

# **Summer Winds Condominiums, Inc. and Subsidiary**

Consolidated Financial Report  
(Reviewed)  
September 30, 2017





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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 consolidated financial statements of Summer Winds Condominiums, Inc. and Subsidiary, which comprise the consolidated balance sheet as of September 30, 2017, and the consolidated statements of revenues and expenses and changes in fund balances, and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated 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 Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 combined 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.

***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 consolidated 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. The results of my review of the basic financial statements are not affected by that missing information.

***Summarized Comparative Information***

I have previously reviewed Summer Winds Condominiums, Inc. and Subsidiary September 30, 2016, combined financial statements and issued a review report on those financial statements dated March 14, 2017. The summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the reviewed combined financial statements from which they were derived.

*G. Lee Carroll, Jr., CPA, P.C.*

December 21, 2017

**Summer Winds Condominiums, Inc. and Subsidiary**

**Consolidated Balance Sheets**

**September 30, 2017**

**(With Summarized Comparative Totals for 2016)**

**See Independent Accountant's Review Report**

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
<b>Assets</b>				
Current Assets				
Cash and cash equivalents (Note 5)	\$ 527,233	\$ 157,572	\$ 684,805	\$ 537,529
Receivables:				
Assessments (Notes 3, 4, 5 and 6)	7,487	1,864	9,351	19,521
Other (Note 11)	9,718	73,204	82,922	72,011
Inventory	7,942	-	7,942	9,291
Prepaid expenses	84,810	-	84,810	92,826
<b>Total current assets</b>	<b>637,190</b>	<b>232,640</b>	<b>869,830</b>	<b>731,178</b>
Long-term assessments (Note 6)	5,000	-	5,000	14,919
Property and equipment, less accumulated depreciation 2017 \$183,693; 2016 \$183,621 (Note 7)	230,384	-	230,384	243,905
	<b>\$ 872,574</b>	<b>\$ 232,640</b>	<b>\$ 1,105,214</b>	<b>\$ 990,002</b>
<b>Liabilities and Fund Equity</b>				
Current Liabilities				
Current maturities of long-term debt (Note 7)	\$ 11,960	\$ -	\$ 11,960	\$ 11,321
Accounts payable and accrued expenses	91,752	-	91,752	56,116
Prepaid assessments	30,776	-	30,776	34,608
Deferred revenue (Note 4)	-	-	-	69,021
<b>Total current liabilities</b>	<b>134,488</b>	<b>-</b>	<b>134,488</b>	<b>171,066</b>
Long-term debt, less current maturities (Note 7)	207,702	-	207,702	219,477
Commitments and contingencies (Notes 2, 4, 5, 6, 7, 8, 9 and 11)				
Fund Equity				
Fund balances	530,384	232,640	763,024	599,459
	<b>\$ 872,574</b>	<b>\$ 232,640</b>	<b>\$ 1,105,214</b>	<b>\$ 990,002</b>

See Notes to Consolidated Financial Statements.

**Summer Winds Condominiums, Inc. and Subsidiary**

**Consolidated Statements of Revenues and Expenses and Changes in Fund Balances  
Year Ended September 30, 2017  
(With Summarized Comparative Totals for 2016)  
See Independent Accountant's Review Report**

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
<b>Revenues:</b>				
Monthly dues assessments (Note 3)	\$ 915,881	\$ -	\$ 915,881	\$ 616,629
Special assessments (Notes 3, 4 and 5)	-	69,021	69,021	590,350
Maintenance future repair/replacement assessments (Note 3 and 5 )	-	249,464	249,464	345,645
Insurance assessments (Note 3)	363,438	-	363,438	507,657
Sales goods/services	92,057	-	92,057	82,734
Rental income (Note 8)	79,369	-	79,369	55,822
Interest income	89	24	113	275
Other	48,579	-	48,579	48,330
<b>Total revenues</b>	<b>1,499,413</b>	<b>318,509</b>	<b>1,817,922</b>	<b>2,247,442</b>
<b>Expenses:</b>				
Selling and rental expenses	37,364	-	37,364	31,766
General and administrative expenses:				
Salaries and related taxes	449,555	-	449,555	440,229
Repairs and maintenance	150,178	246,921	397,099	893,702
Electricity and gas	98,860	-	98,860	76,682
Water service	25,142	-	25,142	30,571
Cable service	74,340	-	74,340	75,816
Pest control	7,022	-	7,022	8,371
Trash collections	35,841	-	35,841	33,132
Elevator service	26,074	-	26,074	34,993
Bad debt	-	569	569	-
Depreciation	16,910	-	16,910	18,386
Insurance	343,146	-	343,146	354,148
Professional fees	39,511	-	39,511	44,689

(Continued)



**Summer Winds Condominiums, Inc. and Subsidiary**

**Consolidated Statements of Revenues and Expenses and Changes in Fund Balances (Continued)**  
**Year Ended September 30, 2017**

**(With Summarized Comparative Totals for 2016)**

**See Independent Accountant's Review Report**

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
Office expense	\$ 15,949	\$ -	\$ 15,949	\$ 17,250
Operating expense	24,486	-	24,486	13,199
Telephone	17,997	-	17,997	17,104
Retirement (Note 9)	3,762	-	3,762	3,658
Interest expense	12,601	-	12,601	14,732
Other expense	28,051	-	28,051	22,972
Loss on disposal of assets	78	-	78	514
<b>Total expenses</b>	<b>1,406,867</b>	<b>247,490</b>	<b>1,654,357</b>	<b>2,131,914</b>
<b>Revenues over expenses</b>	<b>92,546</b>	<b>71,019</b>	<b>163,565</b>	<b>115,528</b>
Fund balances, beginning	403,270	196,189	599,459	483,931
Transfers	34,568	(34,568)	-	-
Fund balances, ending	<b>\$ 530,384</b>	<b>\$ 232,640</b>	<b>\$ 763,024</b>	<b>\$ 599,459</b>

See Notes to Consolidated Financial Statements.

Summer Winds Condominiums, Inc. and Subsidiary

**Consolidated Statements of Cash Flows**  
**Year Ended September 30, 2017**  
**(With Summarized Comparative Totals for 2016)**  
**See Independent Accountant's Review Report**

	2017		2016	
	Operating Fund	Replacement Fund	Total	Total
Cash Flows From Operating Activities				
Revenues over expenses	#N/A	#N/A	#N/A	\$ 115,528
Adjustments to reconcile revenues over expenses to net cash provided by (used in) operating activities:				
Depreciation	16,910	-	16,910	18,386
Loss on disposal of assets	78	-	78	514
Net transfers	34,568	(34,568)	-	-
Changes in assets and liabilities:				
Receivables	47,014	(37,836)	9,178	108,417
Inventory	1,349	-	1,349	(834)
Prepaid expenses	8,016	-	8,016	(11,565)
Accounts payable and accrued expenses	36,096	(460)	35,636	(72,184)
Prepaid assessments	(3,832)	-	(3,832)	2,425
Deferred revenue	-	(69,021)	(69,021)	(590,763)
<b>Net cash provided by (used in) operating activities</b>	<b>#N/A</b>	<b>#N/A</b>	<b>#N/A</b>	<b>(430,076)</b>
Cash Flows From Investing Activities				
Purchase of property and equipment	(3,467)	-	(3,467)	(3,735)
<b>Net cash used in investing activities</b>	<b>(3,467)</b>	<b>-</b>	<b>(3,467)</b>	<b>(3,735)</b>
Cash Flows From Financing Activities				
Principal payments on long-term borrowings	(11,136)	-	(11,136)	(10,490)
<b>Net cash used in financing activities</b>	<b>(11,136)</b>	<b>-</b>	<b>(11,136)</b>	<b>(10,490)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>#N/A</b>	<b>#N/A</b>	<b>#N/A</b>	<b>(444,301)</b>
Cash and cash equivalents:				
Beginning	309,091	228,438	537,529	981,830
Ending	#N/A	#N/A	#N/A	\$ 537,529
Supplemental Disclosure of Cash Flow Information				
Cash payments for interest on debt	\$ 12,594	\$ -	\$ 12,594	\$ 14,699

See Notes to Consolidated Financial Statements.

## Summer Winds Condominiums, Inc. and Subsidiary

### Notes to Consolidated Financial Statements See Independent Accountant's Review Report

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** Summer Winds Condominiums, Inc. (the "Association") was chartered as a condominium association, primarily to operate and maintain common buildings and property in Salter Path, North Carolina used as condominium residences, pursuant to Chapter 55A of the General Statutes of North Carolina. Individual property owners own outright their respective individual dwelling units and an undivided interest in common areas and facilities. Responsibility for maintaining the individual dwelling units and the common areas and facilities is generally vested with the owners and the Association, respectively.

The function of Summer Winds Services, Inc. (the "Subsidiary") is 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.

A summary of the Association's significant accounting policies follows:

**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.

**Use of estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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 highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Association has deposits with a high credit quality financial institution that, at times, exceeds federally insured limits. The Association has not experienced any financial loss related to such deposits.

**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 is necessary. The balance of all assessment accounts receivables are deemed collectible by management and have not been reduced for any doubtful receivables.

## Summer Winds Condominiums, Inc. and Subsidiary

### Notes to Consolidated Financial Statements See Independent Accountant's Review Report

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Assessment 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 receivables:** Accounts receivable are carried at original invoice amount and are discounted for doubtful receivables 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. Accounts receivable are written off in the year they are deemed to be uncollectible and any recoveries of previously written off amounts will be recorded as other revenue in the year received.

An accounts receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. No interest is charged on accounts receivable.

**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. The Association does not capitalize common property, and capital expenditures for common property are reflected as an expense in the consolidated statement of revenue and expenses 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 and due in the subsequent year.

**Revenue recognition:** The revenue recognition policy of the Summer Winds Condominiums, Inc. and Subsidiary follows the accrual basis of accounting.

Member monthly dues and assessments are reported 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.

Rental income and sale of goods are recorded on the full accrual basis of accounting. Rental income is recorded on a monthly basis. Sale of goods is recorded when ownership of the goods has been exchanged. Service income is recognized when the underlying related expenditures have occurred.

**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 state 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 4.0%.

## Summer Winds Condominiums, Inc. and Subsidiary

### Notes to Consolidated Financial Statements See Independent Accountant's Review Report

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Summer Winds Services, Inc. files as a regular corporation and pays tax at the graduated corporate rates on its taxable income, if any.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

**Subsequent events:** The Association has evaluated its subsequent events (events occurring after September 30, 2017) through December 21, 2017, which represents the date the financial statements were issued.

#### Note 2. 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.

Summer Winds Services, Inc. has net operating loss carry-forwards as of September 30, 2017 that expire in the following years:

Year Ended September 30,	Amount
2027	20,032
2028	31,660
2029	48,010
2030	84,425
2031	73,173
2032	87,396
2033	88,718
2034	91,191
	<u>\$ 524,605</u>

A deferred tax asset of approximately \$162,628 resulting from the loss carry-forwards is offset by a valuation allowance of the same amount. In June, 2006 the Financial Accounting Standards Board issued interpretation 48 of Financial Accounting Standard 109, (known as "FIN 48") regarding accounting for uncertainty in income taxes. Management has evaluated the Association's tax positions and concluded that the Association has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

## Summer Winds Condominiums, Inc. and Subsidiary

### Notes to Consolidated Financial Statements See Independent Accountant's Review Report

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#### **Note 3. Owners' Assessments**

Monthly dues, insurance and other operating and replacement fund assessments to owners are determined by the board of directors (the "Board") based on the annual budget and special assessments are determined by a specific need. Each owner is assessed by their respective individual unit ownership percentage. The Association retains any excess operating funds at the end of the operating year for use in future periods.

#### **Note 4. Replacement Fund - Special Assessments and Deferred Revenue**

In September of 2014, the Board voted to approve a special assessment (known as the "2015 Special Assessment") in order to fund various repairs in the amount of \$895,080 that is to be paid either as a lump sum or in twelve equal monthly installments beginning January 15, 2015 and ending December 15, 2015. The special assessment plus finance charges of \$413 for a total of \$895,493 was billed to the respective Homeowners during the fiscal year ended September 30, 2015.

During the fiscal year ended September 30, 2015, \$235,710 of expenses related to the January 2015 Special Assessment of \$895,493, were incurred and these costs and related revenue of \$235,710 were reported in the replacement fund of the 2015 Consolidated Statement of Revenue and Expenses and Changes in Fund Balance. The remaining balance of the 2015 special assessment for which specific costs had not yet been incurred was reported as deferred revenue in the Consolidated Balance Sheet for the year ended September 30, 2015 in the amount of \$659,784.

During the fiscal year ended September 30, 2016, \$590,350 of expenses related to the January 2015 Special Assessment of \$895,493, were incurred and these costs and related revenue of \$590,350 were reported in the replacement fund of the 2016 Consolidated Statement of Revenue and Expenses and Changes in Fund Balance. The remaining balance of the 2015 special assessment for which specific costs had not yet been incurred was reported as deferred revenue in the Consolidated Balance Sheet for the year ended September 30, 2016 in the amount of \$69,021.

During the fiscal year ended September 30, 2017, the remaining \$69,021 of expenses related to the January 2015 Special Assessment of \$895,493, were incurred and these costs and related revenue of \$69,021 were reported in the replacement fund of the 2017 Consolidated Statement of Revenue and Expenses and Changes in Fund Balance.

#### **Note 5. 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 the Replacement Fund. The Board voted to approve a monthly Maintenance-Future Repair & Replacement assessment to all members beginning January 1, 2013 which funds the replacement fund. As of September 30, 2017, cumulative billings related to this assessment totaled \$696,506.

Accumulated cash and cash equivalents, net of approved related expenditures for Replacement Fund of \$157,572 at September 30, 2017, is held in a separate account and is generally not available for expenditures for normal operations except by board approval. Assessments receivable for the Replacement Fund of \$1,864 at September 30, 2017 is also held in a separate account.

## Summer Winds Condominiums, Inc. and Subsidiary

### Notes to Consolidated Financial Statements See Independent Accountant's Review Report

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#### Note 5. Replacement Fund – Future Major Repairs and Replacements (Continued)

At the Board's request, GAB Robins North America, Inc. conducted a full reserve study in November 2006 to estimate the remaining useful lives and the replacement costs for major repairs and replacements of the components of common property. In 2015, at the Board's request GAB Robins, A Division of Cunningham Lindsey, conducted an on-site reserve study update for the period October 1, 2015 – September 30, 2016. The original and updated estimates were based on industry standards and cost estimating services. The updated reserve study report dated June 16, 2015, is classified as an update reserve study with site visit under the guidelines of the National Reserve Study Standards of the Community Associations Institute, and conforms to the Community Associations Institute Professional Reserve Specialist Code of Ethics. As of the date of this report, the Board or the unit owners have not adopted this updated study.

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, pass special assessments, or delay major repairs and replacements until funds are available.

#### Note 6. Long-Term Assessments

The Association has outstanding unpaid assessments related to an individual unit for the Operating Fund of \$8,372 at September 30, 2017. This unit is the owners' primary residence and the owners of this unit filed a Petition under Chapter 13 of the Bankruptcy Code on November 12, 2015. Pursuant to the confirmed Chapter 13 Plan approved by the bankruptcy court, the owners will retain possession of the unit and repay the Association in full through monthly payments that will be made by the bankruptcy trustee to the Association beginning April 1, 2016. There will be no interest paid to the Association related to this long-term receivable during the repayment period. In the event that the owner fails to comply with the confirmed Chapter 13 Plan, the Association will be able to request that the bankruptcy stay be lifted and proceed with foreclosure on the unit or such action to protect its interest. As of September 30, 2017, \$3,372 and \$5,000 of the outstanding assessment is considered short-term and long-term respectively.

#### Note 7. Pledged Assets and Long-Term Debt

A summary of the Company's long-term debt, and collateral pledged thereon, consisted of the following as of September 30, 2017:

5.50% mortgage note payable, 106 installments of \$1,977 including interest due, through July 29, 2024, with one final payment of \$122,788 due on July 29, 2024, collateralized by Unit 418 of Summer Winds Condominiums, Inc. with a carrying value of \$218,559.	\$ 219,662
Less current maturities	11,960
	<u>\$ 207,702</u>

**Summer Winds Condominiums, Inc. and Subsidiary**

**Notes to Consolidated Financial Statements  
See Independent Accountant's Review Report**

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**Note 7. Pledged Assets and Long-Term Debt (Continued)**

Aggregate maturities required on long-term debt as of September 30, 2017 are due in future years as follows:

Year Ending September 30,	
2018	\$ 11,960
2019	12,635
2020	13,347
2021	14,100
2022	14,896
2023-2024	152,724
	\$ 219,662

**Note 8. Leasing Arrangements**

During 2013, the Association's administrative offices (HOA), which were formally housed in Unit 138, B Building, Summer Winds and a portion of the common areas of the Association, moved into their new offices in the old "rental" building which is also a portion of the common areas of the Association. 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 HOA offices into a habitable one bedroom residential apartment in exchange for a six year lease for said unit. All costs associated with the renovation will be at the tenant's sole cost and expense and at no cost to the Association. The term of this agreement commenced upon the HOA's moving out of Unit 138 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 HOA has moved out which every is the earlier date. The Association, in turn entered into a sub-lease agreement for the same terms with its Subsidiary, Summer Winds Services, Inc. to manage the lease.

The Association and Subsidiary recognized \$79,369 of rental revenue for the year ended September 30, 2017 which consists of the 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 unit 138, B Building.

**Note 9. 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 contribution expense totaled \$3,762 for the year ended September 30, 2017.

**Note 10. Summarized Comparative Amounts and Reclassifications**

The comparative total amounts shown for 2016 in the accompanying consolidated financial statements are included to provide a basis for comparison with 2017 and are not intended to present all information necessary for a fair presentation of the 2016 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Accordingly, such summarized information should be read in conjunction with the Association's consolidated financial statements for the year ended September 30, 2016 from which the summarized information was derived.



## Summer Winds Condominiums, Inc. and Subsidiary

### Notes to Consolidated Financial Statements See Independent Accountant's Review Report

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#### Note 11. Commitments and Contingencies

**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 marina being built by Shearin currently known as the Nautical Club Condominiums. The facility was built on property owned 100% by the Association.

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

Beginning January 1, 2013, SWNC began paying 100% of the operating costs of WWTF and in turn invoices the two member associations for their respective share of the costs of the operation according to formulas outlined in the "Master Declaration of Covenants for SWNC Mater Owners Association, Inc."

Prior to January 1, 2013 as well as various other times during the fiscal year, the Association, rather than SWNC, paid 100% of the operating costs of the WWTF. These costs have been offset by receivables collected.

During the current fiscal year, the WWTF required significant major repairs in the amount of \$68,028 which the two members share a 50/50 responsibility. The Association's replacement fund made loans during the repair period to SWNC to cover 100% of the repair costs. SWNC, in turn invoiced the two member associations on September 30, 2017, for their 50% respective shares. The Association's share was offset against the loans made from the replacement fund resulting in a receivable currently due from SWNC as of September 30, 2017 in the amount of \$73,204.

Based on the fact that the wastewater from the Nautical Club is disposed of on the Summer Winds campus and that there are "repair areas" on the Summer Winds campus for the treated effluent disposal should the original areas fail, the unit owners of the Nautical Club pay the Association a minimum of \$500 per year "Sewer Easement Fee" for each unit. As of September 30, 2014, 100% of the Nautical Club units have been sold to a third party and the Association recognized sewer easement income of \$36,663 and \$36,663 for the years ended September 30, 2017 and 2016, respectively.

