPECIAL ASSESSMENTS AND DEFERRED REVENUE

On June 26, 2019, the Association voted to approve and levy a special assessment (known as the "2019 Special Assessment") in order to fund the modernization of all seven elevators in the amount of \$999,955 to be paid either as a lump sum or in twenty-four equal monthly installments beginning September 1, 2019 and ending August 31, 2021. The Special Assessment was billed to the respective owners during the fiscal year ended September 30, 2019.

During the fiscal year ended September 30, 2019, expenses totaling \$201,107 related to the 2019 Special Assessment of \$999,955 were incurred and these costs and related revenue of \$201,107 were reported in the Replacement Fund for the year ended September 30, 2019.

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Notes to Financial Statements

**NOTE 7 REPLACEMENT FUND – SPECIAL ASSESSMENTS AND DEFERRED REVENUE
(Continued)**

During the fiscal year ended September 30, 2020, expenses totaling \$671,766 related to the 2019 Special Assessment of \$999,955 were incurred and these costs and related revenue of \$671,766 were reported in the Replacement Fund for the year ended September 30, 2020.

The remaining balance of 2019 Special Assessment was applied in fiscal 2022 year to the stairwell replacement project.

NOTE 8 REPLACEMENT FUND – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements as directed by the Board. Historically, the Board has approved annual additions and periodic special assessments to fund the Replacement Fund. The Board voted to approve a monthly Maintenance Future Repair & Replacement assessment to all owners which began January 1, 2013 to fund the Replacement Fund. As of September 30, 2023, cumulative billings related to this assessment totaled \$2,027,612.

Accumulated cash of \$386,870, net of approved related expenditures for Replacement Fund as of September 30, 2023, was held in a separate account generally not available for expenditures for normal operations except by Board approval.

Actual expenditures may vary from the estimated future expenditures and the variations may be material, amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to Board approval, to increase regular assessments, issue special assessments, or delay major repairs and replacements until funds are available.

The required supplement to the basic financial statements does not include a compiled schedule of future major repairs and replacements. A formal reserve study estimating the costs of major repairs and replacement was completed in 2016. Since then, several factors have occurred that would impact this report, such as Hurricane Florence, recent major projects and current major renovations. The Board of Directors has commissioned a new formal study with Sedgwick Valuation Services Division. This updated information will be condensed into a schedule of future major repairs and replacements to be included with future fiscal year-end financial reports.

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Notes to Financial Statements

NOTE 9 PLEDGED ASSETS AND LONG-TERM DEBT

The Association's long-term debt at September 30, 2023, and the related collateral pledged thereon, is as follows:

Truist Bank mortgage note payable at 4.250%, payable in 113 installments of \$1,965 including interest, due January 13, 2030, collateralized by Unit 418 owned by the Association with a net book value of \$150,584.

The Association entered into a contract with A Fiberglass Solution, a wholly owned subsidiary of SRH Corp for a stairwell replacement project included replacing stairwells in Building C, A and B plus repairs to several other stairwells and related expenses at a total cost of \$1,077,241. This project was completed in April 2023.

The Association executed a one million dollar business promissory note with Truist Bank on June 22, 2022. The fixed rate (5.020% initial rate) non-disclosable loan for \$1,003,219 is due on July 1, 2027. The purpose of the loan was to finance replacement of three stairwells on the Association property. The first draw/advance of \$290,000 was taken on October 20, 2022. Interest payments were scheduled to be paid monthly on the loan balance until principal and interest payments of \$23,149 began August 1, 2023 with a final payment due July 1, 2027.

Unit 418 loan with Truist Bank totaling \$311,553 with monthly installments of \$1,965 including interest at a fixed rate of 4.25%, with a final payment on January 13, 2030.	\$ 130,047
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Buildings A, B, and C stairwells loan with Truist Bank totaling \$965,485 with monthly Installments of \$23,149 including interest at a fixed rate of 5.02%, with final payment on July 1, 2027.	<u>962,266</u> <u>\$1,092,313</u>
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Aggregate maturities required on long-term debt as of September 30, 2023 due in futures years is as follows:

Years ending September 30:

2024	\$ 253,256
2025	266,119
2026	279,635
2027	241,854
2028	21,824
2029-2030	<u>29,625</u> <u>\$1,092,313</u>

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Notes to Financial Statements

NOTE 10 LEASE ARRANGEMENTS

During 2013, the Association's administrative offices, which were formerly housed in Unit 138, B Building, moved into their new offices in the old "rental" building. As a result of the move, the Association entered into a renovation agreement and lease with an individual in the construction business (tenant) to renovate the former administrative offices into a suitable for residential use, one bedroom apartment in exchange for a six year lease for said unit. All costs associated with the renovation were at the tenant's sole cost and expense and no cost to the Association. The Association entered into a sub-lease agreement for the same terms with its Subsidiary to manage the lease. Effective November 1, 2013, Subsidiary began leasing the unit. The original lease expired August 31, 2019 and was renewed September 1, 2020 for five years and will expire on August 31, 2025.

During 2018, the Association had unused common property, formerly known as the Fishnet Café, and currently known as Unit 126, C building. The Association entered into a renovation agreement and lease with the same tenant noted above to renovate the former non-residential space into a studio apartment in exchange for a six year lease for said unit. All costs associated with the renovation were at the tenant's sole cost and expense with no cost to the Association. The Association entered into a sub-lease agreement for the same terms with its Subsidiary to manage the lease. Effective April 1, 2019, the renovations to Unit 126, C building were complete, a certificate of occupancy was awarded and the Subsidiary began leasing the unit.

The Subsidiary recorded \$99,007 in rental revenue for the year ended September 30, 2023 and recorded 2.75% rental fee collected on unit rentals from third party rental agencies and self-renting homeowners as well as conference room rentals and the rental of units 138, B Building and 126, C Building.

NOTE 11 DEFINED CONTRIBUTION RETIREMENT PLAN

The Association maintains a defined contribution plan that covers eligible employees who have elected to participate and whose compensation was at least \$5,000 during the calendar year. Contributions are matched by the lesser of 100% of the employee's contribution or up to 3% of annual salary. The Association made contributions of \$5,213 for the year ended September 30, 2023.

NOTE 12 WASTE WATER TREATMENT PLANT

Waste Water Treatment Plant: On July 15, 2008, the Association and Shearin Family Investment, LLC (Shearin) entered into an agreement to establish a joint wastewater treatment and disposal facility (WWTF) to serve "Summer Winds Condominiums" and the condominiums and a proposed marina being built by Shearin, currently known as the "Nautical Club Condominiums".

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Notes to Financial Statements

NOTE 12 WASTE WATER TREATMENT PLANT (Continued)

The operational entity for the WWTF is a Master Association incorporated November 3, 2011, known as SWNC Master Owners Association, Inc. (SWNC). The members of SWNC are the Summer Winds Condominiums, Inc. and the Nautical Club Condo Owners Association, Inc. which is governed by a representative from each association and the General Manager of Summer Winds Condominiums, Inc.

Beginning January 1, 2013 SWNC began paying 100% of the operating costs of WWTF which then invoiced each member association for their respective share of the costs of the operation according to formulas outlined in the "Master Declaration of Covenants for SWNC Master Owners Association, Inc."

Wastewater from the Nautical Club Condominiums is disposed of on the Association's property and there are "repair areas" on the Association's property for the treated effluent disposal should the original areas fail. The unit owners of the Nautical Club Condominiums agreed initially to pay the Association a minimum of \$500 per year "Sewer Easement Fee" for each unit.

Payment of the annual Sewer Easement Fee shall be remitted by the Nautical Club Condo Owners' Association, Inc. in equal quarterly installments on the first day of each quarter on a calendar year basis. The Sewer Easement Fee will be adjusted on January 1 of each third year thereafter, to reflect the percentage changes in the previous three years in the Consumer Price Index. The Sewer Easement Fee was adjusted January 1, 2021 to \$585 per year per unit.

The Association recognized sewer easement income of \$40,962 and \$40,962 for the years ended September 30, 2023 and 2022, respectively.

NOTE 13 COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

On March 31, 2021, the Association entered into contracts with Wards Waterproofing, Inc. for an amount not to exceed \$162,000 and A Fiberglass Solution, a wholly owned subsidiary of SRH Corp, in the amount of \$87,130 for the replacement of one stairwell in Building B. This work was scheduled to begin in the fall of 2021 and was completed in 2022. In addition, a stairwell in Building A was also replaced in 2022. The total cost for the 2021 stairwell replacement project completed in April 2022 was \$453,656.

The second stairwell replacement project included replacing stairwells in Building C, A and B plus repairs to several other stairwells and related expenses at a total cost of \$1,077,241. This project was completed in April 2023.

The Association executed a one million dollar business promissory note with Truist Bank on June 22, 2022. The fixed rate (5.020% initial rate) non-disclosable loan for \$1,003,219 is due on July 1, 2027. The purpose of the loan was to finance replacement of three stairwells on the Association property. The first draw/advance of \$290,000 was taken on October 20, 2022. Interest payments were scheduled to be paid monthly on the loan balance until principal and interest payments of \$23,149 began August 1, 2023 with a final payment due July 1, 2027.

SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY
Notes to Financial Statements

NOTE 13 COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Continued)

The balance of the non-disclosable loan was \$787,907 as of June 30, 2024.

The Board of Directors approved a Special Assessment of \$4.6 million on March 28, 2024 scheduled to be assessed July 1, 2024 for a three year period, to cover certain major repairs including remaining stairwells, selected walkway work, tennis courts and parking lot resurfacing, and to pay off loan used to fund previous major repairs as noted herein.

However, on April 22, 2024, the Board of Directors partially adjusted the original intent of the Special Assessment to eliminate the immediate loan payoff and walkway repairs from this Special Assessment. The Board approved the necessary reallocation of these future financial resources in an attempt to cover the cost of the recently discovered fascia/balcony repairs project due to the poor condition of the existing fascia panels and related risk associated with the ongoing deterioration.

The Association formally assessed the homeowners as of July 1, 2024 for their fair share of the \$4.6 million based on the square footage of each unit to be paid over a 36 month period. The Special Assessment and related Deferred Revenue should have been recorded on the books as of July 1, 2024. However, certain homeowners made payments prior to July 1, 2024 totaling \$175,836.

The Special Assessment Receivable will be reduced as collections are received and deferred revenue will be reduced as approved expenses are incurred.

The Association uses a Special Assessment checking account to receive funds and make authorized disbursements as approved. The balance in the account at 6/30/24 was \$158,426.

The Board of Directors voted in September 2024 to void the long term rental agreements for the two units noted in Note 10. These units will be converted to short term vacation rentals and managed by an external rental agency moving forward. Net rental proceeds will continue to accrue to Summer Winds Services, Inc. continuing the subletting agreement of the two units owned by Summer Winds Condominiums, Inc.

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