

**ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
GARDEN CITY, SOUTH CAROLINA**

REPORT OF INDEPENDENT AUDITORS

***FINANCIAL STATEMENTS
Years Ended December 31, 2019 and 2018***

**ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
GARDEN CITY, SOUTH CAROLINA**

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Members
Atalaya Towers Homeowner's Association, Inc.
Garden City, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Atalaya Towers Homeowner's Association, Inc., which comprise the statement of assets, liabilities and fund balances – modified cash basis as of December 31, 2019, and the related statements of revenues, expenses and changes in fund balances – modified cash basis and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

REPORT OF INDEPENDENT AUDITORS

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of Atalaya Towers Homeowner's Association, Inc. as of December 31, 2019, and its revenues, expenses and changes in fund balances and cash flows for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

Note 1 of the financial statements describes the basis of accounting. As described in that note, these financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report of Summarized Comparative Information

As described in Note 1, we have previously audited Atalaya Towers Homeowner's Association, Inc.'s 2018 financial statements, and our report dated March 30, 2019 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Management has omitted supplementary information about future major repairs and replacements 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 basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Deborah M Weir, CPA, LLC

Myrtle Beach, South Carolina
September 23, 2020

ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES -
MODIFIED CASH BASIS
December 31, 2019
(With Summarized Comparative Information at December 31, 2018)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2019 Totals</u>	<u>2018 Totals</u>
ASSETS				
Cash and cash equivalents (Notes 1 and 6)	\$ 161,824	\$ 204,343	\$ 366,167	\$ 272,507
Due from Operating Fund	-	11,383	11,383	28,222
Due (to) Replacement Fund	(11,383)	-	(11,383)	(28,222)
Due from affiliated association	7,399	119	7,518	-
Prepaid expenses	1,365	-	1,365	965
Land (Note 1)	372,853	-	372,853	372,853
TOTAL ASSETS	\$ 532,058	\$ 215,845	\$ 747,903	\$ 646,325
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 4,743	\$ 1,985	\$ 6,728	\$ 22,321
Due to affiliated association	-	-	-	5,850
Income taxes payable (Note 4)	2,035	-	2,035	2,109
Prepaid maintenance fees (Note 3)	59,916	7,962	67,878	2,998
TOTAL LIABILITIES	66,694	9,947	76,641	33,278
FUND BALANCES	465,364	205,898	671,262	613,047
TOTAL LIABILITIES AND FUND BALANCES	\$ 532,058	\$ 215,845	\$ 747,903	\$ 646,325

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS

For the Year Ended December 31, 2019

(With Summarized Comparative Information for the Year Ended December 31, 2018)

	Operating Fund	Replacement Fund	2019 Totals	2018 Totals
REVENUES				
Maintenance assessments and fees (Note 3):				
Regular	\$ 350,400	\$ 128,000	\$ 478,400	\$ 504,788
Insurance	75,280	-	75,280	71,134
Special	-	40,000	40,000	72,065
Late fees and interest charges	1,250	-	1,250	835
Interest income	-	42	42	42
Insurance claim proceeds - hurricane damage (Note 7)	-	97,507	97,507	94,825
Merchandise sales	300	-	300	370
Rental income - cellular tower	2,500	-	2,500	2,400
Vending income	297	-	297	537
TOTAL REVENUES	430,027	265,549	695,576	746,996
EXPENSES				
Repairs and maintenance				
Building maintenance and supplies	13,388	-	13,388	17,690
Contract maintenance services	26,800	-	26,800	26,444
Contract service agreements - HVAC, elevator and fire systems	21,009	-	21,009	20,451
Landscape and grounds materials and supplies	2,152	-	2,152	2,460
Pool maintenance, supplies and repairs	8,116	-	8,116	9,416
Uniforms	135	-	135	310
Total repairs and maintenance expenses	71,600	-	71,600	76,771
Leases, contracts and fixed expenses				
Income taxes (Note 4)	419	-	419	1,135
Insurance	71,197	-	71,197	75,743
Office equipment lease (Note 5)	574	-	574	542
Pest control	8,048	-	8,048	7,862
Property taxes	10	-	10	74
Security services	2,168	-	2,168	2,613
Total leases, contracts, and fixed expenses	82,416	-	82,416	87,969
General and administrative				
Auditing services	2,300	-	2,300	2,200
Bank service charges and lockbox fees	1,165	20	1,185	1,089
Board of Directors and meeting expenses	3,244	-	3,244	3,021
Computer equipment	2,150	-	2,150	3,396
Courier services	1,562	-	1,562	1,332
Legal and collection services, net of reimbursements	-	-	-	(1,186)
Management fees	20,160	-	20,160	20,160
Office supplies and expenses	1,616	-	1,616	1,324

(Continued)

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ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS

For the Year Ended December 31, 2019

(With Summarized Comparative Information for the Year Ended December 31, 2018)

(Continued)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2019 Totals</u>	<u>2018 Totals</u>
EXPENSES (Continued)				
General and administrative (Continued)				
Other taxes and licenses	\$ 425	\$ -	\$ 425	\$ 422
Miscellaneous expenses	37	-	37	276
Total general and administrative expenses	<u>32,659</u>	<u>20</u>	<u>32,679</u>	<u>32,034</u>
Salaries, wages and related employee expenses				
Salaries:				
Administrative	35,888	-	35,888	34,734
Maintenance	61,014	-	61,014	60,952
Payroll taxes and related employee expenses	<u>23,400</u>	<u>-</u>	<u>23,400</u>	<u>24,493</u>
Total salaries, wages and related employee expenses	<u>120,302</u>	<u>-</u>	<u>120,302</u>	<u>120,179</u>
Utilities				
Cable television service	26,028	-	26,028	24,832
Electricity	15,178	-	15,178	15,456
Fuel	8,722	-	8,722	10,447
Telephone and answering services	2,782	-	2,782	2,647
Trash removal	9,388	-	9,388	8,606
Water and sewer	<u>29,872</u>	<u>-</u>	<u>29,872</u>	<u>32,455</u>
Total utilities expenses	<u>91,970</u>	<u>-</u>	<u>91,970</u>	<u>94,443</u>
Major repairs and replacements (Note 6)				
Elevator repairs	-	67,480	67,480	883
Exterior building, balconies and stairwell waterproofing, sealing and painting	-	46,064	46,064	66,122
Fencing replacements	-	10,010	10,010	-
Fire alarm systems repairs	-	945	945	1,125
Fire and exit door replacements	-	5,726	5,726	202
Generator replacement	-	-	-	14,700
Hurricane damage repairs (Note 7)	-	29,768	29,768	113,608
HVAC maintenance	-	6,825	6,825	-
Luggage carts	-	1,927	1,927	-
Parking lot resealing and restriping	-	5,940	5,940	11,121
Pool and spa heater replacements	-	7,257	7,257	-
Pool chlorinator replacement	-	2,390	2,390	2,790
Pool deck resurfacing and recoping	-	-	-	23,537
Pool furniture	-	-	-	874

(Continued)

The accompanying Notes to Financial Statements are an integral part of these financial statements.

ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS
For the Year Ended December 31, 2019
(With Summarized Comparative Information for the Year Ended December 31, 2018)

(Continued)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2019 Totals</u>	<u>2018 Totals</u>
EXPENSES (Continued)				
Major repairs and replacements (Continued) (Note 6)				
Stormwater management:				
Asphalt resealing	\$ -	\$ 6,872	\$ 6,872	\$ -
Drainage repairs	-	46,740	46,740	-
Other professional services - engineering and surveying	-	450	450	4,000
Total major repairs and replacements expenses	-	238,394	238,394	238,962
TOTAL EXPENSES	398,947	238,414	637,361	650,358
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	31,080	27,135	58,215	96,638
Beginning fund balances	434,284	178,763	613,047	516,409
ENDING FUND BALANCES	\$ 465,364	\$ 205,898	\$ 671,262	\$ 613,047

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
For the Year Ended December 31, 2019
(With Summarized Comparative Information for the Year Ended December 31, 2018)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2019 Totals</u>	<u>2018 Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ 31,080	\$ 27,135	\$ 58,215	\$ 96,638
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash and cash equivalents provided (used) by operating activities:				
(Increase) decrease in:				
Interfund balances	(16,839)	16,839	-	-
Due from affiliated association	(7,399)	(119)	(7,518)	-
Prepaid expenses	(400)	-	(400)	1,210
Increase (decrease) in:				
Accounts payable and accounts payable	(6,457)	(9,136)	(15,593)	(10,504)
Due to affiliated association	(5,850)	-	(5,850)	5,504
Income taxes payable	(74)	-	(74)	975
Prepaid maintenance fees	57,318	7,562	64,880	961
NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY OPERATING ACTIVITIES	<u>51,379</u>	<u>42,281</u>	<u>93,660</u>	<u>94,784</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>51,379</u>	<u>42,281</u>	<u>93,660</u>	<u>94,784</u>
CASH AND CASH EQUIVALENTS, at beginning of year	110,445	162,062	272,507	177,723
CASH AND CASH EQUIVALENTS, AT END OF YEAR	<u>\$ 161,824</u>	<u>\$ 204,343</u>	<u>\$ 366,167</u>	<u>\$ 272,507</u>
SUPPLEMENTAL DISCLOSURE				
Income taxes paid	\$ 1,135	\$ -	\$ 1,135	\$ 160

*The accompanying Notes to Financial Statements are
an integral part of these financial statements.*

**ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. NATURE AND PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature and Purpose of Organization

Atalaya Towers Homeowner's Association, Inc. (the "Association") is a statutory homeowners association incorporated and existing under the laws of the State of South Carolina. The Association is responsible for maintaining and preserving common property, enforcing rules for mutual benefit, and providing other common services to Association members. Atalaya Towers is a condominium complex consisting of eighty (80) residential units located in Garden City, South Carolina. Of the total residential units, sixty-one (61) units are wholly owned and nineteen (19) units are committed to interval ownership (the "timeshare units"). The interval owners are also members of a separate regime, the Atalaya Towers Interval Owners Association, Inc., which administers and provides for the specific common expenses of the timeshare units. The Association was formed in 1985.

The following is a summary of the more significant accounting policies used in the preparation and presentation of the accompanying financial statements of the Association.

Basis of Accounting

The Association prepares its financial statements using the modified cash basis of accounting. This basis of accounting is a basis other than accounting principles generally accepted in the United States of America in that revenues are recognized when collected, rather than when earned (except for prepaid maintenance fees). Additionally, the Association does not recognize balances, and the effects on earnings, of assessments receivable from members. However, assets and liabilities arising from cash transactions are recognized. Modifications to the cash basis of accounting made by the Association in conjunction with preparing the accompanying financial statements include recording income tax provisions, if any, accounts payable and accrued expenses. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Association's governing documents provide guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Accordingly, financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose. The Association's funds comprise:

Operating Fund - used to account for financial resources available for the general operations of the Association

Replacement Fund - used to accumulate financial resources designated for future major repairs and replacements

(Continued)

ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE AND PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncement

The Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, superseding previously issued revenue recognition standards. The guidance requires the recognition of revenue when promised goods or services are transferred to Association members in an amount that reflects the consideration to which the Association expects to receive in exchange for those goods and services. The cornerstone in the application of this new guidance is the performance obligations and affects the timing of revenue and expense recognition. The Association adopted the new guidance as of January 1, 2019 and determined the adoption of the authoritative pronouncement had no material effect on the financial statements as the financial statements are prepared using the modified cash basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of interest-bearing checking and money market accounts. The Association considers all certificates of deposit and highly liquid investment instruments, if any, with original maturities of less than ninety (90) days to be cash equivalents.

Maintenance Assessments and Fees

Association members are subject to maintenance assessments and fees to provide funds for the Association's operating expenses, future capital acquisitions and major repairs and replacements. The Association's policy is to impose late fees and interest charges on past due balances and engage in collection efforts on such delinquent balances. The annual budget and owners' maintenance assessments and fees are determined by the Board of Directors to provide for current operating expenditures and required replacement funds. The Association retains excess operating funds at the end of the year, if any, for use in the subsequent year.

Common Property

Real property owned by the individual unit owners in common and improvements made by the Association to such property are not capitalized in the financial statements. All expenditures for real property common elements and improvements are reflected as an expense in the period incurred. Common property elements consist primarily of driveways and parking areas, landscape and green space areas, a boardwalk and indoor and outdoor swimming pool facilities.

Land

In 1991, the Association acquired a parcel of land. The land is stated at cost and is capitalized as it is deeded separately from the Association's common property. The Association capitalizes property to which it has title and records these assets at cost. Depreciation, if applicable, is computed over the estimated useful lives of the assets. Repairs and maintenance associated with capitalized property are charged to expense as incurred. Expenditures which substantially increase the useful lives of these assets are capitalized.

(Continued)

**ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. NATURE AND PURPOSE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations

Credit Risk – Financial instruments which potentially subject the Association to concentrations of credit risk, as defined by the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, consist primarily of bank accounts on deposit at financial institutions, with balances which may at times exceed the amounts insured by the Federal Deposit Insurance Corporation (FDIC). Management of the Association evaluates the financial stability of its depositories and considers the risk of loss to be remote.

Geographic – The Association is engaged in a single industry in a single location. Accordingly, the Association is subject to the normal risks and economic conditions in this area that any such entity is exposed, including the potential for business disruption due to hurricanes, acts of nature or other uncontrollable factors.

Summarized Comparative Information

The financial statements include certain prior period summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

NOTE 2. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 23, 2020, the date the financial statements were available to be issued. Based on this evaluation, the Association is not aware of any subsequent events, except as reported and disclosed in Note 8, that require recognition or disclosure in the financial statements.

**ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 3. MAINTENANCE ASSESSMENTS AND FEES CHARGED TO OWNERS

Maintenance Fees and Insurance Assessment

Pursuant to the Association's governing documents, maintenance fees are allocated to the wholly owned unit owners in the proportions or percentages provided in those documents. The regular quarterly maintenance fee per unit owner was \$1,495 each quarter in 2019, and \$2,037 the first two quarters and \$2,000 the last two quarters in 2018. Additionally, in 2019 all unit owners were assessed a quarterly amount of \$265 the first three (3) quarters and \$146 the last quarter and, in 2018 all unit owners were assessed a quarterly amount of \$241 the first quarter, \$225 the second quarter and \$204 the last two quarters to help defray the Association's annual insurance costs.

Special Assessments

During 2016, the Association's Board of Directors voted and approved the levying of a quarterly special assessment to each wholly owned unit owner to help fund the costs associated with repairs necessitated and sustained from Hurricane Matthew damages to the development. (See also Note 7). The \$500 special assessment was due and payable beginning January 2017. In June 2017, the Board of Directors further approved the utilization of its Replacement Funds to help offset the aforementioned hurricane repair costs and accordingly, reduced the quarterly special assessment to \$250 per each owner for the two (2) remaining quarters in 2017, beginning June 2017 and \$225 per each owner for the four (4) quarters ending October 2018.

In 2019, the Association's Board of Directors elected to levy another special assessment totaling \$4,500 per individual wholly owned unit owner, payable in quarterly installments of \$250, beginning the third quarter of 2019 and extending through the fourth quarter of 2023. The proceeds of the special assessment are to be used to help fund the costs of mechanical and electrical upgrades to the Association's elevators. (See also Note 8).

Interval Owners Assessments

As described in Note 1, the owners of the timeshare weeks are members of a separate regime but pay assessments and fees to the Association in support of the Atalaya Towers common properties. As such, the Association bills and receives quarterly fees from the Atalaya Towers Interval Owners Association, Inc. The quarterly fees were \$28,405 in 2019 and \$29,849 in 2018. The Association also bills and receives quarterly fees from the timeshare owners for their portion of the property insurance premiums. Accordingly, during 2019, the Association collected \$5,035 for each of the first three (3) quarters and \$2,774 the last quarter and \$4,579 the first two (2) quarters and \$3,876 the last two (2) quarters of 2018. Additionally, during 2019 and 2018, the Association billed and collected \$9,500 and \$2,291, respectively, from the Atalaya Towers Interval Owners Association for its portion of the above special assessments.

**ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. INCOME TAXES

Under the provisions of the Internal Revenue Code, the Association is allowed to elect each year to file as an eligible Section 528 homeowners association, thereby excluding exempt function income from taxation, or file as an ordinary taxable corporation. For the years ended December 31, 2019 and 2018, the Association filed as an eligible homeowners association.

The Association follows the accounting for uncertainty in income tax guidance, which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. The Association's tax filings are subject to audit by various taxing authorities; however, those returns prior to 2016 are generally no longer open to possible examination.

NOTE 5. OPERATING LEASE

In a prior year, the Association entered into a sixty (60) month operating lease agreement for office equipment, expiring in 2020. The lease costs are shared with the Atalaya Towers Interval Owners Association, Inc. Accordingly, under the lease agreement, the Association's monthly portion of the lease payment is approximately \$30. During 2019 and 2018, the total lease payments made were \$574 and \$542, respectively.

Future minimum lease payments under this lease agreement are as follows:

2020	360
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NOTE 6. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents provide that the Association accumulate funds for future major repairs and replacements of the specific components of common property. The Association has not conducted a study to determine the estimated remaining useful lives of the common property and current estimates of costs of major repairs and replacements that may be required in the future. However, the Association has developed and maintains a Reserve Cash Flow Projection worksheet estimating income and expenses related to its common property. Although the Association has not developed a plan to fund those needs, it has included \$128,000 of funding for future major repairs and replacements within its 2020 budget. When replacement funds become necessary to meet future needs for major repairs and replacements, the Association has the right to increase maintenance fees, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future maintenance fees has not been determined at this time.

The Association does maintain a separate fund for the purpose of accumulating and segregating amounts to be used for future major repairs and replacements. At December 31, 2019 and 2018, the Association had accumulated Replacement Funds of \$205,898 (including \$11,383 due from the Operating Fund and \$178,763 (including \$28,222 due from the Operating Fund), respectively. It is the Association's policy that interest earned is generally allocated to the Replacement Fund.

**ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 7. HURRICANE DAMAGES

On October 8, 2016, the South Carolina coastline sustained a direct hit from Hurricane Matthew, a Category 1 storm. The Atalaya Towers complex suffered certain property damages from the hurricane, and as such, contractors and other independent professional service providers were engaged to oversee and complete the repairs. The costs of maintaining the common properties within the Atalaya Towers development are shared with the timeshare owners, however reflected within the Association's financial records. During 2017, the Association received insurance claim proceeds totaling \$33,946 and incurred related damage repair costs of \$278,351. The Association funded the costs of the repairs via insurance claim and special assessment proceeds and its accumulated Replacement Funds. (See Notes 3 and 6). The Association completed the repairs in 2018 and received additional insurance claim proceeds totaling \$94,825 and incurred additional repair costs of \$7,722.

On September 14, 2018, the South Carolina coastline was battered by another Category 1 storm, Hurricane Florence. As a result, the Atalaya Towers development suffered property damages and as such, the Association immediately engaged contractors to make necessary repairs to mitigate any further damages to the property and filed claims with its insurance carrier. During 2018, the Association incurred related damage repair costs of \$105,886. The Association received related insurance claim proceeds totaling \$97,507 and completed the repair work in 2019.

On September 5, 2019, another Category 1 storm, Hurricane Dorian, impacted the South Carolina coast which resulted in The Atalaya Towers development sustaining further property damage. The Association engaged contractors to complete the necessary repairs and incurred related costs of \$20,767 in 2019.

NOTE 8. SUBSEQUENT EVENT – GLOBAL PANDEMIC

An outbreak of an infectious respiratory illness caused by a novel coronavirus known as COVID-19 was first detected in Wuhan, China in December 2019 and was declared a pandemic by the World Health Organization in March 2020. In response to the global crisis, both the United States of America and the State of South Carolina declared and issued states of emergencies beginning March 1, 2020 and March 13, 2020, respectively.

Further on March 26, 2020, officials of Horry County, South Carolina temporarily restricted short-term accommodations and rentals due to the coronavirus outbreak. Accordingly, the nineteen (19) units committed to interval ownership were not permitted to be utilized to comply with the governmental restrictions. The interval ownership units were able to reopen for short-term accommodations and rentals effective May 3, 2020.

In response to the global pandemic and in recognition of potential owner hardships, the Association's Board of Directors elected to defer 2020 third and fourth quarter installments of the 2019 special assessment discussed in Note 3. The quarterly billings will resume January 2021 and the deferred installments will be added to the second quarter of 2024.

(Continued)

**ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 8. SUBSEQUENT EVENT – GLOBAL PANDEMIC (Continued)

As of the audit report date, the Association has reopened its amenities facilities, however, the full extent of the impact of the COVID-19 outbreak continues to evolve and the Association's management continues to actively monitor the situation. Although the Association cannot estimate the gravity of the impact and the duration, it anticipates any further disruptions to be temporary. As such, the potential effects of the coronavirus pandemic on the Association's future financial statements cannot be reasonably estimated and are unknown at this time.