Summer Winds Condominiums, Inc. and Subsidiary

Consolidated Financial Report
(Reviewed)
September 30, 2019

Contents

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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 sheets as of September 30, 2019, and the consolidated statements of revenues and expenses and changes in fund balances, and consolidated statements 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 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 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, 2018, consolidated financial statements and issued a review report on those financial statements dated August 19, 2019. The summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the reviewed combined financial statements from which they were derived.

G. Lee Carroll, Jr., CPA

September 22, 2020

Summer Winds Condominiums, Inc. and Subsidiary

Consolidated Balance Sheets
September 30, 2019
(With Summarized Comparative Totals for 2018)
See Independent Accountant's Review Report

	2019			2018
Assets	**Operating Fund**	**Replacement Fund**	**Total**	Total
Current Assets				
Cash and cash equivalents (Note 4)	**$ 379,336**	**$ 271,643**	**$ 650,979**	$ 576,689
Receivables:				
Assessments (Notes 3, 4, 5 and 6)	**11,093**	**739,048**	**750,141**	12,481
Other (Note13)	**2,207,289**	**-**	**2,207,289**	84,907
Inventory	**7,621**	**-**	**7,621**	7,320
Prepaid expenses	**96,926**	**-**	**96,926**	83,687
Total current assets	**2,702,265**	**1,010,691**	**3,712,956**	765,084
Property and equipment, less accumulated depreciation 2019 $204,871; 2018 $193,426 (Note 8)	**207,480**	**-**	**207,480**	214,185
	$ 2,909,745	**$ 1,010,691**	**$ 3,920,436**	$ 979,269
Liabilities and Fund Equity				
Current Liabilities				
Notes payable (Note 7 and 13)	**$ 593,433**	**$ -**	**$ 593,433**	$ -
Current maturities of long-term debt (Note 8)	**13,432**	**-**	**13,432**	12,715
Accounts payable and accrued expenses	**1,478,449**	**-**	**1,478,449**	55,374
Prepaid assessments	**27,095**	**5,948**	**33,043**	25,209
Deferred revenue (Note 4 and 13)	**241,735**	**798,848**	**1,040,583**	-
Total current liabilities	**2,354,144**	**804,796**	**3,158,940**	**93,298**
Long-term debt, less current maturities (Note 8)	**179,869**	**-**	**179,869**	193,147
Commitments and contingencies (Notes 2, 4, 5, 6, 7, 8, 9, 10 and 13)				
Fund Equity				
Fund balances	**375,732**	**205,895**	**581,627**	692,824
	$ 2,909,745	**$ 1,010,691**	**$ 3,920,436**	$ 979,269

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, 2019
(With Summarized Comparative Totals for 2018)
See Independent Accountant's Review Report

	2019			2018
	Operating Fund	Replacement Fund	Total	Total
Revenues:				
Monthly dues assessments (Note 3)	$ 917,266	$ -	$ 917,266	$ 917,266
Special assessments (Notes 3 and 4)	-	201,107	201,107	-
Maintenance future repair/replacement assessments (Note 3 and 4)	-	275,180	275,180	275,180
Insurance assessments (Note 3)	336,331	-	336,331	336,331
Sales goods/services	88,671	-	88,671	87,938
Rental income (Note 9)	81,349	-	81,349	68,962
Insurance proceeds (Note 13)	3,054,068	-	3,054,068	-
Interest income	354	12	366	102
Other	42,750	-	42,750	44,645
Total revenues	4,520,789	476,299	4,997,088	1,730,424
Expenses:				
Selling expenses	37,829	-	37,829	37,988
General and administrative expenses:				
Salaries and related taxes	455,627	-	455,627	446,120
Repairs and maintenance	217,111	574,700	791,811	571,769
Hurricane damage repairs (Note 13)	3,054,068	-	3,054,068	-
Electricity and gas	69,617	-	69,617	92,897
Water service	18,925	-	18,925	24,024
Cable service	78,200	-	78,200	68,931
Pest control	8,964	-	8,964	7,070
Trash collections	46,351	-	46,351	39,921
Elevator service	29,099	-	29,099	32,335
Depreciation	15,651	-	15,651	15,962
Insurance	337,067	-	337,067	322,789
Professional fees	61,046	-	61,046	41,182

(Continued)

Summer Winds Condominiums, Inc. and Subsidiary

Consolidated Statements of Revenues and Expenses and Changes in Fund Balances (Continued)
Year Ended September 30, 2019
(With Summarized Comparative Totals for 2018)
See Independent Accountant's Review Report

	2019			2018
	Operating Fund	Replacement Fund	Total	Total
Office expense	$ 14,746	$ -	$ 14,746	$ 15,404
Operating expense	25,523	-	25,523	29,354
Telephone	17,380	-	17,380	19,018
Retirement (Note 10)	4,128	-	4,128	2,654
Interest expense	23,902	-	23,902	11,976
Other expense	18,351	-	18,351	20,993
Loss on disposal of assets	-	-	-	237
Total expenses	4,533,585	574,700	5,108,285	1,800,624
Revenues under expenses	(12,796)	(98,401)	(111,197)	(70,200)
Fund balances, beginning	561,164	131,660	692,824	763,024
Transfers	(172,636)	172,636	-	-
Fund balances, ending	$ 375,732	$ 205,895	$ 581,627	$ 692,824

See Notes to Consolidated Financial Statements.

Summer Winds Condominiums, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Year Ended September 30, 2019
(With Summarized Comparative Totals for 2018)
See Independent Accountant's Review Report

	2019			2018
	Operating Fund	**Replacement Fund**	**Total**	Total
Cash Flows From Operating Activities				
Revenues over expenses	**$ (12,796)**	**$ (98,401)**	**$ (111,197)**	$ (70,200)
Adjustments to reconcile revenues over expenses to net cash provided by (used in) operating activities:				
Depreciation	**15,651**	**-**	**15,651**	15,962
Loss on disposal of assets	**-**	**-**	**-**	237
Net transfers	**(172,636)**	**172,636**	**-**	-
Changes in assets and liabilities:				
Receivables	**(2,192,226)**	**(667,816)**	**(2,860,042)**	(115)
Inventory	**(301)**	**-**	**(301)**	622
Prepaid expenses	**(13,239)**	**-**	**(13,239)**	1,123
Accounts payable and accrued expenses	**1,423,075**	**-**	**1,423,075**	(36,378)
Prepaid assessments	**1,886**	**5,948**	**7,834**	(5,567)
Deferred revenue	**241,735**	**798,848**	**1,040,583**	-
Net cash (used in) provided by operating activities	**(708,851)**	**211,215**	**(497,636)**	(94,316)
Cash Flows From Investing Activities				
Purchase of property and equipment	**(8,946)**	**-**	**(8,946)**	-
Net cash used in investing activities	**(8,946)**	**-**	**(8,946)**	-
Cash Flows From Financing Activities				
Proceeds from short-term borrowings	**651,035**	**-**	**651,035**	-
Principal payments on short-term borrowings	**(57,602)**	**-**	**(57,602)**	-
Principal payments on long-term borrowings	**(12,561)**	**-**	**(12,561)**	(13,800)
Net cash provided by (used in) financing activities	**580,872**	**-**	**580,872**	(13,800)
Net (decrease) increase in cash and cash equivalents	**(136,925)**	**211,215**	**74,290**	(108,116)
Cash and cash equivalents:				
Beginning	**516,261**	**60,428**	**576,689**	684,805
Ending	**$ 379,336**	**$ 271,643**	**$ 650,979**	$ 576,689
Supplemental Disclosure of Cash Flow Information				
Cash payments for interest on debt	**$ 22,567**	**$ -**	**$ 22,567**	$ 11,897

See Notes to Consolidated Financial Statements.

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 210 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 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, exceed federally insured limits.

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.

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.

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

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 if applicable 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: 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 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 and Subsidiary recognize revenue in accordance with Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers*,* which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

The Association is a not-for-profit entity with revenue derived from member monthly 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 monthly 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.

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

Rental income is recognized on a monthly basis, sale of goods is 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 their performance obligations are 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 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 3.0%.

Summer Winds Services, Inc. files as a regular corporation and pays tax at the corporate rate 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, 2019) through September 22, 2020 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, 2019 that expire in the following years:

Year Ended September 30,	Amount
2030	57,988
2031	73,173
2032	87,396
2033	88,718
2034	91,191
	$ 398,466

A deferred tax asset of approximately $91,647 resulting from the loss carry-forwards is offset by a valuation allowance of the same amount. 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 Financial Accounting Standards Board's (FASB) guidance for uncertainty in income taxes.

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

On June 26, 2019, the Board 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 1, 2021. The special assessment plus service charges of $12 for a total of $999,968 was billed to the respective Homeowners during the fiscal year ended September 30, 2019.

During the fiscal year ended September 30, 2019, $201,107 of expenses 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 of the Consolidated Statement of Revenue and Expenses and Changes in Fund Balance for the year ended, September 30, 2019. The remaining balance of the 2019 Special Assessment for which specific costs have not yet been incurred is reported as deferred revenue in the Consolidated Balance Sheet for the year ended September 30, 2019 in the amount of $798,848.

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, 2019, cumulative billings related to this assessment totaled $1,423,197.

Accumulated cash and cash equivalents, net of approved related expenditures for Replacement Fund of $104,057 at September 30, 2019, is held in a separate account and is generally not available for expenditures for normal operations except by board approval. Special Assessments receivable for the Replacement Fund if applicable are also held in a separate account.

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 or implemented 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. Unpaid Assessments

At September 30, 2018, the Association had outstanding unpaid assessments of $5,039 related to an individual unit. 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 retained possession of the unit and repaid the Association through monthly payments that were made by the bankruptcy trustee to the Association beginning April 1, 2016. There was no interest charged and paid to the Association related to the original long-term receivable during the repayment period. The balance of the outstanding unpaid assessment was paid in full August 1, 2019.

Note 7. Short Term Notes Payable

As a result of the damages incurred from Hurricane Florence in September of 2018, the Association entered into a short term promissory note with BB&T on December 14, 2018, in the amount of $151,035 to be used for hurricane damage repairs while the Association was pending insurance proceeds. This note is payable to the bank in eleven monthly consecutive interest payments, beginning January 18, 2019, at an interest rate of 5.00% and one final principal and interest payment of $151,664 due on December 18, 2019 and collateralized by an Assignment and Security Interest in the insurance proceeds. The Association elected to make principal payments in addition to the interest payments. The outstanding balance at September 30, 2019 is $93,433.

Note 7. Short Term Notes Payable (Continued)

The Association entered into an additional short term promissory note with BB&T on June 06, 2019 in the amount of $500,000 to be used for ongoing hurricane damage repairs. This note is payable to the bank in eleven monthly consecutive interest payments, beginning July 15, 2019, at an interest rate of 4.75% and one final principal and interest payment of $502,045 due on June 15, 2020, and collateralized by an Assignment and Security Interest in the insurance proceeds. The outstanding balance at September 30, 2019 is $500,000.

Note 8. Pledged Assets and Long-Term Debt

A summary of the Company's long-term debt at September 30, 2019, and the related collateral pledged thereon, is as follows:

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 Condoniniums, Inc. with a carrying value of $195,901.	$ 193,301
Less current maturities	13,432
	$ 179,869

Aggregate maturities required on long-term debt as of September 30, 2019 are due in future years as follows:

Year Ending September 30,	
2020	$ 13,432
2021	14,190
2022	14,991
2023	15,836
2024	134,852
	$ 193,301

Note 9. Leasing Arrangements

During 2013, the Association's administrative offices (HOA), which were formerly 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 whichever 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. Effective November 1, 2013, the renovations to Unit 138, B building were complete, a certificate of occupancy was awarded and the Association's subsidiary, Summer Winds Services 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.

Note 9. Leasing Arrangements (Continued)

During 2018, the HOA had unused common area space, 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 habitable studio 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 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 HOA has moved out whichever 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. Effective April 1, 2019, the renovations to Unit 126, C building were complete, a certificate of occupancy was awarded and the Association's subsidiary, Summer Winds Services began leasing the unit.

The Association and Subsidiary recognized $81,349 in rental revenue for the year ended September 30, 2019 which consists of the 2.75% rental fee collected on unit rentals from 3rd 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 10. 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 company made contributions of $4,128 for the year ended September 30, 2019.

Note 11. Summarized Comparative Amounts and Reclassifications

The comparative total amounts shown for 2019 in the accompanying consolidated financial statements are included to provide a basis for comparison with 2018 and are not intended to present all information necessary for a fair presentation of the 2018 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, 2018 from which the summarized information was derived.

Note 12. Recent Accounting Pronouncements

In February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02, *Leases* (Topic 842). Under the new guidance, lessees will be required to recognize at the commencement date for all leases (with the exception of short-term leases): (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. This standard will be effective for fiscal years beginning after December 15, 2020, with early application permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The Association is currently evaluating the effect that the updated standard will have on its financial statements.

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 marina being built by Shearin across the street currently known as the Nautical Club Condominiums. The facility with 70 individual units 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 (Association) and the Nautical Club owners association (NC) 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."

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.

Payment of the annual Sewer Easement Fee shall be made by the Nautical Club Condominiums owners' association in equal quarterly installments on the first day of each quarter on a calendar year basis. The Sewer Easement Fee was adjusted January 1, 2012, and 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 is scheduled to be adjusted January 1, 2020.

The Association recognized sewer easement income of $36,663 for the years ended September 30, 2019 and 2018.

Hurricane Damage: The Association incurred significant damages as a result of Hurricane Florence on September 14, 2018. The Association received a statement of loss (SOL) from the insurance adjuster of approximately $3.1 Million before depreciation and a deductible of approximately $309,000 and $25,000 respectively resulting in a net claim of approximately $2.7 Million. The Association rebutted the original SOL and requested a subsequent review of the claim which resulted in an adjusted net claim of approximately $3.3 Million.

The Association paid hurricane cleanup costs of $39,176 out of pocket during the year ending September 30, 2018 and hurricane damage repairs, which are still in progress, of $3,054,068 during the year ending September 30, 2019. For year ending September 30, 2019, the Association recognized $3,295,803 in insurance proceeds of which included an insurance (other) receivable in the amount of $2,189,174 that was received subsequent to year end. Insurance proceeds recorded in excess of ongoing repair costs in the amount of $241,735 is recorded as deferred revenue for the operating fund in the Consolidated Balance Sheet for the year ending September 30, 2019 and will be recognized as revenue for the year ending September 30, 2020 when final repair costs have been completed. 100% of the Hurricane Florence repairs and insurance proceeds are expected to be completed and received during year ending September 30, 2020.

Note 13. Commitments, Contingencies and Subsequent Events (Continued)

Long Term Notes Payable: The Association entered into a long term promissory note with Truist Bank (formerly BB&T) on December 13, 2019, in the amount of $574,558. $500,000 is to be used for costs associated with the replacement fund's 2019 Special Assessment's elevator modifications while the Association is pending collections of the special assessment over 24 months and $74,558 is to refinance the outstanding balance at maturity of the operating fund's $151,035 short term notes payable disclosed above in footnote number 7. This note is payable to the bank in twenty-four consecutive payments of $24,973, beginning January 25, 2020, maturing December 25, 2021, at an interest rate of 3.9% and collateralized by an Assignment and Security Interest in the 2019 Special Assessment collections.

On July 13, 2020, the Association refinanced the existing mortgage note payable, disclosed above in footnote number 8, for the Association owned Unit 418 with Truist Bank. This note is payable to the bank in one hundred thirteen monthly consecutive payments of $1,965.70, beginning August 21, 2020, maturing January 13, 2030, at an interest rate of 4.25% and collateralized by the Unit.