



**VACATION VILLAS AT FANTASYWORLD TIME-SHARE
OWNER'S ASSOCIATION, INC. AND SUBSIDIARIES**
Consolidated Financial Statements
December 31, 2016
With Independent Auditors' Report

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
December 31, 2016

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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, 2016, 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 consolidated financial statements based on our audit. We conducted our 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

As discussed in Notes 2 and 10, detailed records have not been maintained and available for the audit related to 2015 and 2016 developer assessments and amounts receivable from the developer related to these assessments. Therefore, we were not able to obtain sufficient appropriate audit evidence supporting the amounts due from developer which have been recorded in the accompanying consolidated balance sheet at December 31, 2016 (stated at \$677,779), and the amount of owner assessments, developer assessments, and bad debt expense, net for the year ended December 31, 2016 (stated at \$6,683,492, \$323,879, and \$2,370,310, 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 these consolidated financial statements referred to in the first paragraph.

Emphasis of Matter Regarding Interfund Receivable

As discussed in Note 4 to the consolidated financial statements, the Association's operating fund owed the replacement fund \$1,746,176 at December 31, 2016. The repayment of the interfund receivable due from the operating fund is dependent on the operating fund generating sufficient income to both cover the current expenses of the Association and to repay the replacement fund. Our opinion is not modified with respect to that matter.

Future Major Repairs and Replacements

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements 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.

Disclaimer of Opinion on Supplementary Information

The schedule of consolidated revenue and expenses – operating fund for the year ended December 31, 2016, on pages 14 and 15 is presented for purposes of additional analysis and is not a required part of the consolidated 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 16 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matter described in the basis for disclaimer of opinion paragraph.



May 31, 2017

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Consolidated Balance Sheet
December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 997,055	\$ 3,083,361	\$ 4,080,416
Restricted cash	13,934	-	13,934
Assessments receivable, net of allowance for doubtful accounts of \$9,785,852	-	-	-
Other receivables	147,967	-	147,967
Prepaid expenses	57,562	-	57,562
Property and equipment, net	3,636,297	-	3,636,297
Goodwill, net	1,984,182	-	1,984,182
Other assets	104,266	-	104,266
Due from developer	677,779	-	677,779
Due from affiliate	47,103	-	47,103
Due (to) from other fund	<u>(1,746,176)</u>	<u>1,746,176</u>	<u>-</u>
Total assets	<u>\$ 5,919,969</u>	<u>\$ 4,829,537</u>	<u>\$ 10,749,506</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable and accrued expenses	\$ 373,426	\$ -	\$ 373,426
Prepaid assessments	2,672,088	-	2,672,088
Deferred deed back revenue	79,142	-	79,142
Due to affiliates	6,744	-	6,744
Notes payable	<u>1,658,080</u>	<u>-</u>	<u>1,658,080</u>
Total liabilities	4,789,480	-	4,789,480
Fund balance	<u>1,130,489</u>	<u>4,829,537</u>	<u>5,960,026</u>
Total liabilities and fund balance	<u>\$ 5,919,969</u>	<u>\$ 4,829,537</u>	<u>\$ 10,749,506</u>

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

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, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Resort operations			
Revenue			
Owner assessments	\$ 5,371,433	\$ 1,312,059	\$ 6,683,492
Developer assessments	260,798	63,081	323,879
Interest income	43,735	6,524	50,259
Late charges	36,340	-	36,340
Other income	240,282	131	240,413
	<u>5,952,588</u>	<u>1,381,795</u>	<u>7,334,383</u>
Expenses			
Utilities	418,358	-	418,358
Housekeeping	942,834	-	942,834
Maintenance, repairs, and replacements	579,589	155,604	735,193
Administration and general	780,397	-	780,397
Salaries	564,402	-	564,402
Payroll taxes and related expenses	132,779	-	132,779
Leases, contracts, and fixed expenses	1,202,462	-	1,202,462
Bad debt expense	2,370,310	-	2,370,310
Association-owned interval expense	19,369	-	19,369
	<u>7,010,500</u>	<u>155,604</u>	<u>7,166,104</u>
Resort operations income (loss)	<u>(1,057,912)</u>	<u>1,226,191</u>	<u>168,279</u>
Rental program and check-in facility operations			
Rental program income	2,217,241	-	2,217,241
Bar, restaurant, and other income	823,726	-	823,726
Rental program and check-in facility expenses	<u>(1,570,480)</u>	<u>-</u>	<u>(1,570,480)</u>
Rental program and check-in facility operations income	<u>1,470,487</u>	<u>-</u>	<u>1,470,487</u>
FantasySurf operations			
Admissions and other income	-	-	-
Expenses	<u>(449,074)</u>	<u>-</u>	<u>(449,074)</u>
FantasySurf operations loss	<u>(449,074)</u>	<u>-</u>	<u>(449,074)</u>
Excess (deficiency) of revenue over expenses	(36,499)	1,226,191	1,189,692
Fund balance			
Beginning of year	<u>1,166,988</u>	<u>3,603,346</u>	<u>4,770,334</u>
End of year	<u>\$ 1,130,489</u>	<u>\$ 4,829,537</u>	<u>\$ 5,960,026</u>

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

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Consolidated Statement of Cash Flows
Year Ended December 31, 2016

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities			
Excess (deficiency) of revenue over expenses	\$ (36,499)	\$ 1,226,191	\$ 1,189,692
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by (used in) operating activities			
Bad debt expense	2,370,310	-	2,370,310
Depreciation	116,857	-	116,857
Amortization of goodwill	283,454	-	283,454
Changes in			
Restricted cash	(12)	-	(12)
Assessments receivable	(2,098,759)	-	(2,098,759)
Other receivables	(147,967)	-	(147,967)
Retail inventory	5,442	-	5,442
Prepaid expenses	(19,124)	-	(19,124)
Other assets	(4,266)	-	(4,266)
Accounts payable and accrued expenses	254,305	-	254,305
Prepaid assessments	238,921	-	238,921
Deferred deed back revenue	(16,686)	-	(16,686)
Real estate taxes payable	(806,081)	-	(806,081)
Due from developer	(355,990)	-	(355,990)
Due to or from affiliates	(31,649)	-	(31,649)
Net cash provided by (used in) operating activities	<u>(247,744)</u>	<u>1,226,191</u>	<u>978,447</u>
Cash flows from financing activities			
Interfund borrowings, net	(51,250)	51,250	-
Repayments of lines of credit and notes payable	(723,265)	-	(723,265)
Net cash provided by (used in) financing activities	<u>(774,515)</u>	<u>51,250</u>	<u>(723,265)</u>
Increase (decrease) in cash and cash equivalents	(1,022,259)	1,277,441	255,182
Cash and cash equivalents			
Beginning of year	<u>2,019,314</u>	<u>1,805,920</u>	<u>3,825,234</u>
End of year	<u>\$ 997,055</u>	<u>\$ 3,083,361</u>	<u>\$ 4,080,416</u>
Supplemental disclosure of cash flow information			
Cash paid during the year for			
Interest	<u>\$ 165,013</u>	<u>\$ -</u>	<u>\$ 165,013</u>

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

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2016

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, 2016, the Association consists of 10,660 weekly interval units of which approximately 325 were owned by the Developer, approximately 242 were owned by the Festiva Adventure Club (the "Club"), and approximately 161 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 owns the rental unit, 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 and remained closed for 2016 (see Note 4).

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.

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.

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2016

Assessments Receivable and Allowance for Doubtful Accounts

Assessments receivable represent amounts due from interval owners for maintenance and taxes. 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. The allowance is based on past collection and industry experience 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. When all collection efforts have been exhausted, delinquent receivables are charged against the allowance. 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, 2016, bad debt expense was \$2,370,310.

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, 2016.

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 interval 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 \$116,857 for the year ended December 31, 2016.

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2016

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, 2016, and has elected a 10-year amortization period which began January 1, 2014.

Other Assets

At December 31, 2016, other assets consists of a liquor and tobacco sales license which is carried at cost, and deposits.

Prepaid Assessments

Prepaid assessments consist of 2017 and future maintenance and tax assessments received by the Association in 2016.

Deferred Deed Back Revenue

Deferred deed back revenue consists of 2017 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 currently ranging from 2017 through 2021. 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, 2016, 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, 2016, was \$36,244.

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2016

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") 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. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 for all entities by one year. 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 permitted for fiscal years beginning after December 15, 2016. The effect of this guidance on the consolidated financial statements of the Association has not been determined.

Subsequent Events

The Association has evaluated subsequent events through May 31, 2017, the date which the consolidated financial statements were available to be issued. Based upon this evaluation, the Association has determined that except for the matter disclosed in Note 4, no other subsequent events have occurred which require adjustment to or disclosure in the consolidated financial statements.

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 2016 annual assessments to weekly interval owners were as follows:

Maintenance	\$	533
Replacement fund		129
Real estate taxes, as agent		<u>66</u>
	\$	<u><u>728</u></u>

The Association is collecting assessments for and remitting real estate taxes on behalf of individual interval 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.

The amount of the assessment charged to the Developer for 2016 is based on detailed inventory records maintained for unit weeks owned by the Developer. For 2016, these records were not adequately maintained and, consequently, the amounts recorded for assessments as allocated between owners and the Developer could be materially different than what is presented in these consolidated financial statements.

3. INVENTORY OF TIME-SHARE INTERVALS

For the year ended December 31, 2016, the Association bore the financial responsibility for approximately 100 weekly intervals. The real estate tax and replacement fund assessments for these units of \$6,534 and \$12,835, respectively, have been charged to operating expense for 2016. The operating portion of the assessments for these weekly intervals has been excluded from assessment revenue for 2016. As the inventory has no net realizable value, no value has been recorded at December 31, 2016.

Vacation Villas at FantasyWorld Time-Share Owner’s Association, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2016

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2016:

Land	\$ 806,113
Buildings	3,101,769
Furnishings, fixtures, and equipment	1,436,772
Rental unit	46,021
Total	<u>5,390,675</u>
Less accumulated depreciation	<u>(1,754,378)</u>
Property and equipment, net	<u><u>\$ 3,636,297</u></u>

During 2015, FMS purchased a unit from a private owner which the Association will renovate and add to the rental program. At December 31, 2016, the rental unit is vacant and, therefore, is not being depreciated.

During 2015, the Flow-Rider indoor surf attraction was closed due to equipment malfunction and the attraction remained closed through 2016. At December 31, 2016, the carrying value of the equipment was \$966,000, net of accumulated depreciation of \$767,250. The Association is currently in litigation with several parties related to the malfunction. Subsequent to year end, the parties entered into a verbal settlement agreement which is expected to be formalized. The proceeds from this agreement are significantly higher than the net book value of the affected equipment, therefore, no impairment adjusted is required at December 31, 2016.

5. GOODWILL

The gross carrying amounts of goodwill, accumulated amortization, and accumulated impairment loss at December 31, 2016, are as follows:

Goodwill	\$ 2,834,545
Accumulated amortization	(850,363)
Accumulated impairment loss	<u>-</u>
Goodwill, net	<u><u>\$ 1,984,182</u></u>

The Association amortizes goodwill on the straight-line method over 10 years. Amortization expense for the year December 31, 2016, was \$283,454. Future amortization for the next five years is \$283,454 annually.

6. MANAGEMENT AGREEMENT

The property and affairs of the Association were managed by Patton Hospitality Management, Inc. (the “Management Company”) under an agreement expiring December 31, 2025. Management fees incurred under this agreement during 2016 amounted to \$300,000.

Vacation Villas at FantasyWorld Time-Share Owner’s Association, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2016

7. NOTES PAYABLE

Notes payable consist of the following at December 31, 2016:

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.	<u>\$ 1,658,080</u>
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Future maturities of the notes payable at December 31, 2016, are as follows:

Year Ending December 31,	
2017	\$ 36,763
2018	40,211
2019	43,983
2020	48,109
2021	52,622
Thereafter	<u>1,436,392</u>
	<u>\$ 1,658,080</u>

For the year ended December 31, 2016, interest expense related to notes payable and the line of credit (see Note 8) amounted to \$165,013.

8. LINES OF CREDIT

The Association had 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 accrued 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 line of credit was collateralized by real property and was paid off during 2016.

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.

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 \$1,385,040 has been included in the 2017 budget.

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2016

Funds are being accumulated in the replacement fund based on the estimated current costs for repairs and replacements of common property components. Actual expenditures 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, 2016, the Association's operating fund owed \$1,746,176 to the replacement fund. The repayment of the interfund receivable due from the operating fund is dependent upon the operating fund generating sufficient income to both cover the current expenses of the Association and to repay 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 \$809,340 in membership fees during 2016. Additionally, the Association was charged \$107,201 for Master Association fees for the units in the rental program.

Due from Developer at December 31, 2016, consists of amounts due for unpaid 2014, 2015, and 2016 assessments.

Due from affiliate at December 31, 2016, consists of amounts due from the Master Association which consist of informal noninterest bearing advances which are in the nature of trade receivables, due on demand.

Due to affiliates at December 31, 2016, primarily consist of amounts due to a related association and other affiliates of the Developer which consist of informal noninterest bearing advances which are in the nature of trade payables, due on demand.

Weekly intervals that are foreclosed for unpaid maintenance fees are owned by the Association. These intervals are held by the Association and seeded to the Club, an entity related to the Association by common management. At that time, the Club becomes the owner of the weekly intervals and is responsible for the maintenance assessments. During the year ended December 31, 2016, the Association derived approximately 3% of its assessments from the Club.

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.

The Association has a contract with CRM of the Carolinas, LLC, an affiliate of the Management Company, to provide monthly maintenance and repairs to the Association as well as unit refurbishments as needed. Total expenses under this arrangement totaled \$425,195 and are recorded as \$374,712 in the operating fund and \$50,483 in the replacement fund.

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2016

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, 2016, are as follows:

Year Ending December 31,	
2017	\$ 8,743
2018	8,743
	<hr/>
	\$ 17,486
	<hr/>

Total rent expense under all operating leases, including usage costs and month-to-month rentals, for the year ended December 31, 2016, was \$19,407.

12. INCOME TAXES

For the year ended December 31, 2016, nonmembership income exceeded the related expenses. Consequently, federal income tax expense of \$11,450 is recorded in the operating fund.

The Association has no 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.

Management 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, 2016. Therefore, no reserves for uncertain income tax positions have been recorded. During 2016, 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. 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.

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 a 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, 2016

	<u>Actual</u>	<u>Budget</u> <u>(Unaudited)</u>
Resort operations		
Revenue		
Maintenance assessments	\$ 5,632,231	\$ 5,685,340
Interest income	43,735	-
Late charges	36,340	150,000
Other income	240,282	88,794
Total revenue from resort operations	<u>5,952,588</u>	<u>5,924,134</u>
Expenses		
Utilities	<u>418,358</u>	<u>432,454</u>
Housekeeping		
Linens	53,653	69,402
Contract labor	812,086	769,055
Other	77,095	81,089
	<u>942,834</u>	<u>919,546</u>
Maintenance and repairs		
Building maintenance	564,425	180,000
Other	15,164	21,800
	<u>579,589</u>	<u>201,800</u>
Administration and general		
Management fees	300,000	-
Professional fees	34,563	37,812
Regulatory fees	21,320	21,320
Printing, newsletter, and postage	42,942	20,000
Bank and credit card charges	161,802	35,500
Office expense	17,887	23,000
Collection expense	-	10,000
Miscellaneous	201,883	229,530
	<u>780,397</u>	<u>377,162</u>
Salaries		
Administrative	415,398	370,578
Housekeeping	4,909	43,817
Activities, maintenance, and other	144,095	485,164
	<u>564,402</u>	<u>899,559</u>
Payroll taxes and related expenses	<u>132,779</u>	<u>241,204</u>
Leases, contracts, and fixed expenses		
Master association fees	809,340	809,340
Pest control	21,244	21,240
Legal council	122,020	122,500
Income taxes	11,450	5,000
Insurance	202,671	156,706
Debt service – interest	14,113	55,000
Other	21,624	25,000
	<u>1,202,462</u>	<u>1,194,786</u>

Continued

Vacation Villas at FantasyWorld Time-Share Owner’s Association, Inc. and Subsidiaries
Schedule of Consolidated Revenue and Expenses – Operating Fund
Year Ended December 31, 2016

	<u>Actual</u>	<u>Budget</u> <u>(Unaudited)</u>
Resort operations – continued		
Expenses – continued		
Bad debt expense	2,370,310	2,518,332
Association-owned interval expense	19,369	-
Total expenses from resort operations	<u>7,010,500</u>	<u>6,784,843</u>
Resort operations loss	<u>(1,057,912)</u>	<u>(860,709)</u>
Rental program and check-in facility operations		
Revenue		
Rental program income	2,217,241	1,919,062
Bar, restaurant, and other income	823,726	684,550
Total revenue from rental program and check-in facility operations	<u>3,040,967</u>	<u>2,603,612</u>
Expenses		
Bar costs	135,068	110,000
Utilities	162,344	152,363
Housekeeping	377,322	407,475
Maintenance	1,513	5,000
Administrative and general	50,516	53,251
Salaries and related expenses	254,510	242,629
Debt service – interest	150,900	184,757
Master association fees	107,201	107,201
Depreciation	43,097	-
Amortization	283,454	-
Insurance and other expenses	4,555	13,605
Total expenses from rental program and check-in facility operations	<u>1,570,480</u>	<u>1,276,281</u>
Rental program and check-in facility operations income	<u>1,470,487</u>	<u>1,327,331</u>
FantasySurf operations		
Admissions and other income	-	384,338
Expenses		
Cost of sales	-	15,000
Utilities	57,499	149,869
Maintenance	4,142	40,000
Administrative and general	313,437	12,176
Depreciation	73,760	-
Insurance, salaries, and other expenses	236	154,917
Total expenses from FantasySurf operations	<u>449,074</u>	<u>371,962</u>
FantasySurf operations loss	<u>(449,074)</u>	<u>12,376</u>
Excess (deficiency) of revenue over expenses	<u>\$ (36,499)</u>	<u>\$ 478,998</u>

**Vacation Villas at FantasyWorld Time-Share Owner’s Association, Inc. and Subsidiaries
Schedule of Future Major Repairs and Replacements (Unaudited)
December 31, 2016**

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, 2015	Additions	Expenditures	Fund Balance December 31, 2016
Roof replacement	6 years	\$ 633,368	\$ 641,657	\$ -	\$ 3,500	\$ 638,157
Building painting	1 year	95,135	121,105	-	-	121,105
Building and equipment	1 year	327,327	269,633	-	66,313	203,320
Pavement resurfacing	2 years	72,546	83,806	-	-	83,806
Check-in facility	1 year	213,644	209,840	-	-	209,840
Furniture and fixtures	1 year	<u>4,206,271</u>	<u>2,277,305</u>	<u>1,381,795</u>	<u>85,791</u>	<u>3,573,309</u>
		<u>\$ 5,548,291</u>	<u>\$ 3,603,346</u>	<u>\$ 1,381,795</u>	<u>\$ 155,604</u>	<u>\$ 4,829,537</u>