# Summer Winds Condominiums, Inc. and Subsidiary

Consolidated Financial Report
(Reviewed)
September 30, 2015

**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 combined balance sheet of Summer Winds Condominiums, Inc. and Subsidiary as of September 30, 2015, and the consolidated statement of revenues and expenses and changes in fund balances and consolidated statement of cash flows for the year then ended. 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 financial statements taken as a whole. Accordingly, I do not express such an opinion.

Management is responsible for the preparation and fair presentation of the combined financial statement in accordance with the cash receipts and disbursements basis of accounting and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the combined financial statement.

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modifications that should be made to the combined financial statement. I believe that the results of my procedures provide a reasonable basis for my report.

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 conformity with accounting principles generally accepted in the United States of America.

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.

I have previously reviewed Summer Winds Condominiums, Inc. and Subsidiary September 30, 2014, financial statements and issued a review report on those financial statements dated January 22, 2015. The summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the reviewed financial statements from which they were derived.

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

March 4, 2016

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

**Consolidated Balance Sheets**
**September 30, 2015**
**(With Summarized Comparative Totals for 2014)**
**See Independent Accountant's Review Report**

| | 2015 | | | 2014 |
|---|---|---|---|---|
| **Assets** | **Operating Fund** | **Replacement Fund** | **Total** | Total |
| Current Assets | | | | |
| Cash and cash equivalents (Note 5) | **$ 302,987** | **$ 678,843** | **$ 981,830** | $ 299,734 |
| Receivables: | | | | |
| Assessments (Notes 3, 4 and 5) | **8,738** | **175,874** | **184,612** | 23,549 |
| Other (Note11) | **13,251** | **-** | **13,251** | 10,526 |
| Inventory | **8,457** | **-** | **8,457** | 7,881 |
| Prepaid expenses | **81,261** | **-** | **81,261** | 88,020 |
| **Total current assets** | **414,694** | **854,717** | **1,269,411** | 429,710 |
| Long-term assessments (Note 6) | **12,052** | **4,953** | **17,005** | - |
| Property and equipment, less accumulated depreciation 2015 $171,017; 2014 $164,537 (Note 7) | **259,070** | **-** | **259,070** | 272,051 |
| | **$ 685,816** | **$ 859,670** | **$ 1,545,486** | $ 701,761 |
| **Liabilities and Fund Equity** | | | | |
| Current Liabilities | | | | |
| Current maturities of long-term debt (Note 7) | **$ 8,063** | **$ -** | **$ 8,063** | $ 7,548 |
| Accounts payable and accrued expenses | **53,852** | **74,448** | **128,300** | 55,333 |
| Prepaid assessments | **27,745** | **4,438** | **32,183** | 9,492 |
| Deferred revenue (Note 4) | **-** | **659,784** | **659,784** | - |
| **Total current liabilities** | **89,660** | **738,670** | **828,330** | 72,373 |
| Long-term debt, less current maturities (Note 7) | **233,225** | **-** | **233,225** | 240,995 |
| Commitments and contingencies (Notes 2, 4, 5, 6, 7, 8, 9 and 11) | | | | |
| Fund Equity | | | | |
| Fund balances | **362,931** | **121,000** | **483,931** | 388,393 |
| | **$ 685,816** | **$ 859,670** | **$ 1,545,486** | $ 701,761 |

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, 2015**
**(With Summarized Comparative Totals for 2014)**
**See Independent Accountant's Review Report**

| | 2015 | | | 2014 |
|---|---|---|---|---|
| | Operating Fund | Replacement Fund | Total | Total |
| Revenues: | | | | |
| Monthly dues assessments (Note 3) | $ 869,440 | $ - | $ 869,440 | $ 869,483 |
| Special assessments (Notes 3, 4 and 5) | - | 235,710 | 235,710 | - |
| Maintenance future repair/replacement assessments (Note 3 and 5 ) | - | 101,075 | 101,075 | 101,020 |
| Insurance assessments (Note 3) | 325,390 | - | 325,390 | 325,267 |
| Sales goods/services | 72,548 | - | 72,548 | 88,727 |
| Rental income (Note 8) | 55,009 | - | 55,009 | 57,238 |
| Interest income | 54 | 160 | 214 | 107 |
| Other | 48,459 | - | 48,459 | 23,073 |
| **Total revenues** | 1,370,900 | 336,945 | 1,707,845 | 1,464,915 |
| Expenses: | | | | |
| Selling and rental expenses | 33,267 | - | 33,267 | 40,691 |
| General and administrative expenses: | | | | |
| Salaries and related taxes | 429,417 | - | 429,417 | 443,700 |
| Repairs and maintenance | 223,536 | 235,710 | 459,246 | 408,022 |
| Electricity and gas | 76,162 | - | 76,162 | 88,117 |
| Water service | 22,192 | - | 22,192 | 20,617 |
| Cable service | 67,053 | - | 67,053 | 65,340 |
| Pest control | 7,424 | - | 7,424 | 6,897 |
| Trash collections | 32,237 | - | 32,237 | 33,032 |
| Elevator service | 28,031 | - | 28,031 | 41,563 |
| Depreciation | 18,480 | - | 18,480 | 19,068 |
| Insurance | 332,319 | - | 332,319 | 350,824 |
| Professional fees | 24,486 | - | 24,486 | 35,233 |

(Continued)

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

**Consolidated Statements of Revenues and Expenses and Changes in Fund Balances (Continued)**
**Year Ended September 30, 2015**
**(With Summarized Comparative Totals for 2014)**
**See Independent Accountant's Review Report**

| | 2015 | | | 2014 |
|---|---|---|---|---|
| | **Operating Fund** | **Replacement Fund** | **Total** | Total |
| Office supplies-printing and postage | **$ 17,561** | **$ -** | **$ 17,561** | $ 13,881 |
| Operating supplies | **5,862** | **-** | **5,862** | 3,599 |
| Taxes and licenses | **-** | **-** | **-** | 1,552 |
| Telephone | **15,214** | **-** | **15,214** | 14,590 |
| Rental expense | **-** | **-** | **-** | 587 |
| Retirement (Note 9) | **3,849** | **-** | **3,849** | 3,414 |
| Interest expense | **16,481** | **-** | **16,481** | 17,093 |
| Other | **23,020** | **6** | **23,026** | 26,005 |
| **Total expenses** | **1,376,591** | **235,716** | **1,612,307** | 1,633,825 |
| **Revenues over (under) expenses** | **(5,691)** | **101,229** | **95,538** | (168,910) |
| Fund balances, beginning | **343,356** | **45,037** | **388,393** | 557,303 |
| Transfers | **25,266** | **(25,266)** | **-** | - |
| Fund balances, ending | **$ 362,931** | **$ 121,000** | **$ 483,931** | $ 388,393 |

See Notes to Consolidated Financial Statements.

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

**Consolidated Statements of Cash Flows**
**Year Ended September 30, 2015**
**(With Summarized Comparative Totals for 2014)**
**See Independent Accountant's Review Report**

| | **2015** | | | 2014 |
|---|---|---|---|---|
| | **Operating Fund** | **Replacement Fund** | **Total** | Total |
| Cash Flows From Operating Activities | | | | |
| Revenues over (under) expenses | **$ (5,691)** | **$ 101,229** | **$ 95,538** | $ (168,910) |
| Adjustments to reconcile revenues over under expenses to net cash provided by (used in) operating activities: | | | | |
| Depreciation | **18,480** | **-** | **18,480** | 19,068 |
| Net transfers | **25,266** | **(25,266)** | **-** | - |
| Changes in assets and liabilities: | | | | |
| Receivables | **(2,466)** | **(178,328)** | **(180,794)** | 9,933 |
| Inventory | **(575)** | **-** | **(575)** | 741 |
| Prepaid expenses | **6,758** | **-** | **6,758** | (679) |
| Accounts payable and accrued expenses | **(1,481)** | **74,448** | **72,967** | 7,145 |
| Prepaid assessments | **20,245** | **2,446** | **22,691** | (2,940) |
| Deferred revenue | **-** | **659,784** | **659,784** | - |
| **Net cash provided by (used in) operating activities** | **60,536** | **634,313** | **694,849** | (135,642) |
| Cash Flows From Investing Activities | | | | |
| Purchase of property and equipment | **(5,498)** | **-** | **(5,498)** | (5,097) |
| **Net cash used in investing activities** | **(5,498)** | **-** | **(5,498)** | (5,097) |
| Cash Flows From Financing Activities | | | | |
| Principal payments on long-term borrowings | **(7,255)** | **-** | **(7,255)** | (10,595) |
| **Net cash used in financing activities** | **(7,255)** | **-** | **(7,255)** | (10,595) |
| **Net increase (decrease) in cash and cash equivalents** | **47,783** | **634,313** | **682,096** | (151,334) |
| Cash and cash equivalents: | | | | |
| Beginning | **255,204** | **44,530** | **299,734** | 451,068 |
| Ending | **$ 302,987** | **$ 678,843** | **$ 981,830** | $ 299,734 |
| Supplemental Disclosure of Cash Flow Information | | | | |
| Cash payments for interest | **$ 16,466** | **$ -** | **$ 16,466** | $ 17,093 |

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 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.

**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 $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.

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

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 6.0%.

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 carryforwards 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, 2015) through March 04, 2016, 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 carryforwards as of September 30, 2015 that expire in the following years:

| Year Ended September 30, | Amount |
|---|---|
| 2017 | $ 23,356 |
| 2018 | 20,868 |
| 2019 | 11,459 |
| 2021 | 924 |
| 2022 | 2,272 |
| 2023 | 8,402 |
| 2025 | 22,540 |
| 2026 | 44,853 |
| 2027 | 28,400 |
| 2028 | 31,660 |
| 2029 | 48,010 |
| 2030 | 84,425 |
| 2031 | 73,173 |
| 2032 | 87,649 |
| 2033 | 89,242 |
| 2034 | 91,250 |
| | $ 668,483 |

### Note 2. Income Tax Matters (Continued)

A deferred tax asset of approximately $220,600 resulting from the loss carryforwards 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.

### 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 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.

### 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, 2015, cumulative billings related to this assessment totaled $268,984.

Accumulated cash and cash equivalents, net of approved related expenditures for Replacement Fund and 2015 Special Assessment, which aggregate $678,843 at September 30, 2014, are held in separate accounts and are generally not available for expenditures for normal operations except by board approval.

Accounts receivable for the Replacement Fund and 2015 Special Assessment, which aggregate $180,827 at September 30, 2015 are held in separate accounts.

At the Board's request, GAB Robins North America, Inc. conducted a 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. The estimates were based on industry standards and cost estimating services. This report was classified as a full reserve study 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 study.

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

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 $12,052 and the Replacement Fund of $4,953 at September 30, 2015. This unit is the owners' primary residence and the owners of this unit have filed for bankruptcy under Chapter 13 of the US Bankruptcy Code. Pursuant to the proposed plan submitted to the bankruptcy court for approval, which is still pending as of the date of this report, 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 over the course of 56 months. The date those payments will begin is pending the bankruptcy court's approval. There will be no interest paid to the Association related to this long-term receivable during the 56 month repayment period. In the event that the owner fails to comply with the proposed plan, once approved, the Association will be able to request that the bankruptcy stay be lifted and proceed with foreclosing on the unit in order to recover the unpaid assessments.

## 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, 2015:

| | |
|---|---|
| 6.625% mortgage note payable, interest only due through December 29, 2009, one monthly installment of $23,200 plus interest due January 29, 2010, 174 monthly installments of $1,977 including interest due, through July 28, 2024, with one final payment of $146,424 due on July 28, 2024, collateralized by Unit 418 of Summer Winds Condominiums with a carrying value of $241,218. | **$ 241,288** |
| Less current maturities | **8,063** |
| | **$ 233,225** |

Aggregate maturities required on long-term debt as of September 30, 2015 are due in future years as follows:

| Year Ending September 30, | |
|---|---|
| 2016 | 8,063 |
| 2017 | 8,614 |
| 2018 | 9,202 |
| 2019 | 9,831 |
| 2020 | 10,502 |
| 2021-2024 | 195,076 |
| | $ 241,288 |

## 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 $55,009 of rental revenue for the year ended September 30, 2015 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 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 $3,849 for the year ended September 30, 2015.

## Note 10. Summarized Comparative Amounts and Reclassifications

The comparative total amounts shown for 2014 in the accompanying consolidated financial statements are included to provide a basis for comparison with 2015 and are not intended to present all information necessary for a fair presentation of the 2014 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, 2014 from which the summarized information was derived.

## 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 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."

## Note 11. Commitments and Contingencies (Continued)

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 and those currently due from the SWNC as of September 30, 2015 in the amount of $2,948. The Association also during the current fiscal year made various operating loans to SWNC resulting in a receivable currently due from SWNC as of September 30, 2015 in the amount of $4,855.

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 $44,526 and $18,522 for the years ended September 30, 2015 and 2014, respectively.