Vacation Villas at FantasyWorld

VACATION VILLAS AT FANTASYWORLD TIME-SHARE OWNER'S ASSOCIATION, INC., AND SUBSIDIARIES
Consolidated Financial Statements
December 31, 2022
With Independent Auditor's Report

withum
ADVISORY TAX AUDIT

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Table of Contents
December 31, 2022

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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, 2022, and the related consolidated statements of revenues, expenses, and changes in fund deficit and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries as of December 31, 2022, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matters

Interfund Receivable

As discussed in Note 11 to the consolidated financial statements, the Association's operating fund owed the replacement fund $3,076,529 on December 31, 2022. 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 this matter.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2022, the Association adopted new accounting guidance in accordance with Financial Accounting Standards Board of Accounting Standards Codification Topic 842, Leases. Our opinion is not modified with respect to this matter.

WithumSmith+Brown, PC 200 South Orange Avenue, Suite 1200, Orlando, Florida 32801-3400 T (407) 849 1569 F (407) 849 1119 withum.com

withum

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

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

Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of consolidated revenues and expenses – operating fund on page 19 and 20 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of the Association's management and, except for that portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information, except for that portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for that portion marked "unaudited," on which we express no opinion or any assurance, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report 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 21 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, 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 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

WithumSmith+Brown, PC

May 31, 2023

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Consolidated Balance Sheet
December 31, 2022

	Operating Fund	Replacement Fund	Total
Assets			
Cash	$ 1,780,036	$ 11,746	$ 1,791,782
Restricted cash	13,951	-	13,951
Assessments receivable, net	83,898	-	83,898
Other receivables	477,878	-	477,878
Prepaid expenses and other assets	442,784	78,389	521,173
Property and equipment, net	5,012,900	-	5,012,900
Right-of-use assets	95,468	-	95,468
Goodwill, net	283,455	-	283,455
Due from affiliates	148,127	-	148,127
Due (to) from other fund	(3,076,529)	3,076,529	-
Total assets	$ 5,261,968	$ 3,166,664	$ 8,428,632
Liabilities and Fund Balance			
Liabilities			
Accounts payable and accrued expenses	$ 602,884	$ 17,383	$ 620,267
Prepaid assessments	2,759,818	-	2,759,818
Deferred deed back revenue	104,521	-	104,521
Deferred renovation revenue	214,053	-	214,053
Real estate taxes payable	813,482	-	813,482
Contract liabilities for replacements	-	3,149,281	3,149,281
Insurance note payable	558,301	-	558,301
Notes payable	1,381,715	-	1,381,715
Lease liabilities - operating	95,468	-	95,468
Total liabilities	6,530,242	3,166,664	9,696,906
Fund deficit	(1,268,274)	-	(1,268,274)
Total liabilities and fund deficit	$ 5,261,968	$ 3,166,664	$ 8,428,632

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 Deficit
Year Ended December 31, 2022

	Operating Fund	Replacement Fund	Total
Revenues			
Member assessments	$ 3,352,820	$ 996,036	$ 4,348,856
Financing and late charges	144,858	-	144,858
Bar revenues, resort fees and other	2,698,122	-	2,698,122
Rental income	3,750,743	-	3,750,743
Gain on sale of rental units	486,485	-	486,485
Other rental program income	121,195	-	121,195
	10,554,223	996,036	11,550,259
Expenses			
Utilities	726,769	-	726,769
Housekeeping	1,705,585	-	1,705,585
Maintenance, repairs, and replacements	544,266	996,036	1,540,302
Salaries and related expenses	2,425,646	-	2,425,646
Administration and general	1,333,301	-	1,333,301
Resort management expense	768,727	-	768,727
Bad debt expense	470,455	-	470,455
Bar cost of sales	197,793	-	197,793
Depreciation and amortization	443,340	-	443,340
Master association fees	2,889,972	-	2,889,972
Association-owned interval expense	246,418	-	246,418
	11,752,272	996,036	12,748,308
Deficiency of revenues over expenses	(1,198,049)	-	(1,198,049)
Fund deficit			
Beginning of year	(70,225)	-	(70,225)
End of year	$ (1,268,274)	$ -	$ (1,268,274)

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, 2022

	Operating Fund	Replacement Fund	Total
Operating activities			
Deficiency of revenues over expenses	$ (1,198,049)	$ -	$ (1,198,049)
Adjustments to reconcile deficiency of revenues over expenses to net cash used in operating activities			
Forgiveness of debt	(761,379)	-	(761,379)
Bad debt expense	470,455	-	470,455
Gain on sale of rental units	(486,485)	-	(486,485)
Depreciation	159,885	-	159,885
Amortization of goodwill	283,455	-	283,455
Amortization of right-of-use assets	13,221	-	13,221
Changes in			
Assessments receivable	(426,490)	-	(426,490)
Other receivables	(195,765)	-	(195,765)
Prepaid expenses and other assets	702,009	99,796	801,805
Accounts payable and accrued expenses	(106,284)	17,383	(88,901)
Prepaid assessments	24,411	-	24,411
Deferred deed back revenue	8,535	-	8,535
Deferred renovation revenue	214,053	-	214,053
Contract liabilities for replacements	-	(163,481)	(163,481)
Real estate taxes payable	(22,743)	-	(22,743)
Due to or from affiliates	953,413	-	953,413
Lease liabilities - operating	(13,221)	-	(13,221)
Net cash used in operating activities	(380,979)	(46,302)	(427,281)
Investing activities			
Proceeds from sale of rental units	865,381	-	865,381
Capital expenditures	(809,860)	-	(809,860)
Net cash provided by investing activities	55,521	-	55,521
Financing activities			
Interfund borrowings, net	1,103,189	(1,103,189)	-
Repayments of notes payable	(612,171)	-	(612,171)
Net cash provided by (used in) financing activities	491,018	(1,103,189)	(612,171)
Net change in cash and restricted cash	165,560	(1,149,491)	(983,931)
Cash and restricted cash			
Beginning of year	1,628,427	1,161,237	2,789,664
End of year	$ 1,793,987	$ 11,746	$ 1,805,733
Cash and restricted cash at end of year are comprised of the following:			
Cash	$ 1,780,036	$ 11,746	$ 1,791,782
Restricted cash	13,951	-	13,951
	$ 1,793,987	$ 11,746	$ 1,805,733
Supplemental disclosure of cash flow information			
Cash paid during the year for			
Interest	$ 127,199	$ -	$ 127,199
Supplemental disclosure of noncash investing and financing activities			
Note payable for insurance premiums	$ 614,131	$ -	$ 614,131
Initial recognition of lease liabilities related to right of use assets	$ 108,689	$ -	$ 108,689

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 "former Developer"). In November 2017, the former Developer assigned all rights and obligations of the Developer to the Association. On December 31, 2022, the Association consists of 10,660 weekly interval units of which approximately 1,565 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 manages the Association (Note 8). FS owns the building that houses the resort's maintenance and housekeeping operations and also contains a kitchen used for servicing owners at the pool. In addition, this building can be utilized for retail activities when needed.

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.

Restricted Cash

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

Revenue Recognition

Association owners are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. The Association's ability to collect assessments is affected by a variety of factors, including general economic conditions and each individual owner's financial capability. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. For the year ended December 31, 2022, variable consideration of $4,280,795 was considered to be constrained and excluded from revenue.

Bar revenues, resort fees, and rental income are accomplished over the time period the unit has been occupied. The Association rents unit weeks that are not used by the members to other individuals. The Association collects all rents and pays costs associated with renting the unit weeks, including marketing costs and commissions.

Financing and late charges and collection fee income are fees paid to the Association. Revenue from these fees is recorded at a point in time when the membership commences. The performance obligation is determined to be the charge of these fees.

The following table presents the Association's revenue streams based on timing of satisfaction of performance obligations for the year ended December 31, 2022:

Performance obligations satisfied over time	$	6,299,801
Performance obligations satisfied at a point in time		252,016
Revenue scoped out of Financial Accounting Standards Board Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*		4,998,442
	$	11,550,259

Rental Income

Rental income is recognized over the length of stay that an available room at the resort is occupied by the guest. Cash received from a guest prior to check-in is recorded as an advance deposit and is generally recognized as rental income upon occupancy or as other income upon expiration of the re-booking date in the event of a cancellation. Payment of any remaining balance is typically due from the guest upon check-out. Sales, use, occupancy, and similar taxes are collected and presented on a net basis (excluded from revenues).

Resort Fees

Resort fees are daily fees charged to transient rental guests for amenities usage on a daily basis based on the duration of rental stay and are recognized at the point in time the services have been rendered at the stated price.

Assessments Receivable and Allowance for Doubtful Accounts

Assessments receivable represent amounts due from unit week owners for annual maintenance and real estate taxes. Assessments receivable for maintenance are stated at the amounts expected to be collected; therefore, no allowance for doubtful accounts is recorded. All assessments receivable are presented in the operating fund.

Assessments receivable for real estate taxes are considered delinquent when they are 30 days past due. The portion of receivables which is 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 include past collection experience and industry standards. For the year ended December 31, 2022, bad debt expense for credit losses on real estate tax assessments was $470,455.

The balances of assessments receivable and the allowance for doubtful accounts on real estate tax assessments as of the beginning and end of the year are as follows:

	January 1, 2022	December 31, 2022
Assessments receivable	$ 2,151,871	$ 2,538,593
Less: Allowance for doubtful accounts on real estate tax assessments	2,024,008	2,454,695
Assessments receivable, net	$ 127,863	$ 83,898

Other Receivables

Other receivables are recorded when the related revenues are earned for rental and other accommodation income and are presented in the balance sheet net of an allowance for doubtful accounts. Any allowance for doubtful accounts is estimated based on the Association's historic losses, the existing economic conditions in the industry, and the financial stability of its customers. Other receivables are written off when they are deemed to be uncollectible. At December 31, 2022, management believes other receivables are fully collectible therefore, there is no allowance for doubtful accounts recorded.

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 net realizable value, 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 on December 31, 2022.

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

Description	Estimated Life (Years)
Buildings, rental units, and improvements	15-40
Furnishings, fixtures and equipment	3-7

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 $159,885 for the year ended December 31, 2022.

Leases
The Association categorizes leases with contractual terms longer than twelve months as either operating or financing. Finance leases are generally those leases that allow us to substantially utilize or pay for the entire asset over its estimated life. All other leases are categorized as operating leases. Leases with contractual terms of 12 months or less are not recorded on the balance sheet. The Association had no financing leases during 2022.

Certain lease contracts include obligations to pay for other services, such as operations, property taxes, and maintenance. The services are accounted for separately and payments are allocated to the lease and other services components based on estimated stand-alone prices.

Lease liabilities are recognized at the present value of the fixed lease payments using a discount rate based on the risk-fee rate. Right-of-use assets are recognized based on the initial present value of the fixed lease payments plus any direct costs from executing the leases. Lease assets are tested for impairment in the same manner as long-lived assets used in operations.

Options to extend lease terms, terminate leases before the contractual expiration date, or purchase the leased assets, are evaluated for their likelihood of exercise. If it is reasonably certain that the option will be exercised, the option is considered in determining the classification and measurement of the lease.

Costs associated with operating lease assets are recognized on a straight-line basis within operating expenses over the term of the lease. Finance lease assets are amortized on a straight-line basis over the shorter of the estimated useful lives of the assets or the lease term.

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, 2022, and has elected a 10-year amortization period which began January 1, 2014.

Prepaid Assessments
Prepaid assessments consist of 2023 and future maintenance and tax assessments received by the Association in 2022. At December 31, 2022, prepaid assessments include amounts due to owners for real estate tax assessments billed in excess of taxes paid of $469,620.

Contract Liabilities for Replacements
The Association recognizes revenue from owners as the related performance obligations are satisfied. A contract liability for replacements is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement fund assessments.

The balances of contract liabilities for replacements as of the beginning and end of the year are $3,312,762 and $3,149,281, respectively.

Deferred Deed Back Revenue
Deferred deed back revenue consists of 2023 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 2023 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. The balances of deferred deed back revenue as of the beginning and end of the year are $95,986 and $104,521, respectively.

Deferred Renovation Revenue
Deferred renovation revenue consists of deposits received from third parties for renovation services performed by the Association relating to damages from Hurricane Ian. The current balance represents funds received for services not yet performed as of year-end. Renovation projects are expected to be fully competed in 2023.

Deferred Payroll Taxes (COVID-19)
The Families First Coronavirus Response Act and the Coronavirus Aid, Relief, and Economic Security Act ("CARES") were signed into law on March 18, 2020 and March 27, 2020, respectively, to address the impact of COVID-19. The CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security taxes for pay periods beginning on March 27, 2020 and ending on December 31, 2020. Half of the deferred tax repayments are required to be and was paid by December 31, 2021, and the remaining balance was required to be and was paid by December 31, 2022.

Income Taxes
For the year ended December 31, 2022, 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, 2022, was $136,403.

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 no impairment loss was required to be recognized for the year ended December 31, 2022.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") amending the accounting for leases. The Association adopted the new standard (Topic 842) effective January 1, 2022, using the modified retrospective approach. Comparative prior periods were not adjusted upon adoption, as the Association utilized the practical expedient available under the guidance. Further, the Association elected to implement the package of practical expedients, whereby the Association did not (i) reassess existing contracts for embedded leases, (ii) reassess existing lease agreements for finance or operating classification, or (iii) reassess existing lease agreements in consideration of initial direct costs. The implementation of this standard did not have a material impact to the statements of operations or cash flows.

Upon adoption, the Association recognized $108,689 in right-of-use ("ROU") assets related to its leased office spaces. Corresponding lease liabilities of $108,689 were also recognized. There was no cumulative effect of applying the new standard and accordingly there was no adjustment to retained earnings upon adoption.

Subsequent Events

The Association has evaluated subsequent events through May 31, 2023, the date which the consolidated financial statements were available to be issued. Based upon this evaluation, the Association has determined that no subsequent events have occurred which require adjustment to or disclosure in the consolidated financial statements.

3. MEMBER 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 2022 annual assessments to weekly interval owners were as follows:

Maintenance	$	823
Replacement fund		78
Real estate taxes, as agent		100
	$	1,001

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 deficit.

4. INVENTORY OF TIME-SHARE INTERVALS

For the year ended December 31, 2022, the Association bore the financial responsibility for approximately 1,386 weekly intervals. The real estate tax and replacement fund assessments for these units of $138,170 and $108,248, respectively, have been charged to operating expense for 2022. The operating portion of the assessments for these weekly intervals has been excluded from assessment revenue for 2022. As the inventory has no net realizable value, no value has been recorded on December 31, 2022.

5. ASSIGNED NOTE PORTFOLIO

In previous years as part of a settlement agreement with the former Developer, the Association was assigned a note portfolio consisting of owner mortgages for timeshare interests. The Association was assigned the note portfolio consisting of approximately $8.6 million in original mortgage notes with an outstanding balance of approximately $7.1 million at December 31, 2022. These notes are deemed fully uncollectible, and approximately $50,000 was collected during 2022.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following on December 31, 2022:

Land	$	1,261,913
Buildings		3,101,769
Furnishings, fixtures, and equipment		821,473
Rental units and improvements		457,511
Construction in progress		915,622
		6,558,288
Less: Accumulated depreciation		(1,545,388)
Property and equipment, net	$	5,012,900

7. GOODWILL

The gross carrying amounts of goodwill, accumulated amortization, and accumulated impairment loss on December 31, 2022, are as follows:

Goodwill	$	2,834,545
Accumulated amortization		(2,551,090)
Accumulated impairment loss		-
Goodwill, net	$	283,455

The Association amortizes goodwill on the straight-line method over 10 years. Amortization expense for the year ended December 31, 2022, was $283,455. Future amortization for 2023 is $283,455.

8. MANAGEMENT AGREEMENT

The property and affairs of the Association are managed by FMS under an agreement expiring October 21, 2023. Under this agreement, the management fee increases by 3% in October of 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 2022 was approximately $424,000.

9. NOTES PAYABLE

Notes payable consist of the following on December 31, 2022:

Notes 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.	$ 1,381,715

Future maturities of the notes payable on December 31, 2022 are as follows:

2023	$ 62,958
2024	68,864
2025	75,324
2026	82,390
2026	90,118
Thereafter	1,002,061
	$ 1,381,715

For the year ended December 31, 2022, interest expense related to notes payable amounted to $127,199.

On January 22, 2021, the Association received an unsecured promissory note (the "PPP Loan") for $761,379 through the PPP established under the CARES Act and administered by the SBA. The PPP Loan is guaranteed by the SBA. The PPP Loan may be forgiven, in whole or in part, if the Association was eligible for the PPP Loan at the time of application, used the loan proceeds for eligible expenses within the defined 8 or 24-week period after the PPP loan was disbursed ("Covered Period"), and otherwise satisfied PPP requirements. In May 2022, the Association was informed that its application for forgiveness of $761,379 of the PPP Loan was approved. Accordingly, the Association included it with bar revenues, resort fees, and other in the accompanying consolidated statement of revenue, expenses, and changes in fund deficit.

10. INSURANCE NOTE PAYABLE

On December 31, 2022, insurance note payable consists of an insurance premium finance agreement with Brown & Brown, Inc., which requires monthly payments of $55,830, matures in November 2023, and is secured by an interest in the financed insurance policies.

11. REPLACEMENT FUND

The Association's governing documents and Florida Statutes require the Association to accumulate funds for future major repairs and replacements. Accumulated funds, which aggregate $3,149,281 and are presented on the accompanying consolidated balance sheet as a contract liability for replacements at December 31, 2022, are held in segregated accounts and all interest income earned on these accounts is allocated to the replacement fund.

An independent specialist conducted a study in 2019 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 $713,638 has been included in the 2023 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.

On December 31, 2022, the Association's operating fund owed $3,076,529 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 Fantasyworld Club Villas Homeowners' Association, Inc. (the "Master Association"). The Association has 205 units in the Master Association, and through this relationship was charged $1,323,062 in membership fees during 2022. Additionally, the Association was charged $173,939 for Master Association fees for the units in the rental program. A discretionary funding amount of $643,971 to fund the Master Association's fund deficit is included in the master association fees on the consolidated statement of revenues, expenses, and changes in fund deficit.

In August 2021, the Board of Directors of the Master Association passed a special assessment in the amount of approximately $1.1 million, of which $749,000 was due from the Association. The special assessment is for pool area and miniature golf course renovations and other furniture and fixtures for the amenities building. The amount due was $3,500 per owner and was due on January 1, 2022. Special assessment expense of $749,000 was included in master association fees on the consolidated statement of revenues, expenses, and changed in fund deficit.

Due from affiliates at December 31, 2022, 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 8, 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.

In accordance with the management agreement with the Master Association, the Management Company charged management fees to the Master Association for approximately $27,700. This amount is included in bar revenues, resort fees and other on the consolidated statement of revenues, expenses, and changes in fund deficit.

13. LEASING ACTIVITIES

The Association rents office equipment under a noncancellable operating lease expiring in 2025. Per the lease agreement, the payments are split equally between the Association and the Master Association under an informal cost sharing agreement.

In addition, the Association rents golf carts under noncancellable operating leases expiring 2022 and 2025.

As stated in Note 2, the Association adopted ASC 842 on January 1, 2022.

Amounts reported on the balance sheet as of December 31, 2022 are as follows:

Operating lease	
Right-of-use assets	$ 95,468
Lease liabilities	$ 95,468

The components of lease expense for the year ended December 31, 2022 are as follows:

Amortization of right-of-use asset	$ 13,221
Interest portion of lease liabilities	3,844
	$ 17,065

Other information related to the lease as of December 31, 2022 is as follows:

Cash paid for lease liabilities	$ 17,065	
Reduction of lease liabilities	$ 13,221	
	Months	**Years**
Weighted average remaining life	42	3.52
Weighted average discount rate	9.00%	

The following maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of December 31, 2022:

2023	$ 32,136
2024	32,136
2025	29,204
2026	17,459
Gross payments due	110,935
Less: Imputed interest	(15,467)
Lease liability at December 31, 2022	$ 95,468

Total rent expense under all operating leases, including usage costs and month-to-month rentals, for the year ended December 31, 2022, was $33,001.

14. INCOME TAXES

For the year ended December 31, 2022, nonmembership income exceeded the related expenses. Therefore, income tax expense of $170,000 is recorded in the operating fund.

Federal	$	100,000
State		25,000
	$	125,000

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 on December 31, 2022. Therefore, no reserves for uncertain income tax positions have been recorded. During 2022, 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. FRANCHISE AGREEMENT

In September 2021, FMS entered into an agreement with Sbarro Franchise Co, LLC ("Sbarro") for the Association to operate a restaurant at the Association's location. This agreement commences on September 1, 2021 and continues for ten years unless renewed or terminated sooner. At the expiration of this agreement, FMS may renew it for an additional ten years. In accordance with the agreement, FMS will pay an initial franchise fee of $25,000 at the commencement of this agreement and FMS agrees to pay Sbarro an ongoing royalty fee of 5% of gross revenues weekly. Sbarro is scheduled to open in 2023 and the royalties will commence when the revenues are incurred.

16. COMMITMENTS AND CONTINGENCIES

Concentrations of Credit Risk

The Association has significant cash balances at financial institutions which throughout the year regularly exceed the federally insured limit of $250,000. Any loss incurred or lack of access to such funds could have a significant adverse impact on the Association's financial condition, results of operations, and cash flows.

The Association's assessments receivable is related to billed assessments. The Association monitors the collectability of these assessments receivable and other receivables and pursues collection through lockout procedures and rental of units related to delinquent accounts. Management routinely assesses the collectability of the Association's assessments receivable and other receivables 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. OPERATING FUND DEFICIT AND MANAGEMENT'S PLAN

The Association's operating fund has a deficit fund balance of $1,268,274 as of December 31, 2022.

Management's Plan

The Association's management and Board of Directors have reviewed the current financial position and results of operations and have developed a plan to address the operating fund deficit of $1,268,274, which is primarily attributable to the decline in recent years of the number of owners paying their maintenance fee obligations on a timely basis as well as damage caused by hurricanes in 2022 that was not covered by insurance proceeds.

Management continues to make operating efficiencies and plans to monitor operating expenses to assist in reducing deficits. Management of the Association is actively pursuing financing arrangement to fund the amounts owed to the replacement fund as well as necessary repairs related to hurricane damage incurred during 2022. Additionally, the Board of Directors has the right to approve additional special assessments to the Association's members to address the deficit, if necessary.

The Association's ability to fund operations is dependent upon the success of management's plans. The accompanying financial statements do not include any adjustments that might be necessary related to recoverability or classification of recorded assets or the amounts or classification of liabilities in the event management's plans are not successful.

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, 2022

	Actual	Budget (Unaudited)
Revenues		
Member assessments	$ 7,633,615	$ 8,774,451
Constrained assessments	(4,280,795)	(5,333,631)
Total member assessments	3,352,820	3,440,820
Financing and late charges	144,858	120,000
Bar revenues, resort fees and other	2,698,122	3,421,179
Rental income	3,750,743	3,512,062
Gain on sale of rental units	486,485	-
Other rental program income	121,195	124,800
Total revenues	10,554,223	10,618,861
Expenses		
Utilities	726,769	737,865
Housekeeping		
Linens	72,269	75,600
Contract labor	1,434,497	1,200,000
Guest transportation	44,000	48,000
Other	154,819	203,600
	1,705,585	1,527,200
Maintenance and repairs		
Building maintenance	408,270	350,000
Pest control	26,849	26,688
Other	109,147	145,000
	544,266	521,688
Salaries and related expenses		
Administrative, guest and owner services	991,159	1,010,291
Maintenance	565,740	524,181
Bar, food and beverage	332,048	482,537
Payroll taxes and related expenses	536,699	670,927
	2,425,646	2,687,936
Administration and general		
Management fees	-	425,229
Professional fees	106,003	124,330
Regulatory fees	21,320	21,320
Collection fees	192,070	155,556
Bank and credit card charges	180,664	206,053
Insurance expense	416,566	304,584
Property taxes	13,061	11,918
Income tax expense	125,000	-
Consulting Fee	125,450	-
Advertising and other expenses	153,167	497,565
	1,333,301	1,746,555

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, 2022

	Actual	Budget (Unaudited)
Resort management expenses		
Board of directors expense	$ 109,273	$ 20,000
Membership mailings, meetings and postage	25,174	46,500
Office expense	129,728	129,554
Licenses, permits, and fees	28,518	17,400
Interest expense	127,199	127,199
Paypal commissions	121,366	-
Night auditor contract fees	45,486	-
Guest and employee relations	49,010	-
Other	132,973	72,940
	768,727	413,593
Bad debt expense	470,455	-
Bar cost of sales	197,793	299,491
Depreciation and amortization	443,340	-
Master association fees	2,889,972	2,684,533
Association-owned interval expense	246,418	-
Total expenses	11,752,272	10,618,861
Deficiency of revenues over expenses	$ (1,198,049)	$ -

See Independent Auditor's Report.

Vacation Villas at FantasyWorld Time-Share Owner's Association, Inc. and Subsidiaries
Schedule of Future Major Repairs and Replacements (Unaudited)
December 31, 2022

An independent specialist conducted a study in 2019 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	Contract Liabilities January 1, 2022	Additions	Expenditures	Contract Liabilities December 31, 2022
Roof replacement	2 - 30 years	$ 633,368	$ 295,949	$ -	$ 223,835	$ 72,114
Building painting	0 - 9 years	95,135	164,853	-	6,530	158,323
Building and equipment	2 - 15 years	327,327	252,733	400,000	427,173	225,560
Pavement resurfacing	0 - 2 years	72,546	80,000	-	-	80,000
Check-in facility	0 - 7 years	213,644	263,173	32,555	-	295,728
Furniture and fixtures	1 - 15 years	4,206,271	2,256,054	400,000	338,498	2,317,556
		$ 5,548,291	$ 3,312,762	$ 832,555	$ 996,036	$ 3,149,281

See Independent Auditor's Report.