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

Consolidated Financial Statements

December 31, 2017

With Independent Auditor's Report

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Table of Contents
December 31, 2017

Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Balance Sheet	3
Consolidated Statement of Revenues, Expenses, and Changes in Fund Balance (Deficit)	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-14
Supplementary Information	
Schedule of Consolidated Revenues and Expenses – Operating Fund	15-16
Schedule of Future Major Repairs and Replacements	17

INDEPENDENT AUDITOR'S REPORT

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

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, 2017, and the related consolidated statements of revenues, expenses, and changes in fund balance (deficit) 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 for the transactions related to 2017 and therefore, we were not able to obtain sufficient appropriate audit evidence supporting the amounts that have been recorded in the accompanying consolidated balance sheet at December 31, 2017.

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.

Emphasis of Matter Regarding Interfund Receivable

As discussed in Note 11 to the consolidated financial statements, the Association's operating fund owed the replacement fund $2,180,803 at December 31, 2017. 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.

withum

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 11 are adequate to meet such future costs because that determination is outside the scope of our audit.

Disclaimer of Opinion on Supplementary Information

We were engaged for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The schedule of consolidated revenues and expenses – operating fund for the year ended December 31, 2017, on pages 15 and 16 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 17 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. We do not express an opinion or provide any assurance on the information.

Withum Smith+Brown, PC

August 1, 2020

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Consolidated Balance Sheet
December 31, 2017

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	$ 2,768,351	$ 2,235,112	$ 5,003,463
Assessments receivable, net of allowance for doubtful accounts of $15,095,417	47,582	-	47,582
Other receivables	299,532	-	299,532
Prepaid expenses	211,312	-	211,312
Property and equipment, net	3,501,010	-	3,501,010
Goodwill, net	1,700,728	-	1,700,728
Other assets	2,837	-	2,837
Due from affiliate	244,266	-	244,266
Due (to) from other fund	(2,180,803)	2,180,803	-
Total assets	$ 6,594,815	$ 4,415,915	$ 11,010,730
Liabilities and Fund Balance (Deficit)			
Liabilities			
Accounts payable and accrued expenses	$ 1,404,920	$ 934,331	$ 2,339,251
Prepaid assessments	2,549,778	-	2,549,778
Deferred deed back revenue	79,142	-	79,142
Real estate taxes payable	863,475	-	863,475
Insurance note payable	187,510	-	187,510
Note payable	1,624,200	-	1,624,200
Total liabilities	6,709,025	934,331	7,643,356
Fund balance (deficit)	(114,210)	3,481,584	3,367,374
Total liabilities and fund balance (deficit)	$ 6,594,815	$ 4,415,915	$ 11,010,730

The Notes to Consolidated Financial Statements are an integral part of this statement.

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Consolidated Statement of Revenues, Expenses, and Changes in Fund Balance (Deficit)
Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
Revenues			
Owner assessments	$ 6,043,932	$ 1,385,040	$ 7,428,972
Finance charges and late fees	118,586	-	118,586
Bar revenues, resort fees and other	954,765	-	954,765
Rental income	1,322,499	-	1,322,499
Other rental program income	616,043	-	616,043
	9,055,825	1,385,040	10,440,865
Expenses			
Utilities	713,677	-	713,677
Housekeeping	1,845,667	-	1,845,667
Maintenance, repairs, and replacements	228,276	2,732,993	2,961,269
Administration and general	845,654	-	845,654
Resort management expense	1,531,658	-	1,531,658
Bad debt expense, net	2,347,119	-	2,347,119
Settlement expense	1,192,189	-	1,192,189
Bar cost of sales	129,085	-	129,085
Depreciation and amortization	367,079	-	367,079
Master association fees	997,545	-	997,545
Association-owned interval expense	33,825	-	33,825
Impairment of property and equipment	68,750	-	68,750
	10,300,524	2,732,993	13,033,517
Deficiency of revenues over expenses	(1,244,699)	(1,347,953)	(2,592,652)
Fund balance (deficit)			
Beginning of year	1,130,489	4,829,537	5,960,026
End of year	$ (114,210)	$ 3,481,584	$ 3,367,374

The Notes to Consolidated Financial Statements are an integral part of this statement.

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Consolidated Statement of Cash Flows
Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
Operating activities			
Deficiency of revenues over expenses	$ (1,244,699)	$ (1,347,953)	$ (2,592,652)
Adjustments to reconcile deficiency of revenues over expenses to net cash provided by (used in) operating activities			
Bad debt expense	3,475,991	-	3,475,991
Depreciation	83,625	-	83,625
Impairment of property and equipment	68,750	-	68,750
Amortization of goodwill	283,454	-	283,454
Changes in			
Restricted cash	13,934	-	13,934
Assessments receivable	(3,523,573)	-	(3,523,573)
Other receivables	(151,565)	-	(151,565)
Prepaid expenses	119,126	-	119,126
Other assets	101,429	-	101,429
Accounts payable and accrued expenses	1,031,494	934,331	1,965,825
Prepaid assessments	(122,310)	-	(122,310)
Real estate taxes payable	863,475	-	863,475
Due from developer	677,779	-	677,779
Due to or from affiliates	(203,907)	-	(203,907)
Net cash provided by (used in) operating activities	1,473,003	(413,622)	1,059,381
Investing activities			
Purchases of property and equipment	(17,088)	-	(17,088)
Net cash used in investing activities	(17,088)	-	(17,088)
Financing activities			
Interfund borrowings, net	434,627	(434,627)	-
Repayments of notes payable	(119,246)	-	(119,246)
Net cash provided by (used in) financing activities	315,381	(434,627)	(119,246)
Change in cash and cash equivalents	1,771,296	(848,249)	923,047
Cash and cash equivalents			
Beginning of year	997,055	3,083,361	4,080,416
End of year	$ 2,768,351	$ 2,235,112	$ 5,003,463
Supplemental disclosure of cash flow information			
Cash paid during the year for			
Interest	$ 147,995	$ -	$ 147,995
Income taxes	$ 5,580	$ -	$ 5,580
Supplemental disclosure of noncash financing activities			
Note payable for insurance premiums	$ 272,876	$ -	$ 272,876

The Notes to Consolidated Financial Statements are an integral part of this statement.

1. ORGANIZATION AND PURPOSE

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, 2017, the Association consists of 10,660 weekly interval units of which approximately 590 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 owns the rental unit and effective October 2017, manages the Association (see Note 7). FS was created to oversee 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 through 2017 (see Note 5).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, 2017, bad debt expense, net, was $2,347,119.

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, 2017.

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:

Description	Estimated Life (Years)
Buildings and the rental unit	40
Furnishings, fixtures, and equipment	5-7

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 $83,625 for the year ended December 31, 2017.

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, 2017, and has elected a 10-year amortization period which began January 1, 2014.

Prepaid Assessments
Prepaid assessments consist of 2018 and future maintenance and tax assessments received by the Association in 2017.

Deferred Deed Back Revenue
Deferred deed back revenue consists of 2018 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 2018 through 2026. 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, 2017, 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, 2017, was $145,838.

Valuation of Long-Lived Assets
The Association reviews long-lived assets, including property and equipment, for impairment whenever events and changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Management has determined that an impairment was required for the year ended December 31, 2017 (see Note 5).

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.

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02, *Leases* (Topic 842), which supersedes existing lease accounting standards. Together with subsequent amendments, this created Accounting Standards Codification Topic 842 ("ASC 842"). ASC 842 requires that a lessee recognize a right-of-use asset and a corresponding liability for its obligation under virtually all operating leases, as well as expands disclosure requirements for both lessees and lessors. ASC 842 is effective for annual reporting periods beginning after December 15, 2020. Early adoption is permitted. The Association is currently evaluating the effect of the adoption of ASC 842 on its results of operations, financial position, and cash flow.

Subsequent Events

The Association has evaluated subsequent events through August 1, 2020, the date which the consolidated financial statements were available to be issued. Based upon this evaluation, the Association has determined that except for the matters disclosed in Notes 1, 5, 7 and 17, no other subsequent events have occurred which require adjustment to or disclosure in the consolidated financial statements.

3. 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 2017 annual assessments to weekly interval owners were as follows:

Maintenance	$	576
Replacement fund		133
Real estate taxes, as agent		78
	$	787

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 revenues, expenses, and changes in fund balance (deficit).

4. INVENTORY OF TIME-SHARE INTERVALS

For the year ended December 31, 2017, the Association bore the financial responsibility for approximately 161 weekly intervals. The real estate tax and replacement fund assessments for these units of $12,500 and $21,325, respectively, have been charged to operating expense for 2017. The operating portion of the assessments for these weekly intervals has been excluded from assessment revenue for 2017. As the inventory has no net realizable value, no value has been recorded at December 31, 2017.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2017:

Land	$	806,113
Buildings		3,101,769
Furnishings, fixtures, and equipment		1,255,110
Rental unit		46,021
		5,209,013
Less: Accumulated depreciation		(1,708,003)
Property and equipment, net	$	3,501,010

During 2015, FMS purchased a unit from a private owner which the Association will renovate and add to the rental program. At December 31, 2017, the rental unit is vacant and, therefore, is not being depreciated.

In January 2018, the Association purchased an additional rental unit from a private owner for $114,600.

In September 2018, Fantasyworld Club Villas Home Owners' Association, Inc. (the "Master Association") transferred two units to FMS.

During 2015, the Flow-Rider indoor surf attraction was closed due to equipment malfunction and the attraction remained closed through 2017. At December 31, 2017, the carrying value of the equipment was $966,000, net of accumulated depreciation of $767,250. The Association was in litigation with several parties related to the malfunction. In February 2019, the parties formalized a settlement agreement. The proceeds from this agreement are significantly lower than the net book value of the affected equipment, therefore, an impairment adjustment of $68,750 is required at December 31, 2017.

On February 27, 2019, the Association purchased a parcel of land next to the previous Fantasysurf building for $350,000 which will be used for a new amenity for the Association.

6. GOODWILL

The gross carrying amounts of goodwill, accumulated amortization, and accumulated impairment loss at December 31, 2017, are as follows:

Goodwill	$	2,834,545
Accumulated amortization		(1,133,817)
Accumulated impairment loss		-
Goodwill, net	$	1,700,728

The Association amortizes goodwill on the straight-line method over 10 years. Amortization expense for the year December 31, 2017, was $283,454. Future amortization for the next five years is $283,454 annually.

7. 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 2017 amounted to $250,000. In October 2017, the Association terminated its contract with the Management Company.

Commencing October 21, 2017, the property and affairs of the Association would be managed by FMS under an agreement expiring October 21, 2020. Under this agreement, a management fee of $375,000 is due for the first year and will increase by 3% each subsequent year the agreement is in place. This agreement is automatically renewed for successive periods of three years unless canceled by either party with 60 days written notice.

As FMS is a wholly-owned subsidiary of the Association, the management fee revenue and related expense are eliminated and not presented in these consolidated financial statements. The fee incurred for the period of the contract in 2017 was $73,973.

8. CONSULTING AGREEMENT

During the transition from management companies, the Association entered into an agreement with Key Performance Hospitality Management for November and December 2017 for them to provide consulting services related to the transition from the Management Company to self-managing. Consulting fees incurred under this agreement during 2017 amounted to $50,000.

9. NOTE PAYABLE

Note payable consists of the following at December 31, 2017:

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.	$ 1,624,200

Future maturities of the note payable at December 31, 2017, are as follows:

2018	$ 40,211
2019	43,983
2020	48,109
2021	52,622
2022	62,958
Thereafter	1,376,317
	$ 1,624,200

For the year ended December 31, 2017, interest expense related to note payable amounted to $147,995.

10. INSURANCE NOTE PAYABLE

At December 31, 2017, note payable consists of an insurance premium finance agreement with Premium Assignment Corporation, which requires monthly payments of $21,463, interest rate of 6.340%, matures October 2018, and is secured by an interest in the financed insurance policies. This finance agreement was renewed and requires monthly payments of $32,106, interest rate of 3.350%, maturing December 2020, and is also secured.

11. 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 2018 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 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, 2017, the Association's operating fund owed $2,180,803 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.

12. 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 the Master Association. The Association has 205 units in the Master Association, and through this relationship was charged $889,364 in membership fees during 2017. Additionally, the Association was charged $108,181 for Master Association fees for the units in the rental program.

Due from affiliate at December 31, 2017, 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.

In addition to the management fees referred to in Note 7, 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 had 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 $426,021 and are recorded as $366,918 in the operating fund and $59,103 in the replacement fund.

13. LEASING ACTIVITIES

The Association rents office equipment under a noncancellable operating lease expiring October 2022. Per the lease agreement, the payments are split equally between the Association and the Master Association under an informal cost sharing agreement. Future minimum lease payments under this noncancellable operating lease at December 31, 2017, are as follows:

2018	$	4,596
2019		4,596
2020		4,596
2021		4,596
2022		3,830
	$	22,214

Total rent expense under all operating leases, including usage costs and month-to-month rentals, for the year ended December 31, 2017, was $12,212.

14. INCOME TAXES

For the year ended December 31, 2017, nonmembership income exceeded the related expenses. Consequently, federal income tax expense of $5,284 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, 2017. Therefore, no reserves for uncertain income tax positions have been recorded. During 2017, 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.

15. SETTLEMENT WITH PATTON HOSPITALITY MANAGEMENT, INC.

In December 2017, the litigation with the Management Company and Developer as a result of the contract termination was settled and as a result, the Association incurred settlement expense of approximately $1.2 million which was comprised of amounts due for termination of the agreement as well as satisfaction of amounts owed to the Association by the Management Company, Developer and affiliates.

At December 31, 2017, the amount of the settlement payable was $175,173 and is included in accounts payable.

16. 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.

17. SUBSEQUENT EVENTS

Impact of COVID-19 Pandemic

Management is currently evaluating the introduction of the COVID-19 virus to the United States and its impact on the economy and vacation ownership industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the Association's financial condition and results of operations, the specific impact is not readily determinable as of the date of these consolidated financial statements. In response to the pandemic, the Association's resort remains closed. Management expects the resort to open as soon as regulatory restrictions are lifted.

Paycheck Protection Program Loan

In May 2020, the Association obtained a SBA loan under the federal Paycheck Protection Program ("PPP") in the amount of approximately $542,000 which accrues interest at 1% and allows for potential short-term debt forgiveness based on the Association's ability to maintain certain employee count and wage levels as well as use of funds.

Vacation Villas at FantasyWorld

SUPPLEMENTARY INFORMATION

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Schedule of Consolidated Revenues and Expenses – Operating Fund
Year Ended December 31, 2017

	Actual	Budget
Revenues		
Maintenance assessments	$ 6,043,932	$ 6,000,471
Finance charges and late fees	118,586	160,505
Bar revenues, resort fees and other	954,765	1,045,693
Rental income	1,322,499	1,450,516
Other rental program income	616,043	735,172
Total revenues	9,055,825	9,392,357
Expenses		
Utilities	713,677	653,565
Housekeeping		
Linens	149,848	140,000
Contract labor	1,477,163	1,506,627
Guest transportation	52,000	48,000
Other	166,656	276,223
	1,845,667	1,970,850
Maintenance and repairs		
Pool supplies and maintenance	13,162	-
Building maintenance	157,856	200,000
Pest control	31,799	26,932
Other	25,459	28,800
	228,276	255,732
Administration and general		
Management fees	250,000	300,000
Professional fees	140,807	214,500
Consulting fees	50,000	-
Regulatory fees	21,320	21,320
Bank and credit card charges	149,644	165,507
Insurance expense	82,761	185,380
Income tax expense	5,284	11,450
Collection expense	-	150,000
Other	145,838	54,244
	845,654	1,102,401
Resort management expenses		
Salaries and related expenses	1,080,812	920,168
Board of directors expense	10,454	15,000
Membership mailings, meetings and postage	66,457	103,075
Office expense	62,150	14,400
Licenses, permits, and fees	4,994	3,425
Interest expense	147,995	147,900
Other	158,796	31,900
	1,531,658	1,235,868

See Independent Auditor's Report.

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Schedule of Consolidated Revenues and Expenses – Operating Fund
Year Ended December 31, 2017

	Actual	Budget
Expenses – continued		
Bad debt expense, net	$ 2,347,119	$ 2,163,605
Settlement expense	1,192,189	-
Bar cost of sales	129,085	131,951
Depreciation and amortization	367,079	-
Master association fees	997,545	996,122
Association-owned interval expense	33,825	-
Impairment of property and equipment	68,750	-
Total expenses	10,300,524	8,510,094
Excess (deficiency) of revenues over expenses	$ (1,244,699)	$ 882,263

See Independent Auditor's Report.

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Schedule of Future Major Repairs and Replacements
December 31, 2017

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, 2016	Additions	Expenditures	Fund Balance December 31, 2017
Roof replacement	5 years	$ 633,368	$ 638,157	$ -	$ 212,760	$ 425,397
Building painting	-	95,135	121,105	-	-	121,105
Building and equipment	-	327,327	203,320	17,235	30,518	190,037
Pavement resurfacing	1 year	72,546	83,806	-	-	83,806
Check-in facility	-	213,644	209,840	-	-	209,840
Furniture and fixtures	-	4,206,271	3,573,309	1,367,805	2,489,715	2,451,399
		$ 5,548,291	$ 4,829,537	$ 1,385,040	$ 2,732,993	$ 3,481,584

See Independent Auditor's Report.