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September 28, 2023

To the Board of Directors of Atalaya Towers Homeowner's Association, Inc. and Capital Vacations Resort Management, the managing agent
Garden City, South Carolina

Our profession requires significant internal control deficiency conditions be communicated to management in writing. Therefore, for your consideration, we have enclosed our communication enumerating such conditions, management letter comments and other operational matters we noted during our recent audit of the financial statements of Atalaya Towers Homeowner's Association, Inc. (the Association) for the year ended December 31, 2022. Our report thereon was dated September 19, 2022.

An organization's management has the responsibility for establishing and maintaining an internal control structure. Consequently, management and others charged with governance are held accountable to assure that assets are safeguarded; transactions are executed with proper authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles as they relate to the Association's financial information. Therefore, you, the Board of Directors, senior management and others charged with governance of Atalaya Towers Homeowner's Association, Inc. are responsible for the operation of the internal controls, their sufficiency and accuracy and the resulting completeness of the Association's financial information.

The enclosed communication informs you of matters involving your internal control structure and other operational matters to assist you in fulfilling your governance duties and responsibilities. It further discloses certain other required communications related to the audit. This letter is intended solely for the Board and for senior management's information and use and is not to be used by anyone else. We would be pleased to discuss any questions or concerns that you may have regarding Atalaya Towers Homeowner's Association, Inc.'s internal control structure, however, any such time required would not be considered part of the audit engagement.

Our Responsibilities

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material aspects, 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 (U.S. GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities. We performed the audit according to the planned scope previously communicated to you in our engagement letter referenced above.

Internal Control

In planning and performing our audit of the financial statements of Atalaya Towers Homeowner's Association, Inc. as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. Whether a deficiency is determined to be a material weakness or significant deficiency is based on the descriptive definitions as follows:

- A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.
- A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is *less severe* than a material weakness, yet important enough to merit attention by those charged with governance.

We did not identify any deficiencies in Atalaya Towers Homeowner's Association, Inc.'s internal control that we consider to be a material weakness.

However, we noted the following deficiencies in the Association's internal control that we consider to be a significant deficiency.

> Those charged with governance and fiscal responsibilities should review the Association's internal financial statements to ensure the statements are complete and provide accurate information from which governing decisions can be made. During our audit we proposed numerous adjustments, including transactions related to the implementation of the FASB pronouncement regarding accounting for leases, in order to fairly present the financial statements.

Management Letter Comments and Other Operational Matters

During our current year audit, we made observations and noted other operational matters that we did not consider material weaknesses or significant deficiencies. However, these areas we felt deserved notification and merit management's attention and consideration as opportunities for strengthening internal controls and operating efficiency.

1. The Association should consider conducting a study to estimate the remaining useful lives and replacement costs of common property. Alternatively, the Association should evaluate the adequacy of funds accumulated for future major repairs and replacements. Without sufficient and adequate funds, management may be restricted in its ability to properly maintain the property.

2. The Board of Directors, in conjunction with its managing agent, should consider seeking advice from professionals regarding regularly scheduled building maintenance and inspections. Further, those charged with governance should ensure they exercise reasonable business judgment in accordance with state statutes and the Association's governing documents.

3. The Association and its managing agent should ensure its business filing information; specifically, its registered agent, is updated and current with the South Carolina Secretary of State's office by completing the *State of South Carolina, Secretary of State, Notice of Change of Registered Office or Registered Agent or Both of a South Carolina or Foreign Corporation* form.

4. Improving internal controls should always be one of the Association's primary objectives as it relates to minimizing the risk of material misstatement in the Association's financial statements. In addition to the aforementioned opportunity for strengthening internal controls and operating efficiency and to help promote segregation of duties, the following control procedures are considered sound fiscal management "best practices" and every organization should implement the following:

   - Ensure the monthly internal financial statements are maintained in accordance with the modified cash basis of accounting to ensure the accuracy and completeness of such reports, including prior year proposed adjustments accepted by management.
   - Ensure expenditures are sufficiently substantiated, recorded in the appropriate fund and properly classified.
   - Ensure that significant financial transactions, as determined by the Board, are documented in the board meeting minutes.
   - On a regular basis, compare each account in the current year with budgeted amounts and with prior year comparative balances. Note any unusual fluctuations and investigate, if substantial.
   - Ensure that each bank account is reconciled by someone other than the person who is authorized to write checks and make deposits. Further, ensure any differences noted during the reconciliation process are resolved.
   - Bank reconciliations should be performed in a timely manner (monthly is the best practice).
   - Ensure the person opening the mail and/or receiving money for the Association is not the same person making bank deposits.
   - Ensure that all monies received at the Association are deposited intact promptly or are stored in a secure location.
   - Ensure that all individuals and businesses complete Form W9 if the Association pays those persons for goods and services throughout the year.
   - Ensure the proper Form 1099 is issued for all non-corporate vendors who provide services to the Association.
   - Ensure that fidelity bond coverage against crime or theft by those entrusted with safeguarding the Association's assets is in place.
   - Ensure building insurance appraisals and valuations and the related insurance coverages are sufficient and appropriate to ensure the property is adequately insured.
   - Sufficient cut-off procedures are designed and implemented to ensure any amounts received or paid subsequent to the year end are recorded in the proper fiscal period.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Other Communications

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related our audit:

a. Our responsibility as auditors and management's responsibility related to our audit are fully explained in our engagement letter dated November 11, 2022 and signed by management. Please refer to that document for a complete understanding thereof.

b. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association are described in the Notes to the Financial Statements. As disclosed in the Notes, the Association changed its accounting policies related to the adoption of the accounting pronouncement issued by the Financial Accounting Standards Board (FASB), ASU 2016-02, *Leases (Topic 842)* as of January 1, 2022. We noted no transactions entered into by the Association during the year for which there was a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

c. Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The financial statements include no significant accounting estimates.

d. The financial statement disclosures are neutral, consistent, and clear.

e. We encountered considerable delays during the performance of our audit fieldwork due personnel changes within the managing agent's accounting department. These challenges resulted in the completion, release and issuance of our audit report to be late and we were unable to have the audit report available to the Board of Directors and members at their scheduled meetings.

f. Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. All audit adjustments proposed have been reviewed and accepted by the Association's management and have been reflected in the financial statements.

g. For the purpose of this letter, a disagreement with management is a disagreement on a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

h. We have requested certain representations from management that are included in the management representation letter dated September 19, 2023.

i. In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants, other than the outsourced contracted bookkeeping services with another CPA firm, with that consulting principally being day to day bookkeeping matters.

j. With respect to the supplementary information required by the Financial Accounting Standards Board, management has omitted that information which, 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 and historical context.

k. We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year in the normal course of our professional relationship. Such discussions are not a condition of our retention and do not impair our independence.

l. An audit is a component of good governance, but we must emphasize to you that it cannot be construed as a substitute for nor a reduction in the overall due diligence responsibilities of those charged with governance.

This communication is suitable only for limited users as identified herein; accordingly, it is intended solely for the informational use of the Board of Directors of Atalaya Towers Homeowner's Association, Inc., and its managing agent, Capital Vacations Resort Management, and others as considered appropriate within the Association. It is not intended to be, nor should it be, used by anyone other than these specified parties. We are, however, not responsible for controlling and cannot control distribution of this communication after its release.

Deborah M Weir, CPA, LLC

Deborah M Weir, CPA, LLC
Myrtle Beach, South Carolina

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

REPORT OF INDEPENDENT AUDITORS

FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

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

Opinion

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, 2022, 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.

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, 2022 and its revenues, expenses and changes in fund balances and its cash flows for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Atalaya Towers Homeowner's Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Atalaya Towers Homeowner's Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Atalaya Towers Homeowner's Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Atalaya Towers Homeowner's Association, Inc.'s 2021 financial statements, and our report dated December 2, 2022 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, 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 19, 2023

ATALAYA TOWERS
HOMEOWNER'S ASSOCIATION, INC.
STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES -
MODIFIED CASH BASIS
December 31, 2022
(With Summarized Comparative Information at December 31, 2021)

	Operating Fund	Replacement Fund	2022 Totals	2021 Totals
ASSETS				
Cash and cash equivalents (Notes 1 and 6)	$ 176,840	$ 105,429	$ 282,269	$ 566,452
Due from Operating Fund	-	14,401	14,401	14,521
Due (to) Replacement Fund	(14,401)	-	(14,401)	(14,521)
Due from affiliated association	-	-	-	100
Prepaid income taxes (Note 4)	41	-	41	25
Prepaid expenses	-	-	-	3,445
Land (Note 1)	372,853	-	372,853	372,853
Right-of-use asset - operating lease (Notes 1 and 5)	1,057	-	1,057	-
TOTAL ASSETS	$ 536,390	$ 119,830	$ 666,220	$ 942,875
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	$ 10,089	$ 50,792	$ 60,881	$ 29,747
Due to affiliated association	103	-	103	-
Operating lease liability - operating lease (Notes 1 and 5)	1,057	-	1,057	-
Prepaid maintenance fees (Note 3)	49,786	-	49,786	61,945
TOTAL LIABILITIES	61,035	50,792	111,827	91,692
FUND BALANCES	475,355	69,038	544,393	851,183
TOTAL LIABILITIES AND FUND BALANCES	$ 536,390	$ 119,830	$ 666,220	$ 942,875

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, 2022
(With Summarized Comparative Information for the Year Ended December 31, 2021)

	Operating Fund	Replacement Fund	2022 Totals	2021 Totals
REVENUES				
Maintenance assessments and fees (Note 3):				
Regular	$ 398,882	$ 144,598	$ 543,480	$ 520,195
Insurance	157,001	-	157,001	80,862
Special	-	79,480	79,480	79,990
Late fees and interest charges	-	-	-	67
Interest income	-	18	18	17
Insurance claim proceeds - hurricane damage (Note 8)	-	21,730	21,730	-
Rental income - cellular tower	2,500	-	2,500	2,500
Vending income	421	-	421	467
Miscellaneous income	1,258	-	1,258	-
TOTAL REVENUES	560,062	245,826	805,888	684,098
EXPENSES				
Repairs and maintenance				
Building maintenance and supplies	9,036	-	9,036	9,474
Contract service agreements - HVAC, elevator and fire systems	17,660	-	17,660	15,021
Landscape and grounds materials and supplies	1,963	-	1,963	2,572
Pool maintenance, supplies and repairs	7,533	-	7,533	9,590
Total repairs and maintenance expenses	36,192	-	36,192	36,657
Leases, contracts and fixed expenses				
Income taxes (Note 4)	999	-	999	1,015
Insurance	156,382	-	156,382	81,975
Office equipment lease (Note 5)	682	-	682	579
Pest control	15,370	-	15,370	6,610
Property taxes	-	-	-	538
Security services	1,186	-	1,186	1,323
Total leases, contracts, and fixed expenses	174,619	-	174,619	92,040
General and administrative				
Auditing services	2,700	-	2,700	2,500
Bank service charges and lockbox fees	53	-	53	107
Board of Directors and meeting expenses	3,661	-	3,661	1,520
Computer equipment	3,083	-	3,083	3,166
Courier services	1,152	-	1,152	1,152
Management fees	20,160	-	20,160	20,160
Office supplies and expenses	1,932	-	1,932	1,848
Other taxes and licenses	462	-	462	325
Miscellaneous expenses	90	-	90	48
Total general and administrative expenses	33,293	-	33,293	30,826

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, 2022
(With Summarized Comparative Information for the Year Ended December 31, 2021)

	Operating Fund	Replacement Fund	2022 Totals	2021 Totals
EXPENSES (Continued)				
Salaries, wages and related employee expenses				
Salaries:				
Administrative and guest services	$ 64,242	$ -	$ 64,242	$ 50,492
Maintenance	82,093	-	82,093	79,120
Payroll taxes and related employee expenses	33,867	-	33,867	37,378
Total salaries, wages and related employee expenses	180,202	-	180,202	166,990
Utilities				
Cable television service	32,750	-	32,750	29,482
Electricity	14,151	-	14,151	13,989
Fuel	14,066	-	14,066	12,882
Telephone and answering services	4,634	-	4,634	4,112
Trash removal	12,277	-	12,277	11,464
Water and sewer	50,052	-	50,052	44,057
Total utilities expenses	127,930	-	127,930	115,986
Major repairs and replacements (Note 6)				
Electrical repairs - generator breaker installation	-	-	-	8,260
Elevator repairs and related expenses	-	290,526	290,526	8,346
Exterior building, balconies and stairwell waterproofing, sealing, painting and concrete repairs	-	102,437	102,437	50,275
Fire and exit door replacements	-	1,725	1,725	9,035
Hurricane damage repairs (Note 8)	-	132,150	132,150	-
HVAC platform deck construction	-	-	-	6,412
Luggage carts	-	3,554	3,554	3,494
Parking lot resealing	-	9,272	9,272	-
Pool and spa equipment repairs	-	16,011	16,011	3,850
Other major repairs and replacements expenses	-	392	392	208
Other professional services - engineering	-	4,375	4,375	-
Total major repairs and replacements expenses	-	560,442	560,442	89,880
TOTAL EXPENSES	552,236	560,442	1,112,678	532,379
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	7,826	(314,616)	(306,790)	151,719
Beginning fund balances	467,529	383,654	851,183	699,464
ENDING FUND BALANCES	$ 475,355	$ 69,038	$ 544,393	$ 851,183

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, 2022
(With Summarized Comparative Information for the Year Ended December 31, 2021)

	Operating Fund	Replacement Fund	2022 Totals	2021 Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	$ 7,826	$ (314,616)	$ (306,790)	$ 151,719
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	(120)	120	-	-
Due from affiliated association	100	-	100	(58)
Prepaid income taxes	(16)	-	(16)	(25)
Prepaid expenses	2,445	1,000	3,445	(2,220)
Increase (decrease) in:				
Accounts payable and accrued expenses	5,381	25,753	31,134	(1,061)
Due to affiliated association	103	-	103	-
Income taxes payable	-	-	-	(2,344)
Prepaid maintenance fees	(9)	(12,150)	(12,159)	(3,078)
NET CASH AND CASH EQUIVALENTS PROVIDED (USED) BY OPERATING ACTIVITIES	15,710	(299,893)	(284,183)	142,933
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALAENTS	15,710	(299,893)	(284,183)	142,933
CASH AND CASH EQUIVALENTS, at beginning of year	161,130	405,322	566,452	423,519
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 176,840	$ 105,429	$ 282,269	$ 566,452
SUPPLEMENTAL DISCLOSURES				
Income taxes paid	$ 1,015	$ -	$ 1,015	$ 2,023
Non-cash investing and financing activities				
Acquisition of operating lease right-of-use asset	$ 1,481	$ -	$ 1,481	$ -

The accompanying Notes to Financial Statements are an integral part of these 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 80 residential units located in Garden City, South Carolina. Of the total residential units, 61 units are wholly owned and 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, 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

Recently Adopted Accounting Pronouncement

The Financial Accounting Standards Board ("FASB") issued ASC 2016-02, *Leases (Topic 842)*, which requires an entity to represent the rights and obligations of leases by requiring lessees to recognize the assets and liabilities that arise from leases and disclose information about lease transactions. The standard further addresses an improved understanding of the lessee's financial commitments regardless of the manner chosen to finance the assets and also provides clarification of the definition of a lease. The Association determines whether an arrangement is or contains a lease at contract inception. Leases with an initial term of 12 months or less are considered short-term leases and are not required to be recorded on the Association's statement of assets, liabilities and fund balances – modified cash basis. However, for leases with a lease term greater than one year, the Association recognizes and records a lease asset for its right to use the underlying leased asset and a lease liability for the corresponding lease. Lease right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Association uses an incremental borrowing rate based upon the information available at the lease commencement since most leases do not provide an implicit rate. The Association considers the lease term to be the noncancelable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if the Association is reasonably certain to exercise the option, (2) terminate the lease if the Association is reasonably certain not to exercise that option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor. The Association adopted the new guidance January 1, 2022 using the modified retrospective transition method. There was no cumulative effect adjustment to the Association's Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis as of January 1, 2022. Comparative information has not been restated and continues to be reported under the accounting standards in effect for the prior year. (See also Note 5).

Cash and Cash Equivalents

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

Maintenance Fees and Assessments

Association members are subject to maintenance fees and assessments to provide funds for the Association's operating expenses 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 fees and assessments 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.

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 to exchange for those goods and services. The cornerstone in the application of the guidance is the performance obligations and affects the timing of revenue and expense recognition. The Association has evaluated the application of *Topic 606* and has determined that it will not have a significant impact over the Association's financial statements because the Association does not consider its owners as customers. Accordingly, the Association does not defer the recognition of any portion of revenue as a contract liability.

Prepaid maintenance fees represent payments received in advance for future unit owner maintenance fees. These advance payments will be recognized in the period in which they are earned.

Prepaid Expenses

Prepaid expenses are recognized when payments have been made for products or services that will not be used in operations until the following year.

Common Property

Real property and common areas acquired from the developer and related improvements made by the Association to such property are not reflected in the financial statements. Those properties are owned by the individual timeshare unit owners in common and dedicated for the use of the entire community. These common areas cannot be sold separately and thus have no fair market value other than that related to their intended use. 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.

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 generally accepted accounting principles, 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) up to $250,000. 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, 2021, 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 19, 2023, 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 Notes 8 and 9, that requires recognition or disclosure in the financial statements.

NOTE 3. MAINTENANCE FEES AND ASSESSMENTS

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 $1,692 and $1,628 in 2022 and 2021, respectively. Additionally, all unit owners were assessed a quarterly fee of $263 during the first two quarters and $715 during the last two quarters in 2022 and $258 each quarter in 2021 to help defray the Association's annual insurance costs.

Special Assessment

In 2019, the Association's Board of Directors elected to levy a 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 Note 7). In response to the global pandemic and in recognition of potential owner hardships, the Association's Board of Directors elected to defer the 2020 third and fourth quarter installments of the aforementioned special assessment. The quarterly billings resumed January 2021 and the deferred installments were added to the 2024 quarterly billings. (See also Note 9).

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 2022 quarterly fees were $32,148 and the 2021 quarterly fees were $30,932. The Association also bills and receives quarterly fees from the timeshare owners for their portion of the property insurance premiums. During 2022 and 2021, the Association collected $37,164 and $18,924, respectively. Additionally, during 2022 and 2021, the Association collected $19,000 from the Atalaya Towers Interval Owners Association for its portion of the above referenced special assessment levied for the elevator modernization projects.

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, 2022 and 2021, 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 2019 are generally no longer open to possible examination.

NOTE 5. LEASE ARRANGEMENT AND FASB ASC 842 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

During 2020, the Association entered into a 60-month lease agreement for office equipment ending in 2025 and classified as an operating lease. The lease costs are shared with the Atalaya Towers Interval Owners Association. As referenced and discussed in Note 1, the Association adopted *Topic 842* January 1, 2022 and accordingly, the operating right-of-use asset and lease liability are recorded at the present value of the minimum lease payments. Under the terms of the agreement, the Association's monthly portion of the lease payment is approximately $40. The total payments made to the lessor for 2022 and 2021 were $682 and $579, respectively.

Future minimum lease payments and reconciliation to the Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis at December 31, 2022 are as follows:

Year	Operating Lease
2023	$ 475
2024	475
2025	158
Total future undiscounted lease payments	$ 1,108
Less: interest	(51)
Present value of lease liability	$ 1,057

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. Although the Association has not developed a plan to fund those needs, it has included $160,000 of funding for future major repairs and replacements within its 2023 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, 2022 and 2021, the Association had Replacement Fund cash and cash equivalents balances of $105,429 and $405,322, respectively. It is the Association's policy that interest earned is generally allocated to the Replacement Fund.

NOTE 7. COMMITMENTS AND CONTINGENCIES

In November 2021, the Association's Board of Directors entered into a signed agreement with a contractor to oversee and complete an elevator modernization project within the Atalaya Towers development, totaling $329,850. During 2022, the Association initiated a change order to the original contract of $95,000, remitted payments totaling $247,388 under the contract and anticipates completing this project in 2023. The costs of the project are being funded via special assessments. (See Notes 3 and 9).

The Association is subject to various claims and legal proceedings covering a wide range of matters that arise in the course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material effect on the financial condition or results of operations of the Association.

NOTE 8. HURRICANE DAMAGE

On September 30, 2022, the South Carolina coastline was battered by a Category 1 storm, Hurricane Ian. 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 the necessary insurance claims. In 2022, the Association received insurance claim proceeds totaling approximately $21,730 and incurred related repairs of $99,160.

Subsequent to December 31, 2022, the repairs were completed and the Board of Directors levied a special assessment to help recoup the costs of the repairs not covered by the Association's property insurance. (See Note 9).

NOTE 9. SUBSEQUENT EVENTS

Subsequent to December 31, 2022, the Association's Board of Directors levied a special assessment to help recoup the costs associated with repairs necessitated from Hurricane Ian. (See Note 8). The individual units were levied three quarterly payments of $350 each beginning in the second quarter of 2023.

Additionally, and subsequent to December 31, 2022, the Board of Directors modified the aforementioned special assessment being levied for the elevator modernization projects (See Notes 3 and 7), due to unanticipated costs associated with the replacement of the south elevator car. Accordingly, beginning in the second quarter of 2023 and extending through the end of 2024, the special assessment was increased, and the individual unit owners will be levied $500 per quarter.