

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC.  
AND SUBSIDIARIES**

**Kissimmee, Florida**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**Year Ended December 31, 2015**

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

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## **Independent Auditors' Report**

To the Board of Directors and Members  
Vacation Villas at FantasyWorld Time-Share  
Owner's Association, Inc. and Subsidiaries  
Kissimmee, Florida

We were engaged to audit the accompanying consolidated financial statements of Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries (the "Association"), which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of revenue, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for Disclaimer of Opinion**

Detailed records have not been maintained and available for the audit related to 2015 developer assessments, sales of the related intervals, and subsequent owner assessments, if any. Therefore, we were not able to obtain sufficient appropriate audit evidence supporting the amounts of assessments receivable, net and due from developer which have been recorded in the accompanying consolidated balance sheet at December 31, 2015 (stated at \$271,551 and \$321,789, respectively), and the amount of owner assessments, developer assessments, and bad debt expense for the year ended December 31, 2015 (stated at \$5,294,569, \$188,517, and \$1,675,251, respectively).

**Disclaimer of Opinion**

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

**Future Major Repairs and Replacements**

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 9 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

**Disclaimer of Opinion on Supplementary Information**

The schedule of consolidated revenue and expenses – operating fund for the year ended December 31, 2015, on pages 16 and 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.

**Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the schedule of future major repairs and replacements on page 18 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Withum Smith + Brown, PC*

Orlando, Florida  
May 31, 2016

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Consolidated Balance Sheet  
December 31, 2015**

<b>Assets</b>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 2,019,314	\$ 1,805,920	\$ 3,825,234
Restricted Cash	13,922	-	13,922
Assessments Receivable, net of allowance for doubtful accounts of \$5,390,288	271,551	-	271,551
Retail Inventory	5,442	-	5,442
Prepaid Expenses	38,438	-	38,438
Property and Equipment, net	3,753,154	-	3,753,154
Goodwill, net	2,267,636	-	2,267,636
Other Asset	100,000	-	100,000
Due From Developer	321,789	-	321,789
Due From Affiliate	8,710	-	8,710
Due (To) From Other Fund	<u>(1,797,426)</u>	<u>1,797,426</u>	<u>-</u>
Total assets	<u>\$ 7,002,530</u>	<u>\$ 3,603,346</u>	<u>\$ 10,605,876</u>
<b>Liabilities and Fund Balance</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 119,121	\$ -	\$ 119,121
Prepaid assessments	2,433,167	-	2,433,167
Deferred deed back revenue	95,828	-	95,828
Real estate taxes payable	806,081	-	806,081
Line of credit	676,535	-	676,535
Notes payable	<u>1,704,810</u>	<u>-</u>	<u>1,704,810</u>
Total liabilities	5,835,542	-	5,835,542
Fund Balance	<u>1,166,988</u>	<u>3,603,346</u>	<u>4,770,334</u>
Total liabilities and fund balance	<u>\$ 7,002,530</u>	<u>\$ 3,603,346</u>	<u>\$ 10,605,876</u>

See accompanying notes.

**VACATION VILLAS AT FANTASYWORLD**  
**TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Consolidated Statement of Revenue, Expenses, and Changes in Fund Balance**  
**Year Ended December 31, 2015**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Resort Operations:</b>			
Revenue:			
Owner assessments	\$ 5,294,569	\$ 1,328,313	\$ 6,622,882
Developer assessments	188,517	46,827	235,344
Interest income	1,076	26,055	27,131
Late charges	86,188	-	86,188
Other income	127,658	-	127,658
	<u>5,698,008</u>	<u>1,401,195</u>	<u>7,099,203</u>
Expenses:			
Utilities	437,939	-	437,939
Housekeeping	824,202	-	824,202
Maintenance, repairs, and replacements	177,056	62,983	240,039
Administration and general	648,513	-	648,513
Salaries	880,347	-	880,347
Payroll taxes and related expenses	221,661	-	221,661
Leases, contracts, and fixed expenses	1,126,799	-	1,126,799
Bad debt expense	1,675,251	-	1,675,251
Association-owned interval expense	19,856	-	19,856
	<u>6,011,624</u>	<u>62,983</u>	<u>6,074,607</u>
Resort operations income (loss)	<u>(313,616)</u>	<u>1,338,212</u>	<u>1,024,596</u>
<b>Rental Program and Check-In Facility Operations:</b>			
Rental program income	1,897,242	-	1,897,242
Bar, restaurant, and other income	832,763	-	832,763
Rental program and check-in facility expenses	<u>(1,610,324)</u>	<u>-</u>	<u>(1,610,324)</u>
Rental program and check-in facility operations income	<u>1,119,681</u>	<u>-</u>	<u>1,119,681</u>
<b>FantasySurf Operations:</b>			
Admissions and other income	124,441	-	124,441
Expenses	<u>(591,986)</u>	<u>-</u>	<u>(591,986)</u>
FantasySurf operations loss	<u>(467,545)</u>	<u>-</u>	<u>(467,545)</u>
Excess of Revenue Over Expenses	338,520	1,338,212	1,676,732
Fund Balance, beginning of year	<u>828,468</u>	<u>2,265,134</u>	<u>3,093,602</u>
Fund Balance, end of year	<u>\$ 1,166,988</u>	<u>\$ 3,603,346</u>	<u>\$ 4,770,334</u>

See accompanying notes.

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Consolidated Statement of Cash Flows  
Year Ended December 31, 2015**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Cash Flows From Operating Activities:</b>			
Excess of revenue over expenses	\$ 338,520	\$ 1,338,212	\$ 1,676,732
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:			
Bad debt expense	1,675,251	-	1,675,251
Depreciation	298,965	-	298,965
Amortization of goodwill	283,454	-	283,454
Changes in:			
Restricted cash	481,431	-	481,431
Assessments receivable	(1,843,257)	-	(1,843,257)
Retail inventory	4,141	-	4,141
Prepaid expenses	160,096	-	160,096
Accounts payable and accrued expenses	5,824	(39,478)	(33,654)
Prepaid assessments	(612,388)	-	(612,388)
Deferred deed back revenue	(20,296)	-	(20,296)
Real estate taxes payable	89,220	-	89,220
Due from developer	(259,181)	-	(259,181)
Due to or from affiliates	54,759	-	54,759
Net cash provided by operating activities	<u>656,539</u>	<u>1,298,734</u>	<u>1,955,273</u>
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(51,134)	-	(51,134)
Proceeds from sale of certificate of deposit	-	1,500,000	1,500,000
Net cash provided by (used in) investing activities	<u>(51,134)</u>	<u>1,500,000</u>	<u>1,448,866</u>
<b>Cash Flows From Financing Activities:</b>			
Interfund borrowings, net	1,395,392	(1,395,392)	-
Borrowings on lines of credit	676,535	-	676,535
Repayments of lines of credit and notes payable	(1,656,524)	-	(1,656,524)
Net cash provided by (used in) financing activities	<u>415,403</u>	<u>(1,395,392)</u>	<u>(979,989)</u>
Increase in Cash and Cash Equivalents	1,020,808	1,403,342	2,424,150
Cash and Cash Equivalents, beginning of year	<u>998,506</u>	<u>402,578</u>	<u>1,401,084</u>
Cash and Cash Equivalents, end of year	<u>\$ 2,019,314</u>	<u>\$ 1,805,920</u>	<u>\$ 3,825,234</u>
<b>Supplemental Cash Flow Information:</b>			
Cash paid for interest	<u>\$ 214,391</u>	<u>\$ -</u>	<u>\$ 214,391</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER’S ASSOCIATION, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements  
December 31, 2015**

**1. Summary of Significant Accounting Policies:**

**Nature of Organization**

Vacation Villas at FantasyWorld Time-Share Owner’s Association, Inc. and Subsidiaries (the “Association”) was incorporated under the laws of the state of Florida as a not-for-profit corporation for the purpose of managing, operating, and maintaining a time-share resort located in Osceola County, Florida. Operations of the Association began on April 19, 1991, under the administration of Orlando Resort Development Group, Inc. (the “Developer”). At December 31, 2015, the Association consists of 10,660 weekly interval units of which approximately 489 were owned by the Developer and approximately 100 were owned by the Association.

These consolidated financial statements include the operations of the Association and its wholly-owned subsidiaries, Fantasyworld Management Services, Inc. (“FMS”) and FantasySurf, LLC (“FS”). FMS holds a liquor and tobacco license under which the Association operates a bar, and FS oversees the operation of the Flow-Rider indoor surf attraction and the related retail shop and restaurant on a parcel of land separate from the Association. During 2015, the Flow-Rider indoor surf attraction was closed due to malfunction of equipment.

**Consolidation**

The accompanying consolidated financial statements include the accounts of the Vacation Villas at FantasyWorld Time-Share Owner’s Association, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The activity of the wholly-owned subsidiaries is included in the operating fund.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Basis of Presentation**

The Association’s governing documents provide certain 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. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.



**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – Continued  
December 31, 2015**

**1. Summary of Significant Accounting Policies – Continued:**

**Cash and Cash Equivalents**

The Association considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents.

**Restricted Cash**

Restricted cash consists of funds held in escrow for real estate taxes.

**Certificate of Deposit**

In 2014, the Association invested in a certificate of deposit with an original maturity greater than three months. The Association classified this investment as held-to-maturity as the Association had the intent and ability to hold this certificate of deposit to maturity. The certificate was valued at amortized cost plus accrued interest and unrealized holding gains and losses which approximated market value. The certificate matured in March 2015 and was not repurchased.

**Assessments Receivable and Allowance for Doubtful Accounts**

Assessments receivable represent amounts due from weekly interval owners for annual maintenance, taxes, and special assessments. The budgeted amount of the annual assessment for the replacement fund is funded from annual cash receipts. All assessments receivable are presented in the operating fund.

The Association provides for estimated future losses to be incurred due to uncollectible assessments at amounts deemed to be sufficient to sustain any material losses that may result from unpaid accounts. Receivables are considered delinquent when they are 30 days past due. A portion of receivables which are considered delinquent is charged against the allowance when all collection efforts have been exhausted. Factors which influence management's judgment in determining the appropriate allowance for doubtful accounts, and for charging off uncollectible accounts, include past collection experience and industry standards. For the year ended December 31, 2015, bad debt expense was \$1,675,251.

**Rental Program, Bar, and Restaurant Income**

The Association's rental program income is primarily derived from the rental of Association-owned intervals and food and beverage sales. Revenue is recognized when the intervals are occupied and services have been rendered.

**Inventory of Time-Share Intervals**

Inventory of time-share intervals is valued at the lower of cost or market, which approximates net realizable value. These intervals have been acquired by the Association through foreclosure proceedings related to unpaid assessments. As the inventory has no net realizable value, no value has been recorded at December 31, 2015.

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – Continued  
December 31, 2015**

**1. Summary of Significant Accounting Policies – Continued:**

**Retail Inventory**

At December 31, 2015, retail inventory consists of retail merchandise at the FantasySurf operation and is valued at the lower of cost (determined by the first-in, first-out method) or market.

**Property and Equipment**

Common property acquired from the Developer and others and related improvements to such property are not recognized in the Association's consolidated financial statements. Those properties are owned by the individual unit owners in common and not by the Association. Replacements, major repairs, and the purchase of additional commonly owned assets are accounted for as expenditures in the replacement fund.

Tangible property acquired for the maintenance and operation of the Association and its subsidiaries is capitalized in the consolidated financial statements.

Property and equipment is stated at cost. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings and the rental unit	40 years
Furnishings, fixtures, and equipment	5 – 7 years

The cost of additions and improvements which substantially extend the useful lives of property and equipment is capitalized. Repair and maintenance costs are charged to expense. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Depreciation expense was \$298,965 for the year ended December 31, 2015.

**Goodwill**

Accounting principles generally accepted in the United States of America require that goodwill be tested for impairment when a triggering event has occurred that indicates that the fair value may be below its carrying value. Additionally, amortization over an appropriate period of up to 10 years is permissible. Management has determined that there have been no triggering events indicating possible impairment during the year ended December 31, 2015, and has elected a 10-year amortization period which began January 1, 2014.

**Other Asset**

At December 31, 2015, other asset consists of a liquor and tobacco sales license which is carried at cost.

**Prepaid Assessments**

Prepaid assessments consist of 2016 and future maintenance and tax assessments received by the Association in 2015.

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – Continued  
December 31, 2015**

**1. Summary of Significant Accounting Policies – Continued:**

**Deferred Deed Back Revenue**

Deferred deed back revenue consists of 2016 and future revenue received by the Association as part of the five-year deed back program and the wind-down plan. For the five-year deed back program, the owners pay five years of maintenance fees and sign a deed back to the Association. In return, the owners receive five certificates of usage, but do not own the interval any longer. In lieu of the five-year deed back program, beginning in 2014, the Association offered the owners to return their intervals through the wind-down plan. In this plan, the owners determine the number of additional years of usage they would like anywhere from 2014 through 2030. Based on the number of years of usage, they pay a fee to the Association as noted in the agreement and they sign a deed back to the Association. The owners are no longer responsible for the intervals and are not charged any additional maintenance fees, special assessments, or other charges. The revenue from these arrangements is recognized over the life of the contracts on the straight-line method adjusted for estimated increases in maintenance costs.

**Income Taxes**

For the year ended December 31, 2015, the Association elected to be taxed as a regular corporation. Membership income is exempt from taxation if certain elections are made. Consequently, the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate tax rates. When applicable, interest and penalties will be reflected as a component of income tax expense.

**Advertising Costs**

All costs associated with advertising and promoting the resort and other operations are expensed in the year incurred. Advertising expense for the year ended December 31, 2015, was \$32,403.

**Recently Issued Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09 (Revenue from Contracts with Customers (Topic 606)), which requires an entity to recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance addresses, in particular, contracts with more than one performance obligation, as well as the accounting for some costs to obtain or fulfill a contract with a customer; and provides for additional disclosures with respect to revenues and cash flows arising from contracts with customers. With respect to non-public entities, this update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is not permitted. The effect of this guidance on the financial statements of the Association has not been determined.

**Subsequent Events**

The Association has evaluated subsequent events through May 31, 2016, the date which the consolidated financial statements were available to be issued.

**VACATION VILLAS AT FANTASYWORLD**  
**TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – Continued**  
**December 31, 2015**

**2. Owner Assessments:**

Pursuant to the Declaration of Time-Share Plan and By-Laws of the Association, assessments (both regular and special) are allocated to the unit owners in the proportions or percentages provided in the Declaration. The annual budget and owner assessments are determined by the Board of Directors.

The 2015 annual assessments to weekly interval owners were as follows:

Maintenance	\$	519
Replacement fund		129
Real estate taxes, as agent		<u>66</u>
	\$	<u><u>714</u></u>

The Association is collecting assessments for and remitting real estate taxes on behalf of individual unit owners. Therefore, the real estate tax assessments and the related expenses are not presented on the Association's consolidated statement of revenue, expenses, and changes in fund balance.

**3. Inventory of Time-Share Intervals:**

For the year ended December 31, 2015, the Association bore the financial responsibility for 102 weekly intervals. The real estate tax and replacement fund assessments for these units of \$6,698 and \$13,158, respectively, have been charged to operating expense for 2015. The operating portion of the assessments for these weekly intervals has been excluded from assessment revenue for 2015. As the inventory has no net realizable value, no value has been recorded at December 31, 2015.

**4. Property and Equipment:**

Property and equipment consists of the following at December 31, 2015:

Land	\$	806,113
Buildings		3,101,769
Furnishings, fixtures, and equipment		1,436,772
Rental unit		<u>46,021</u>
Total		5,390,675
Less accumulated depreciation		<u>(1,637,521)</u>
Property and equipment, net	\$	<u><u>3,753,154</u></u>

During 2015, FMS purchased a unit from a private owner which the Association will renovate and add to the rental program. At this time, the rental unit is vacant and, therefore, is not being depreciated.

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – Continued  
December 31, 2015**

**5. Goodwill:**

The gross carrying amounts of goodwill, accumulated amortization, and accumulated impairment loss at December 31, 2015, are as follows:

Goodwill	\$ 2,834,545
Accumulated amortization	(566,909)
Accumulated impairment loss	-
Goodwill, net	\$ 2,267,636

The Company amortizes goodwill on the straight-line method over 10 years. Amortization expense for the year December 31, 2015, was \$283,454. Future amortization for the next five years is \$238,454.

**6. Management Agreement:**

The property and affairs of the Association were managed by SPM Resorts, Inc. (the “Management Company”) under an agreement which expired on December 31, 2015. Management fees incurred under this agreement during 2015 amounted to \$375,000. As of January 1, 2016, the property and affairs of the Association are managed by Patton Hospitality Management, LLC under an agreement expiring December 31, 2025. Under this agreement, management fees will be waived for the first two years of the agreement. Beginning in 2018, a management fee of \$375,000 is due annually subject to a 3% annual increase which is capped at \$425,000 in years where annual bad debts exceed 20% of gross assessments billed.

**7. Notes Payable:**

Notes payable consist of the following at December 31, 2015:

Note payable, National Bank of South Carolina, interest at 5.75% per annum, collateralized by real property, and requires monthly payments of principal and interest of \$10,896 until maturity in January 2016. Balance was paid in full in January 2016.	\$ 12,873
Note payable, Phoenix Resorts, Inc. and Fantasy World Management, Inc., interest at 9% per annum, collateralized by real property and assignment of rental contracts, and requires monthly payments of principal and interest of \$15,396 which commenced in July 2013 and matures in May 2035.	1,691,937
	\$ 1,704,810

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – Continued  
December 31, 2015**

**7. Notes Payable – Continued:**

Future maturities of the notes payable at December 31, 2015, are as follows:

Year Ending December 31,	
2016	\$ 46,482
2017	36,763
2018	40,211
2019	43,983
2020	48,109
Thereafter	<u>1,489,262</u>
	<u>\$ 1,704,810</u>

For the year ended December 31, 2015, interest expense related to notes payable and the line of credit (see Note 8) amounted to \$214,391.

**8. Lines of Credit:**

The Association had a line of credit with National Bank of South Carolina in the amount of \$1,500,000. Under the terms of the line, interest accrued at 3.25% per annum with interest payments due monthly which commenced March 26, 2013 through January 2015. In February 2015, the line of credit was extended. Under the extension, interest accrued at 3.50% per annum with interest payments due monthly and the entire principal balance was due December 15, 2015. The line of credit was paid off during 2015 using proceeds from a certificate of deposit held by National Bank of South Carolina, which was recorded in the replacement fund.

During 2015, the Association obtained a line of credit with Vacation Villas at Fantasyworld Two Timeshare Owner's Association, Inc. for an amount up to \$1,000,000 for paying the operating expenses. Under the terms of the line, interest accrues at 4% per annum with principal and interest payments of \$60,000 due monthly commencing January 4, 2016, with the entire principal balance due December 31, 2016. The balance outstanding at December 31, 2015, was \$676,535. The line of credit was collateralized by real property.

**9. Replacement Fund:**

The Association's governing documents and Florida Statutes require the Association to accumulate funds for future major repairs and replacements. The funds are segregated and held primarily in interest bearing accounts. All interest income earned on these accounts is allocated to the replacement fund.

An independent specialist conducted a study in 2014 to estimate the remaining useful lives and the current replacement costs of the components of common property. The table included in the supplementary information on future major repairs and replacements, which is unaudited, is based on that study, as updated by management.

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – Continued  
December 31, 2015**

**9. Replacement Fund – Continued:**

The Association is funding for major repairs and replacements over the estimated remaining useful lives of the components based on the study's estimates of current replacement costs and considering the amounts previously accumulated in the replacement fund. Accordingly, funding of \$1,391,674 has been included in the 2016 budget.

Funds are being accumulated in the replacement fund based on the estimated current costs for repairs and replacements of common property components. Actual expenditures and interest income may vary from the estimated amounts, and the variation may be material. Consequently, the 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 of Directors approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

At December 31, 2015, the Association's operating fund owed \$1,797,426 to the replacement fund.

**10. Related Party Transactions:**

The Association is affiliated through common ownership and management with other owners associations through its relationship with the Management Company.

Additionally, the Association is a member of Fantasyworld Club Villas Home Owners' Association, Inc. (the "Master Association"). The Association has 205 units in the Master Association, and through this relationship was charged \$726,315 in membership fees during 2015. Additionally, the Association was charged \$97,270 for Master Association fees for the units in the rental program.

Due from Developer at December 31, 2015, consists of amounts due for unpaid 2014 and 2015 assessments.

Due from affiliate at December 31, 2015, consists of amounts due from the Master Association which are informal, noninterest bearing advances in the nature of trade receivables, due on demand.

In addition to the management fees referred to in Note 6, the Association has entered into agreements whereby the Management Company processes owners' assessment payments made on the Association's website and operates a rental program for delinquent interval owners' units and units owned by the Association. The Management Company receives a commission on the rented units.

Fees and commissions charged under these agreements for the year ended December 31, 2015, are as follows:

Website payment processing fee	\$ 11,445
Rental commissions	<u>894,199</u>
	<u>\$ 905,644</u>

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – Continued  
December 31, 2015**

**11. Leasing Activities:**

The Association rents office equipment under a noncancellable operating lease expiring December 2018. Future minimum lease payments under this noncancellable operating lease at December 31, 2015, are as follows:

Year Ending December 31,		
2016	\$	8,743
2017		8,743
2018		<u>8,743</u>
	\$	<u><u>26,229</u></u>

Total rent expense under all operating leases, including usage costs and month-to-month rentals, for the year ended December 31, 2015, was \$19,351.

**12. Income Taxes:**

For the year ended December 31, 2015, nonmembership income exceeded the related expenses. Consequently, federal income tax expense of \$11,100 is recorded in the operating fund.

The Association has no material temporary differences relating to the recognition of income and expenses for financial and tax reporting purposes. Accordingly, no deferred tax assets or liabilities are recorded.

The Association has analyzed its various federal and state income tax filing positions and believes that no accruals for tax liabilities related to uncertain income tax positions are required at December 31, 2015. Therefore, no reserves for uncertain income tax positions have been recorded. During 2015, there were no increases or decreases in unrecognized tax benefits for current or prior years and no significant increases or decreases in unrecognized tax benefits are expected to occur within the next 12 months.

**13. Commitments and Contingencies:**

**Concentrations of Credit Risk**

Financial instruments which potentially subject the Association to concentrations of credit risk, as defined by accounting principles generally accepted in the United States of America, consist primarily of bank accounts with balances, at times, in excess of amounts insured by the Federal Deposit Insurance Corporation and assessments receivable. Management of the Association evaluates the financial stability of its depositories and considers the risk of loss to be remote. All of the Association's assessments receivable are related to billed assessments. The Association monitors the collectibility of these assessments receivable and pursues collection through lockout procedures and rental of units related to delinquent accounts. Management routinely assesses the uncollectibility of the Association's assessments receivable and provides for allowances for doubtful accounts based on this assessment.



**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements – Continued  
December 31, 2015**

**13. Commitments and Contingencies – Continued:**

**Litigation**

During the course of its operations, the Association is subject to various claims, torts, and actions. Management reviews the validity of such actions and acts accordingly. Management does not believe the outcome of any current actions will result in material loss to the Association.

**Insurance Matters**

In the event of a disaster, the Association could be exposed to losses for damages in excess of insurance coverage limits. Management considers this risk of loss to be remote and its insurance coverage adequate.

SUPPLEMENTARY INFORMATION

**VACATION VILLAS AT FANTASYWORLD**  
**TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Schedule of Consolidated Revenue and Expenses – Operating Fund**  
**Year Ended December 31, 2015**

	Actual	Budget (Unaudited)
Resort Operations:		
Revenue:		
Maintenance assessments	\$ 5,483,086	\$ 5,536,100
Interest income	1,076	-
Late charges	86,188	150,000
Other income	127,658	88,794
Total revenue from resort operations	5,698,008	5,774,894
Expenses:		
Utilities	437,939	430,983
Housekeeping:		
Linens	54,007	55,000
Contract labor	715,779	769,055
Other	54,416	71,849
	824,202	895,904
Maintenance and repairs:		
Building maintenance	154,244	180,000
Other	22,812	21,500
	177,056	201,500
Administration and general:		
Management fees	375,000	375,000
Professional fees	59,972	37,812
Regulatory fees	21,320	21,320
Printing, newsletter, and postage	31,248	57,000
Bank and credit card charges	25,317	35,500
Office expense	20,402	22,500
Collection expense	2,903	10,000
Miscellaneous	112,351	192,030
	648,513	751,162
Salaries:		
Administrative	392,259	375,633
Housekeeping	44,508	42,957
Maintenance	291,770	282,180
Activities	144,164	145,186
Other	7,646	-
	880,347	845,956
Payroll taxes and related expenses	221,661	239,322
Leases, contracts, and fixed expenses:		
Master association fees	726,315	726,315
Pest control	21,244	21,240
Legal council	129,568	122,499
Income taxes	11,100	1,500
Insurance	163,813	152,620
Debt service – interest	55,408	55,000
Other	19,351	25,000
	1,126,799	1,104,174

**VACATION VILLAS AT FANTASYWORLD**  
**TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Schedule of Consolidated Revenue and Expenses – Operating Fund – Continued**  
**Year Ended December 31, 2015**

	Actual	Budget (Unaudited)
Resort Operations – Continued:		
Expenses – continued:		
Bad debt expense	1,675,251	2,064,647
Association-owned interval expense	19,856	-
Total expenses from resort operations	6,011,624	6,533,648
Resort operations income (loss)	(313,616)	(758,754)
Rental Program and Check-In Facility Operations:		
Revenue:		
Rental program income	1,897,242	1,919,062
Bar, restaurant, and other income	832,763	684,550
Total revenue from rental program and check-in facility operations	2,730,005	2,603,612
Expenses:		
Bar costs	139,002	110,000
Utilities	163,285	152,363
Housekeeping	435,869	407,475
Maintenance	7,330	5,000
Administrative and general	35,535	53,307
Salaries and related expenses	229,687	240,784
Debt service – interest	154,030	184,757
Master association fees	97,270	83,628
Depreciation	54,015	-
Amortization	283,455	-
Insurance and other expenses	10,846	13,742
Total expenses from rental program and check-in facility operations	1,610,324	1,251,056
Rental program and check-in facility operations income	1,119,681	1,352,556
FantasySurf Operations:		
Admissions and other income	124,441	377,718
Expenses:		
Cost of sales	9,331	15,000
Utilities	113,619	149,741
Maintenance	82,720	40,000
Administrative and general	67,711	12,426
Salaries and related expense	50,047	97,732
Debt service – interest	4,953	130,750
Depreciation	244,950	-
Insurance and other expenses	18,655	64,611
Total expenses from FantasySurf operations	591,986	510,260
FantasySurf operations loss	(467,545)	(132,542)
Excess of Revenue Over Expenses	\$ 338,520	\$ 461,260

**VACATION VILLAS AT FANTASYWORLD  
TIME-SHARE OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**

**Schedule of Future Major Repairs and Replacements  
December 31, 2015  
(Unaudited)**

An independent specialist conducted a study in 2014 to estimate the remaining useful lives and the current replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following table, which presents significant information about the components of common property, is based on that study, as updated by management:

Components	Remaining Estimated Useful Lives	Estimated Current Replacement Costs	Fund Balance December 31, 2014	Additions	Expenditures	Fund Balance December 31, 2015
Roof replacement	7 years	\$ 633,368	\$ 659,267	\$ 4,640	\$ 22,250	\$ 641,657
Building painting	1 year	95,135	120,229	876	-	121,105
Building and equipment	1 year	327,327	261,603	30,479	22,449	269,633
Pavement resurfacing	3 years	72,546	83,200	606	-	83,806
Check-in facility	1 year	213,644	203,072	6,768	-	209,840
Furniture and fixtures	2 years	<u>4,206,271</u>	<u>937,763</u>	<u>1,357,826</u>	<u>18,284</u>	<u>2,277,305</u>
		<u>\$ 5,548,291</u>	<u>\$ 2,265,134</u>	<u>\$ 1,401,195</u>	<u>\$ 62,983</u>	<u>\$ 3,603,346</u>