SEA CLUB IV OWNERS ASSOCIATION, INC.
Financial Statements
December 31, 2018
With Independent Auditors' Report

Sea Club IV Owners Association, Inc.
December 31, 2018

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ADVISORY TAX AUDIT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
Sea Club IV Owners Association, Inc.
Daytona Beach, Florida

We have audited the accompanying financial statements of Sea Club IV Owners Association, Inc. (the "Association"), which comprise the balance sheet as of December 31, 2018, and the related statements of revenue, expenses, and changes in fund deficit and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Association's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sea Club IV Owners Association, Inc. as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Future Major Repairs and Replacements

Our audit was conducted for the purpose of forming an opinion on the basic 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 8 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 financial statements as a whole. The schedule of revenue and expenses – operating fund on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and, except for the portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statement 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 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

WithumSmith+Brown, PC

May 30, 2019

Sea Club IV Owners Association, Inc.
Balance Sheet
December 31, 2018

	Operating Fund	Replacement Fund	Total
Assets			
Cash	$ 412,386	$ 122,538	$ 534,924
Assessments receivable, net of allowance for doubtful accounts of $89,946	11,848	-	11,848
Inventory – unit weeks	15,200	-	15,200
Prepaid expenses	23,564	-	23,564
Property and equipment, net of accumulated depreciation of $401,512	-	-	-
Due (to) from other fund	(114,675)	114,675	-
Total assets	$ 348,323	$ 237,213	$ 585,536
Liabilities and Fund Deficit			
Liabilities			
Accounts payable and accrued expenses	$ 34,778	$ 27,192	$ 61,970
Prepaid assessments	633,773	-	633,773
Loan payable	-	327,855	327,855
Total liabilities	668,551	355,047	1,023,598
Fund deficit	(320,228)	(117,834)	(438,062)
Total liabilities and fund deficit	$ 348,323	$ 237,213	$ 585,536

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

Sea Club IV Owners Association, Inc.
Statement of Revenue, Expenses, and Changes in Fund Deficit
Year Ended December 31, 2018

	Operating Fund	Replacement Fund	Total
Revenue			
Member assessments	$ 772,011	$ 265,547	$ 1,037,558
Other income	5,821	-	5,821
Rental income, net	45,510	-	45,510
Late fees	17,760	-	17,760
Interest income	-	767	767
	841,102	266,314	1,107,416
Expenses			
Leased employees and benefits	464,487	-	464,487
Utilities	74,436	-	74,436
Building repairs and maintenance	62,757	-	62,757
Bad debt expense	81,393	-	81,393
Administrative and miscellaneous	126,164	-	126,164
Management fees	48,000	-	48,000
Depreciation	26,758	-	26,758
Professional fees	1,397	-	1,397
Taxes, fees, and licenses	4,080	-	4,080
Insurance	43,729	-	43,729
Pool repairs and maintenance	5,318	-	5,318
Interest expense	-	15,400	15,400
Replacement expenditures	-	296,341	296,341
	938,519	311,741	1,250,260
Deficiency of revenue over expenses	(97,417)	(45,427)	(142,844)
Fund deficit			
Beginning of year	(222,811)	(72,407)	(295,218)
End of year	$ (320,228)	$ (117,834)	$ (438,062)

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

Sea Club IV Owners Association, Inc.
Statement of Cash Flows
Year Ended December 31, 2018

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities			
Deficiency of revenue over expenses	$ (97,417)	$ (45,427)	$ (142,844)
Adjustments to reconcile deficiency of revenue over expenses to net cash provided by (used in) operating activities			
Depreciation	26,758	-	26,758
Bad debt expense	81,393	-	81,393
Changes in assets and liabilities			
Assessments receivable	(83,608)	-	(83,608)
Prepaid expenses	3,269	-	3,269
Accounts payable and accrued expenses	(33,908)	27,192	(6,716)
Prepaid assessments	122,056	-	122,056
Net cash provided by (used in) operating activities	18,543	(18,235)	308
Cash flows from financing activities			
Interfund borrowings	(41,648)	41,648	-
Payments on loan	-	(63,114)	(63,114)
Net cash used in financing activities	(41,648)	(21,466)	(63,114)
Net decrease in cash	(23,105)	(39,701)	(62,806)
Cash			
Beginning of year	435,491	162,239	597,730
End of year	$ 412,386	$ 122,538	$ 534,924
Supplemental disclosure of cash flow information			
Cash paid for interest	$ -	$ 15,400	$ 15,400

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

1. ORGANIZATION AND PURPOSE

Nature of Organization

Sea Club IV Owners Association, Inc. (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 timeshare resort located in Florida. Operations of the Association began in 1980. At December 31, 2018, the Association consists of 40 units which represents a total of 2,040 unit weeks, 204 of which are owned by the Association.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of 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 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 Concentration Risk

The Association considers money in checking accounts and money market funds to be cash. The Association maintains all of its cash in accounts at financial institutions which, at times, may exceed federally-insured amounts. The Federal Deposit Insurance Corporation ("FDIC") provides for deposits at FDIC insured institutions to be insured up to $250,000. The Association has not experienced any losses in such accounts.

Inventory – Unit Weeks

Inventory for unit weeks owned by the Association are stated at the lower of cost or net realizable value.

Assessments Receivable and Allowance for Doubtful Accounts

Assessments receivable represent amounts due from unit-week 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 sufficient to sustain any material losses that may result from unpaid accounts. Receivables are considered delinquent when they are 30 days past due. The portion of receivables which are considered delinquent is charged against the allowance when all collection efforts have been exhausted. Factors which influence management's judgement 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, 2018, bad debt expense was approximately $81,000.

Property and Equipment

Common property acquired by the Association and major replacements or improvements made by the Association are capitalized on the financial statements of the Association, when ownership of these commonly owned assets is vested directly in the Association and may be sold. Assets vested directly or indirectly in the unit week owners deemed not to be severable are not capitalized on the financial statements. The Association capitalizes personal property at cost and depreciates it over its estimated useful life of five to ten years using the straight-line method. All fixed assets previously capitalized are still in use by the Association but are fully depreciated at December 31, 2018.

The cost of additions and improvements which substantially extend the useful life of 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 for the year ended December 31, 2018, was approximately $27,000.

Prepaid Assessments

Prepaid assessments consist of 2019 and future maintenance assessments received by the Association in 2018.

Income Taxes

For the year ended December 31, 2018, the Association elected to be taxed as a homeowners association in accordance with Internal Revenue Code Section 528. Under that election, the Association is taxed only on its nonexempt function income, such as interest and rental income, at a flat federal rate of 32%. Exempt function income, which consists primarily of members' assessments, is not taxable.

It is the Association's accounting policy to evaluate uncertain tax positions in accordance with the accounting pronouncement on uncertainty for income taxes. Management has determined that there are no uncertain tax positions as of December 31, 2018. In addition, the Association has no income tax related penalties or interest for the period reported in these financial statements.

Recently Issued Accounting Pronouncement

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 financial statements of the Association has not been determined.

Subsequent Events

The Association has evaluated subsequent events through May 30, 2019, which is the date the financial statements were available to be issued. Based on the evaluation, the Association has determined that no subsequent events have occurred, other than the matter noted in Note 3, which require disclosure in or adjustment to the financial statements.

3. MEMBER ASSESSMENTS

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

The 2018 annual unit-week assessments were as follows:

Unit Type	Amount
Sunward/Starboard	$ 383
Leeward	503
Topsail/Mainsail	574
Windward	682
Captain's quarters	892

The Board of Directors also approves an assessment for real estate taxes each year based on estimated taxes due. This assessment varies by unit-week, based upon a study of the size of the unit.

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

On May 16, 2019, the Board of Directors approved a special assessment for $600,000 which approximate $300 per interval to cover the operating deficit and fund the installation of new windows and doors for the property.

4. INVENTORY OF TIMESHARE INTERVALS

At December 31, 2018, the Association owned 204 weekly interval units. The Association has acquired these intervals through foreclosure proceedings related to unpaid assessments. The expenses for these units amounted to approximately $27,000 and have been charged to operating expense for 2018.

5. MANAGEMENT AGREEMENT

The property and affairs of the Association are managed by ARC Resorts, LLC (the "Management Company") commencing February 2017 and shall continue for a period of three years. Under the agreement, the Association agrees to pay the Management Company a monthly fee for their services. In addition, the Management Company also receives a 30% commission on rentals. Management fees incurred during 2018 amounted to approximately $48,000.

6. CONTINGENCIES

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.

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

7. INCOME TAXES

For the year ended December 31, 2018, nonexempt function income did not exceed the related expenses; therefore, no federal income tax expense was recorded.

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

The Association has analyzed its various federal and state income tax filing positions and believes that no accruals for tax liabilities related to uncertain income tax positions are required at December 31, 2018. Therefore, no reserves for uncertain income tax positions have been recorded. During 2018, 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.

8. REPLACEMENT FUND

The Association's governing documents and Florida Statutes require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and all interest income earned on these accounts is allocated to the replacement fund.

Management conducted a study in 2018 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 the study.

The Association is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacements costs and considering the amounts previously accumulated in the replacement fund. Accordingly, funding of $264,440 has been included in the 2019 budget.

Funds are being accumulated in the replacement funds 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 future needs for major repairs an 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, 2018, the Association has advanced $114,675 to the operating fund from the replacement fund.

9. LOAN PAYABLE

The Association opened a $500,000 revolving line of credit on August 20, 2015 with a bank to provide funding for a plumbing re-piping project for the building which was converted to a loan on August 20, 2016. The interest rate payable under the loan is 4.25%. The loan is secured by the Association's assessments. Monthly payments of principal and interest are required based on a seven-year amortization schedule ending in August 2023. Prepayment in whole or in part is permitted without penalty at any time. The balance outstanding at December 31, 2018 was $327,855. The Association incurred interest expense of $15,400 for the year ended December 31, 2018.

Future maturities of loan payable at December 31, 2018, are as follows:

Year Ending	
2019	$ 65,034
2020	67,852
2021	70,793
2022	73,861
2023	50,315
	$ 327,855

SUPPLEMENTARY INFORMATION

Sea Club IV Owners Association, Inc.
Schedule of Revenue and Expenses – Operating Fund
Year Ended December 31, 2018

	Actual	Budget (Unaudited)	Variance Favorable (Unfavorable)
Revenue			
Member assessments	$ 772,011	$ 764,926	$ 7,085
Other income	5,821	4,000	1,821
Rental income, net	45,510	90,341	(44,831)
Late fees	17,760	6,800	10,960
Interest Income	-	500	(500)
Total revenue	841,102	866,567	(25,465)
Expenses			
Leased employees and benefits	464,487	426,023	(38,464)
Utilities	74,436	74,400	(36)
Building repairs and maintenance	62,757	51,686	(11,071)
Bad debt expense	81,393	109,800	28,407
Administrative and miscellaneous	126,164	102,310	(23,854)
Management fees	48,000	48,000	-
Depreciation	26,758	-	(26,758)
Professional fees	1,397	3,000	1,603
Taxes, fees, and licenses	4,080	4,080	-
Insurance	43,729	41,868	(1,861)
Pool repairs and maintenance	5,318	5,400	82
Total expenses	938,519	866,567	71,952
Deficiency of revenue over expenses	$ (97,417)	$ -	$ (97,417)

See Independent Auditors' Report.

Sea Club IV Owners Association, Inc.
Schedule of Future Major Repairs and Replacements (Unaudited)
December 31, 2018

The Association had an independent study conducted in 2018 to estimate the remaining useful lives and the replacements 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 dates of the study. Estimated current replacement costs and remaining useful lives are updated annually as necessary in conjunction with preparing the annual budget.

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

Components	Remaining Estimated Useful Lives (Years)	Estimated Current Replacement Costs	Fund Balance (Deficit) December 31, 2017	Additions	Expenditures	Fund Balance (Deficit) December 31, 2018
Appliance	7 to 15	$ 76,000	$ 11,840	$ 5,850	$ 8,795	$ 8,895
Asphalt	7 to 30	34,068	3,589	2,979	-	6,568
Building systems	10 to 40	278,000	30,956	11,145	5,652	36,449
Décor	12 to 15	88,300	(111,839)	5,503	-	(106,336)
Doors	14 to 25	155,760	14,960	10,333	26,592	(1,299)
Electronics	10 to 12	26,800	3,985	2,075	2,600	3,460
Equipment	5 to 30	155,275	8,829	7,590	2,422	13,998
Fences, walls, and gates	30 to 35	182,800	14,535	6,273	-	20,808
Fixtures	14 to 35	471,060	53,679	26,000	-	79,679
Floor coverings	10 to 18	340,800	14,394	14,394	-	28,788
Furniture	5 to 30	340,125	82,448	36,767	224,721	(105,506)
HVAC	10 to 15	3,400	(3,929)	205	-	(3,724)
Infrastructure/piping	35 to 40	526,594	(327,257)	90,670	14,633	(251,220)
Lighting	15 to 30	84,140	9,875	3,877	-	13,752
Painting	9 to 20	172,455	25,587	16,894	-	42,481
Pool	5 to 25	74,876	11,179	5,842	25,689	(8,668)
Roofing	20 to 25	101,207	57,988	5,346	-	63,334
Structures	18 to 20	12,000	2,555	632	639	2,548
Window coverings	15 to 35	20,500	13,919	1,094	-	15,013
Sinage	5 to 7	60,000	-	11,145	-	11,145
Title search	6	12,000	10,300	1,700	-	12,000
		$ 3,216,160	$ (72,407)	$ 266,314	$ 311,741	$ (117,834)

See Independent Auditors' Report.