

**SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY**

**REVIEWED FINANCIAL STATEMENTS**

**Year Ended September 30, 2021  
(With Comparative Totals for 2020)**

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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, 2021, 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 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, 2020, financial statements and issued a review report on those financial statements dated October 18, 2021. The summarized comparative information presented herein as of and for the year ended September 30, 2020, is consistent, in all material respects, with the reviewed financial statements from which they were derived.

*G. Lee Carroll, Jr., CPA*

June 30, 2023

**SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY**  
**Consolidated Balance Sheets**  
**September 30, 2021**  
**(With Comparative Totals for 2020)**

	OPERATING FUND	REPLACEMENT FUND	TOTALS 2021	2020
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 329,987	\$ 586,166	\$ 916,153	\$ 793,068
Receivable:			-	
Assessments	19,655	13,295	32,950	323,415
Other	20,020	-	20,020	45,714
Inventory	6,273	-	6,273	8,003
Prepaid expenses	99,333	-	99,333	98,363
Total current assets	<u>475,268</u>	<u>599,461</u>	<u>1,074,729</u>	<u>1,268,563</u>
<b>PROPERTY AND EQUIPMENT</b>				
Property and equipment, less accumulated depreciation 2021 \$243,389: 2020 \$216,551	<u>182,893</u>	<u>-</u>	<u>182,893</u>	<u>198,980</u>
<b>TOTAL ASSETS</b>	<u>\$ 658,161</u>	<u>\$ 599,461</u>	<u>\$ 1,257,622</u>	<u>\$ 1,467,543</u>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable and accrued expenses	\$ 42,699	\$ -	\$ 42,699	\$ 47,445
Prepaid assessments	51,467	16	51,483	38,602
Deferred revenue	-	121,869	121,869	127,082
Current maturities of long-term debt	16,926	-	16,926	16,099
Notes payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>237,373</u>
Total current liabilities	111,092	121,885	232,977	466,601
Long-term debt, less current maturities	<u>147,528</u>	<u>-</u>	<u>147,528</u>	<u>164,479</u>
<b>FUND BALANCES</b>	<u>399,541</u>	<u>477,576</u>	<u>877,117</u>	<u>836,463</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 658,161</u>	<u>\$ 599,461</u>	<u>\$ 1,257,622</u>	<u>\$ 1,467,543</u>

See accompanying notes and independent accountant's review report.

**SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY**  
**Consolidated Statements of Revenues, Expenses, and Changes in Fund Balances**  
**Year Ended September 30, 2021**  
**(With Comparative Totals for 2020)**

	OPERATING FUND	REPLACEMENT FUND	TOTALS 2021	TOTALS 2020
<b>REVENUES</b>				
Monthly dues assessments	\$ 917,266	\$ -	\$ 917,266	\$ 917,266
Special assessment	-	5,213	5,213	671,766
Maintenance future repair/replacement assessments	-	275,180	275,180	275,180
Insurance assessments	336,331	-	336,331	336,331
Sales goods/services	81,164	-	81,164	80,367
Rental income	93,397	-	93,397	71,603
Insurance proceeds	19,172	-	19,172	312,031
Interest income	66	41	107	66
Other income	55,016	-	55,016	56,600
Total revenues	<u>1,502,412</u>	<u>280,434</u>	<u>1,782,846</u>	<u>2,721,210</u>
<b>EXPENSES</b>				
Selling Expenses	39,931	-	39,931	28,974
General and administrative (income) and expenses:				
Salaries, wages and related taxes	472,265	-	472,265	479,553
Repairs and maintenance	226,683	101,633	328,316	962,402
Hurricane damage repairs	-	-	-	173,697
Electricity and gas	76,123	-	76,123	77,223
Water service	59,117	-	59,117	42,287
Cable service	84,350	-	84,350	80,735
Pest control	8,531	-	8,531	7,616
Trash collections	36,432	-	36,432	38,298
Elevator service	1,466	-	1,466	33,282
Depreciation	35,204	-	35,204	16,675
Insurance	453,678	-	453,678	370,412
Professional fees	51,980	-	51,980	51,050
Office expenses	15,479	-	15,479	13,101
Operating expense	19,169	-	19,169	22,164
Taxes and license	13,484	-	13,484	3,646
Telephone	16,772	-	16,772	19,491
Retirement	6,797	-	6,797	5,827
Interest expense	7,510	-	7,510	13,706
Other expense	17,388	-	17,388	27,235
Gain on sale of equipment	(1,800)	-	(1,800)	(1,000)
Total expenses	<u>1,640,559</u>	<u>101,633</u>	<u>1,742,192</u>	<u>2,466,374</u>
<b>REVENUES OVER (UNDER) EXPENSES</b>				
	\$ (138,147)	\$ 178,801	\$ 40,654	\$ 254,836
<b>FUND BALANCES, BEGINNING</b>	547,403	289,060	836,463	581,627
<b>Transfers</b>	<u>(9,715)</u>	<u>9,715</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 399,541</u>	<u>\$ 477,576</u>	<u>\$ 877,117</u>	<u>\$ 836,463</u>

See accompanying notes and independent accountant's review report.

**SUMMER WINDS CONDOMINIUMS, INC. AND SUBSIDIARY**  
**Consolidated Statements of Cash Flows**  
**Year Ended September 30, 2021**  
**(With Comparative Totals for 2020)**

	OPERATING FUND	REPLACEMENT FUND	TOTALS 2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Revenues over (under) expenses	\$ (138,147)	\$ 178,801	\$ 40,654	\$ 254,836
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:				
Depreciation	35,204	-	35,204	16,675
Gain on sale of equipment	(1,800)	-	(1,800)	(1,000)
Net transfers	(9,715)	9,715	-	-
Changes in assets and liabilities:				
Receivables	22,523	293,636	316,159	2,588,301
Inventory	1,730	-	1,730	(382)
Prepaid expense	(970)	-	(970)	(1,437)
Accounts payable and accrued expenses	(4,746)	-	(4,746)	(1,431,004)
Prepaid assessments	19,813	(6,932)	12,881	5,559
Deferred revenue	-	(5,213)	(5,213)	(913,501)
<b>Net cash provided (used) by operating activities</b>	<u>(76,108)</u>	<u>470,007</u>	<u>393,899</u>	<u>518,047</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property and equipment	(19,117)	-	(19,117)	(8,175)
Proceeds from sale of equipment	1,800	-	1,800	1,000
<b>Net cash provided (used) by investing activities</b>	<u>(17,317)</u>	<u>-</u>	<u>(17,317)</u>	<u>(7,175)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from short-term borrowings	-	-	-	757,978
Principal payments on short-term borrowings	(16,124)	-	(16,124)	(533,328)
Principal payments on long-term borrowings	-	(237,373)	(237,373)	(593,433)
<b>Net cash provided (used) by financing activities</b>	<u>(16,124)</u>	<u>(237,373)</u>	<u>(253,497)</u>	<u>(368,783)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(109,549)	232,634	123,085	142,089
<b>CASH AT BEGINNING OF YEAR</b>	<u>439,536</u>	<u>353,532</u>	<u>793,068</u>	<u>650,979</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 329,987</u>	<u>\$ 586,166</u>	<u>\$ 916,153</u>	<u>\$ 793,068</u>
<b>Supplemental Disclosure of Cash Flow Information</b>				
Cash payments for interest on debt	<u>7,510</u>	<u>-</u>	<u>7,510</u>	<u>27,697</u>
Cash payment for income taxes	<u>9,560</u>	<u>-</u>	<u>9,560</u>	<u>-</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 Condominium, 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 nonprofit entity 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 June 30, 2023, 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, 2021 and 2020 consisted of the following:

Summer Winds Condominiums, Inc.:	<u>2021</u>	<u>2020</u>
Truist - Operating	\$ 28,665	\$ 106,268
Truist – Special Assessment Account	135,385	69,830
Truist – Replacement Account	450,781	283,702
Truist – Insurance Assessment Account	59,365	193,423
Cash on hand	100	100
Summer Winds Services, Inc.:		
Truist - Checking – operations	139,857	137,745
Cash on hand	<u>2,000</u>	<u>2,000</u>
Total Cash	\$ <u>916,153</u>	\$ <u>793,068</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, 2021 were approximately \$526,000.

**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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Condo Unit #418	\$ 315,288	\$ 315,288
Vehicle	4,858	4,858
Furniture & equipment	<u>106,136</u>	<u>95,385</u>
	426,282	415,531
Accumulated Depreciation	( 243,389)	(216,551)
	\$ <u>182,893</u>	\$ <u>198,980</u>

Total depreciation expense for the September 30, 2021 and 2020 was \$35,204 and \$16,675, 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 losses were composed of the following at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Fund balance – operating - undesignated	\$ 748,815	\$ 947,213
Fund balance – replacement	477,576	289,060
Accumulated losses	(349,374)	(399,910)
Contributed capital	<u>100</u>	<u>100</u>
Total	<u>\$ 877,117</u>	<u>\$ 836,463</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, 2021, that expire the following years (totaling \$297,472):

<u>Years Ending September 30</u>	<u>Amount</u>
2032	\$ 30,167
2033	87,396
2034	88,718
2035	<u>91,191</u>
	<u>\$ 297,472</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 that is 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. The remaining balance of the 2019 Special Assessment for which specific costs have not been incurred was reported as deferred revenue in the amount of \$798,848 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 for which specific costs have not yet been incurred was reported as deferred revenue for the year ended September 30, 2021 in the amount of \$121,869.

**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, 2021, cumulative billings related to this assessment totaled \$2,027,612.

Accumulated cash and cash equivalents, net of approved related expenditures for Replacement Fund of \$450,781 as of September 30, 2021, is held in a separate account and is 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.

**NOTE 9      SHORT TERM NOTES PAYABLE**

The Association entered into a long-term promissory note on December 13, 2019 totaling \$574,558 with Truist Bank of which \$500,000 was used to fund costs associated with elevator modifications as the Association was collecting the special assessment over the 24 month period as noted above in Note 7. The additional \$74,558 was to refinance the outstanding balance at maturity.

This note was payable to the bank in twenty-four consecutive payments of \$24,973 beginning January 25, 2020, and maturing December 25, 2021, with an interest rate of 3.9% and collateralized by an Assignment and Security Interest in the 2019 Special Assessment collections. During the year ended September 30, 2020, the Association elected to make additional principal payments, in addition to the scheduled principal and interest payments, in the amount of \$125,000. The outstanding balance at September 30, 2020 was \$237,373. Subsequent to September 30, 2020, the Association paid the note in full on March 16, 2021 prior to stated maturity date.

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

**NOTE 10     PLEDGED ASSETS AND LONG-TERM DEBT**

The Association's long-term debt at September 30, 2021, and the related collateral pledged thereon, is as follows:

4.250% mortgage note payable, 113 installments of \$1,965 including interest, due January 13, 2030, collateralized by Summer Winds Condominiums Unit 418 owned by the Association with a carrying value of \$173,242.

Long-Term Debt	\$164,454
Less current maturities	<u>16,926</u>
	<u>\$147,528</u>

Aggregate maturities required on long-term debt as of September 30, 2021 due in futures years is as follows:

Years ending September 30:

2022	\$ 16,099
2023	17,664
2024	18,425
2025	19,224
2026	20,057
2027-2030	<u>82,162</u>
	<u>\$164,454</u>

**NOTE 11     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 term of this agreement commenced upon the Association's moving out of Unit 138 and ended on the date occurring on the sixth anniversary of the date of the certificate of occupancy or certificate of compliance for the apartment or 60 days after the Association moved out, whichever is the earlier date. 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, 2019 for five years and will expire on August 31, 2024.

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

**NOTE 11      LEASE ARRANGEMENTS (Continued)**

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 term of this agreement commenced upon the Association moving out of Unit 126 and will end on the date occurring on the sixth anniversary of the date of the certificate of occupancy or certificate of compliance for the apartment or 60 days after the Association has moved out, whichever is the earlier date. 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 \$93,397 in rental revenue for the year ended September 30, 2021 and recorded 2.75% rental fee collected on unit rentals from 3<sup>rd</sup> 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 12      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 2% of annual salary. The Association made contributions of \$6,797 for the year ended September 30, 2021.

**NOTE 13      COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS**

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 proposed marina being built by Shearin, currently known as the "Nautical Club Condominiums".

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.

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

**NOTE 13      COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS (Continued)**

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.

On January 25, 2021, SWNC entered into a contract with SE Industrial Services, LLC in the amount of \$95,862 for interior and exterior abrasive blasting and coating of the WWTF tank. This work was completed in February, 2022.

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 initially agreed 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 \$40,428 and \$38,286 for the years ended September 30, 2021 and 2020, respectively.

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 on Building B. This work was scheduled to begin in the fall of 2021.

Summer Winds Condominium, Inc. 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 is to completely replace three stairwells on the Association property. The first draw/advance of \$290,000 was taken on October 20, 2022.

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