

June 28, 2019

Dear Marriott's Manor Club Owner:

Please find the 2018 Audited Financial Report for your Associations which is made available to you in accordance with the Associations' governing documents.

You may contact me by phone at 757-221-7300 or by email at tammi.hastings@vacationclub.com with any questions.

Sincerely,

Tammi Hastings

General Manager
Marriott's Manor Club

**MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND
AFFILIATE**
Williamsburg, Virginia

COMBINED FINANCIAL STATEMENTS
December 31, 2018 and 2017

**MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND
AFFILIATE**

Williamsburg, Virginia

**COMBINED FINANCIAL STATEMENTS
December 31, 2018 and 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Manor Club at Ford's Colony Time-Share Association and Affiliate
Williamsburg, Virginia

We have audited the accompanying combined financial statements of Manor Club at Ford's Colony Time-Share Association and Affiliate (the "Association"), which comprise the combined balance sheet as of December 31, 2018, and the related combined statements of revenues, expenses and changes in fund balance - operating fund; revenues, expenditures and changes in fund balance - reserve for replacement fund; and combined cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Independent Auditor's Responsibility

Our responsibility is to express an opinion on the combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Manor Club at Ford's Colony Time-Share Association and Affiliate at 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.

Other Matters

Accounting principles generally accepted in the United States of America require the Supplementary Information on Future Major Repairs and Replacements (Unaudited) on page 15 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined 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 managements responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined 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.

The combined financial statements of the Association as of December 31, 2017 were audited by other auditors whose report dated April 19, 2018 expressed an unmodified opinion on those statements. The combined financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's combined financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Crowe LLP

Crowe LLP

Tampa, Florida
June 11, 2019

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
COMBINED BALANCE SHEETS
December 31, 2018
With Summarized Comparative Totals for December 31, 2017

	2018			2017
	Operating Fund	Reserve for Replacement Fund	Total	
ASSETS				
Cash and cash equivalents	\$ 4,136,171	\$ 4,989,888	\$ 9,126,059	\$ 9,606,005
Investments	-	2,962,000	2,962,000	-
Maintenance fees receivable, less allowance for doubtful accounts of approximately \$271,000 and \$196,000 in 2018 and 2017, respectively	1,007,729	260,446	1,268,175	1,707,271
Maintenance fees receivable due from MRHC	607,028	141,351	748,379	511,567
Accrued interest receivable	-	24,875	24,875	-
Miscellaneous receivable	11,725	-	11,725	-
Prepaid expenses and other assets	209,479	-	209,479	620,864
Fixes assets, net	1,821	-	1,821	4,166
Due (to) from Operating Fund	-	(32,905)	(32,905)	19,966
Due from (to) Reserve from Replacement Fund	<u>32,905</u>	<u>-</u>	<u>32,905</u>	<u>(19,966)</u>
Total assets	<u>\$ 6,006,858</u>	<u>\$ 8,345,655</u>	<u>\$14,352,513</u>	<u>\$12,449,873</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accrued expenses and other liabilities	\$ 396,063	\$ 111,472	\$ 507,535	\$ 1,087,961
Unearned maintenance fees	5,318,251	1,249,021	6,567,272	5,993,140
Income taxes payable	339	44,117	44,456	12,548
Due to Marriott Vacations Worldwide Corporation	<u>206,204</u>	<u>-</u>	<u>206,204</u>	<u>23,407</u>
Total liabilities	5,920,857	1,404,610	7,325,467	7,117,056
Fund balances	<u>86,001</u>	<u>6,941,045</u>	<u>7,027,046</u>	<u>5,332,817</u>
Total liabilities and fund balances	<u>\$ 6,006,858</u>	<u>\$ 8,345,655</u>	<u>\$14,352,513</u>	<u>\$12,449,873</u>

See accompanying notes to combined financial statements.

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE – OPERATING FUND
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Members' assessments	\$ 9,398,255	\$ 9,132,185
Operating late fee income	85,610	84,253
Operating finance charge	227,052	218,236
Investment income	43,943	15,484
Lease and other income	58,674	58,549
Total revenues	<u>9,813,534</u>	<u>9,508,707</u>
Expenses		
Accounting and administration	984,123	965,187
Activities fee	444,179	419,690
Audit fees	17,550	17,125
Bad debt expense (benefit)	85,112	(1,433)
Board of Directors' expenses	18,835	18,363
Cable television	47,477	51,051
Credit card fees	179,458	183,835
Electricity	289,848	249,959
Front desk	736,473	695,856
Gas	53,198	56,176
Golf fees	352,328	344,744
High speed internet	47,431	41,280
Housekeeping, net	1,972,313	1,859,804
Human resources	149,791	145,387
Income tax expense	21,518	12,101
Insurance	158,199	160,836
Landscape / grounds	267,777	204,923
Loss prevention / security	290,727	261,300
Maintenance	1,498,588	1,321,538
Management fee	721,351	709,294
Owner services	446,172	420,884
Pest control	14,256	15,626
Pool maintenance	58,096	42,449
Postage and printing	43,530	46,409
Property taxes	687,456	686,929
Refuse collection	34,404	31,542
Telephone	48,000	47,197
Water and sewer	253,710	265,198
Total expenses	<u>9,921,900</u>	<u>9,273,250</u>
(Deficit) excess of revenues over expenses	(108,366)	235,457
Fund balance, beginning of year	594,367	358,910
Transfer to Reserve for Replacement Fund approved by the Board of Directors	(400,000)	-
Fund balance, end of year	<u>\$ 86,001</u>	<u>\$ 594,367</u>

See accompanying notes to combined financial statements.

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
COMBINED STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – RESERVE FOR REPLACEMENT FUND
Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Members' assessments	\$ 4,627,576	\$ 4,392,102
Investment income	128,950	31,123
Interest income	56,989	56,658
Settlement income	<u>369,200</u>	<u>-</u>
Total revenues	<u>5,182,715</u>	<u>4,479,883</u>
Expenditures		
Roof replacement	538,938	482,130
Furniture and fixtures	739,135	319,437
External building maintenance	630,919	1,610,379
Pavement resurfacing	227,814	-
Common area rehabilitation	1,196,926	257,249
Income tax expense	<u>46,388</u>	<u>11,096</u>
Total expenditures	<u>3,380,120</u>	<u>2,680,291</u>
Excess of revenues over expenditures	1,802,595	1,799,592
Fund balance, beginning of year	<u>4,738,450</u>	<u>2,938,858</u>
Transfer from Operating Fund approved by the Board of Directors	<u>400,000</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,941,045</u>	<u>\$ 4,738,450</u>

See accompanying notes to combined financial statements.

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS
Year ended December 31, 2018
With Summarized Comparative Totals for December 31, 2017

	2018			<u>2017</u>
	<u>Operating Fund</u>	<u>Reserve for Replacement Fund</u>	<u>Total</u>	
Cash flows from operating activities				
(Deficit) excess of revenues over expenses/expenditures	\$ (108,366)	\$ 1,802,595	\$ 1,694,229	\$ 2,035,049
Adjustments to reconcile (deficit) excess of revenues over expenses/expenditures to net cash provided by operating activities:				
Bad debt expense (benefit)	85,112	-	85,112	(1,433)
Depreciation expense	2,345	-	2,345	1,751
Changes in operating assets and liabilities				
Decrease (increase) in maintenance fees receivable	274,843	79,141	353,984	(168,360)
Increase in maintenance fees receivable due from MRHC	(200,406)	(36,406)	(236,812)	(209,174)
Decrease (increase) in accrued interest receivable	-	(24,875)	(24,875)	4,463
Decrease in income tax receivable	-	-	-	8,612
Decrease (increase) in prepaid expenses and other assets	(32,817)	444,202	411,385	(438,998)
Increase in miscellaneous receivable	(11,725)	-	(11,725)	
Decrease in due from Marriott Vacations Worldwide Corporation	-	-	-	211,243
(Decrease) increase in accrued expenses and other liabilities	(29,443)	(550,983)	(580,426)	755,698
Increase in unearned maintenance fees	466,061	108,071	574,132	618,822
(Decrease) increase in income taxes payable	(1,114)	33,022	31,908	9,484
Increase in due to Marriott Vacations Worldwide Corporation	182,797	-	182,797	23,407
(Decrease) increase in due from/to Operating/Reserve for Replacement Fund	(52,871)	52,871	-	-
Transfer from Operating Fund to Reserve Fund	(400,000)	400,000	-	-
Net cash provided by operating activities	<u>174,416</u>	<u>2,307,638</u>	<u>2,482,054</u>	<u>2,850,564</u>
Cash flows from investing activities				
Purchase of investments	(1,467,000)	(3,951,000)	(5,418,000)	(1,491,000)
Proceeds from maturities of investments	<u>1,467,000</u>	<u>989,000</u>	<u>2,456,000</u>	<u>3,186,000</u>
Net cash (used in) provided by investing activities	<u>-</u>	<u>(2,962,000)</u>	<u>(2,962,000)</u>	<u>1,695,000</u>
Net increase (decrease) in cash and cash equivalents	174,416	(654,362)	(479,946)	4,545,564
Cash and cash equivalents				
Beginning of year	<u>3,961,755</u>	<u>5,644,250</u>	<u>9,606,005</u>	<u>5,060,441</u>
End of year	<u>\$ 4,136,171</u>	<u>\$ 4,989,888</u>	<u>\$ 9,126,059</u>	<u>\$ 9,606,005</u>
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	\$ 22,632	\$ 13,366	\$ 35,998	\$ 5,101

See accompanying notes to combined financial statements.

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Manor Club at Ford's Colony Time-Share Association (the "Time-Share Association") was incorporated in the State of Virginia on June 30, 1993. The purpose of the Time-Share Association is to operate and maintain the furnishings and fixtures of the Manor Club at Ford's Colony interval ownership condominium (the "Ownership Condominium"). The members of the Time-Share Association are also members of the Manor Club at Ford's Colony Condominium Association, (the "Condominium Association"). The purpose of the Condominium Association is to manage and maintain the exterior and common property of the Ownership Condominium. As of December 31, 2018 and 2017, the Ownership Condominium consisted of 10,238 unit weeks. The Condominium Association's and the Time-Share Association's declaration of interval ownership provides that each unit week owner has an undivided interest in the facilities and, accordingly, the condominium assets are not recorded on the financial records of the Association. The Time-Share and Condominium Associations are managed under an agreement with Marriott Resorts Hospitality Corporation ("MRHC").

Comparative Information: While comparative information is not required under accounting principles generally accepted in the United States of America, the Association believes that this information is useful and has included comparative financial information from the combined financial statements as of and for the year ended December 31, 2017. Within the Combined Balance Sheets and Combined Statements of Cash Flows, prior year balances, by fund, have been condensed for comparative purposes. This summarized information is not intended to be a full presentation in conformity with accounting principles generally accepted in the United States of America, which would require certain additional information. Accordingly, such information should be read in conjunction with the Association's audited combined financial statements as of and for the year ended December 31, 2017.

Principles of Combination: The accompanying combined financial statements include the accounts of the Time-Share Association and the Condominium Association ("MCC"), a related party affiliate. The entities are collectively referred to as the "Association" and present combined financial statements due to the interrelated activities of the Association.

Fiscal Year: Prior to fiscal year 2017, the Association's fiscal year ended on the Friday nearest to December 31. During 2016, the board of Directors of the Association approved a change in the Association's fiscal year to a calendar year commencing January 1, 2017. The budget for fiscal year 2017 reflects the 2017 calendar year, plus one additional day at the end of December 2016 due to the transition from the 2016 periodic fiscal year to the 2017 calendar-based fiscal year.

Use of Estimates: The preparation of combined 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, disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Fund: The Association's fees and earnings from operations, which are restricted for the use and benefit of Association members, are recorded in the Operating Fund.

Reserve for Replacement Fund: The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for normal operations.

(Continued)

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MRHC, on behalf of the Association's Board of Directors (the "Board"), conducts ongoing studies to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on these studies.

The Board is providing funding for major repairs and replacements over the remaining estimated useful lives of the components based on estimates of current replacement costs and considering amounts previously accumulated in the Reserve for Replacement Fund. Accordingly, the funding requirement of \$4,906,382 has been included in the 2019 budget.

Funds are being accumulated in the Reserve for Replacement Fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the Reserve for 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 the Board's approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Cash and Cash Equivalents: The Association considers money in checking accounts, money market funds, and certificates of deposit with an original maturity of 90 days or less, at date of purchase, to be cash equivalents. The Association places its cash and cash equivalents with financial institutions in the United States of America. The Federal Deposit Insurance Corporation ("FDIC") provides for deposits at FDIC-insured institutions to be insured up to \$250,000.

Investments: Investments consist of certificates of deposits. The Association's certificates of deposit are carried at amortized cost, as the Association has both the intent and ability to hold them until maturity. Certain certificates of deposit are considered depository accounts and are insured by the FDIC.

Fair Value Measurements: The Association measures certain assets at fair value in accordance with current accounting standards on fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. A fair value hierarchy is utilized which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels may be used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Quoted prices for similar assets and liabilities in active markets or inputs that are observable.
- Level 3 - Inputs that are unobservable (for example, cash flow modeling inputs based on assumptions).

(Continued)

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Association had no investments measured at fair value on a recurring basis at December 31, 2018 and 2017.

Maintenance fees receivable: Maintenance fees receivable represents amounts due from owners.

Effective January 1, 2010, the Association entered into a Foreclosed Inventory Purchase Agreement with Marriott Ownership Resorts, Inc. ("MORI"). Effective December 31, 2018, the original Foreclosed Inventory Purchase Agreement was terminated.

Effective January 1, 2019, the Association entered into a new Foreclosed Inventory Purchase Agreement with MORI. The agreement automatically renews for any number of additional one (1) year terms, unless either party terminates the agreement with a 45 day written notice. The agreement provides that MORI shall purchase the Association's foreclosed inventory subject to the terms of the agreement. Should either party terminate the agreement, there could be potential exposure regarding the allowance for doubtful accounts and bad debt expense.

As of June 11, 2019, the new agreement is in full effect and neither party has opted to terminate the agreement.

Fixed Assets: Fixed assets, net are stated at cost. Upon disposition or retirement, the cost and related accumulated depreciation are eliminated and any resulting gain or loss is reflected in operations. Maintenance and repairs are charged to expense when incurred; expenditures for renewals and betterments are capitalized.

Depreciation is provided utilizing the straight-line method using estimated useful lives between three and ten years.

Unearned Maintenance Fees: Maintenance fees for all unit weeks are receivables as of the beginning of each timeshare year. Unearned maintenance fees represent prepayment of the next year's maintenance fees. The fees for the unit weeks prior to the Association's year-end are classified as revenues; the remainder are considered unearned maintenance fees.

Settlement Income: During 2018, the Association entered into a settlement agreement that resulted in the Association receiving \$369,200.

Income Taxes: The Association accounts for income taxes in accordance with Accounting Standards Codification ("ASC") 740, Income Taxes. ASC 740 utilizes the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax impact attributable to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered.

(Continued)

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Timeshare associations may elect to be taxed as exempt homeowners associations pursuant to Internal Revenue Code Section 528 ("Section 528") if they meet certain income, expenditure, and organizational requirements. Section 528 allows electing timeshare associations to be taxed at a 32% rate on their "homeowners association taxable income," which is the excess of the association's gross income, excluding "exempt function income," over related deductions. "Exempt function income" includes membership dues, fees and assessments (less related expenses) from owners of timeshare rights to use, or timeshare ownership interests in, real property.

The Association made this election for 2017 and plans on making this election for 2018; accordingly, deferred taxes have not been provided for temporary differences related to exempt function income. Should the Association not elect to be taxed as an exempt homeowners association in the future, deferred tax assets and liabilities may be recognized for existing temporary differences at that time, with a corresponding impact on income tax expense.

The Association has evaluated the effects of the guidance provided by generally accepted accounting principles related to accounting for uncertainty in income taxes. The Association has determined that it had no uncertain income tax positions that could have a significant effect on the combined financial statements for the year ended December 31, 2018. The Association's federal income tax returns for 2015, 2016 and 2017 are subject to examinations by the Internal Revenue Service, generally for a period of three years after the federal income tax returns are filed.

Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which, as amended, supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, as well as most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principle-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09, as amended, will be effective for annual reporting periods, beginning after December 15, 2018. The new standard may be applied retrospectively or on a modified retrospective basis with the cumulative effect recognized on the date of adoption. The Association will adopt ASU 2014-09, as amended, commencing in fiscal year 2019, on a modified retrospective basis. The Association continues to evaluate the impact that adoption of this accounting standards update will have on its financial statements and disclosures, pending industry clarification on the application to similar entities.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 – Leases (Topic 842) ("ASU 2016-02") to increase transparency and comparability of information regarding an entity's leasing activities by providing additional information to users of financial statements. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. This update is effective for annual periods beginning after December 15, 2019. The Association continues to evaluate the impact that adoption of this accounting standard update will have on its financial statements and disclosures. In addition, the Association will adopt ASU 2016-02 commencing in fiscal year 2020.

(Continued)

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 – INVESTMENTS

The investments were classified as follows at December 31, 2018 and 2017:

	2018		2017	
	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
Certificate of deposit (held to maturity)	<u>\$ 2,962,000</u>	<u>\$ 2,933,268</u>	<u>\$ -</u>	<u>\$ -</u>

The contractual maturity of investments held-to-maturity as follows at December 31, 2018 and 2017:

	2018		2017	
	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
Due within one year	\$ 737,000	\$ 736,160	\$ -	\$ -
Due between one and five years	<u>2,225,000</u>	<u>2,197,108</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 2,962,000</u>	<u>\$ 2,933,268</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 3 – INCOME TAXES

The provision for income taxes consisted of the following for the years ended December 31, 2018 and 2017:

	2018			2017		
	Total	Operating Fund	Reserve for Replacement Fund	Total	Operating Fund	Reserve for Replacement Fund
Federal	\$ 56,614	\$ 17,940	\$ 38,674	\$ 19,340	\$ 10,089	\$ 9,251
State	<u>11,292</u>	<u>3,578</u>	<u>7,714</u>	<u>3,857</u>	<u>2,012</u>	<u>1,845</u>
	<u>\$ 67,906</u>	<u>\$ 21,518</u>	<u>\$ 46,388</u>	<u>\$ 23,197</u>	<u>\$ 12,101</u>	<u>\$ 11,096</u>

The difference between the provision for income taxes as presented, and the provision calculated by applying the statutory federal rate to (deficit) excess of revenues over expenses, primarily relates to state income taxes and the exclusion of exempt function income.

(Continued)

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 4 – FIXED ASSETS, NET

Fixed assets, net consist of the following at December 31, 2018 and December 30, 2017:

	<u>2018</u>	<u>2017</u>
Office equipment	\$ 40,242	\$ 40,242
Activities equipment	8,842	8,842
Point of sale	8,183	8,183
Accumulated depreciation	<u>(55,446)</u>	<u>(53,101)</u>
	<u>\$ 1,821</u>	<u>\$ 4,166</u>

Depreciation expense was \$2,345 and \$1,751 for the years ended December 31, 2018 and 2017, respectively, and is allocated to various expenses included in the Combined Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

NOTE 5 - RELATED PARTY TRANSACTIONS

Certain services, including off-site accounting and administration, and reservations, are provided by MRHC and allocated to the Association based on the number of unit weeks, as a percentage of total unit weeks the respective service covers.

Marriott Vacations Worldwide Corporation (“MVWC”), the current indirect parent company of MRHC, pays all invoices on behalf of the Association, subject to reimbursement by the Association. The net amount due to MVWC at December 31, 2018 and 2017 was \$206,204 and \$23,407, respectively.

MRHC collects annual maintenance fees on behalf of the Association. The amount of maintenance fees receivable due from MRHC at December 31, 2018 and 2017 was \$748,379 and \$511,567, respectively.

NOTE 6 - MANAGEMENT AGREEMENT

The Association entered into a management agreement with MRHC, on April 2, 2004. Commencing on the first day of fiscal year 2005 and on the first day of each subsequent fiscal year, the management fee for that fiscal year shall be increased by an amount equal to the management fee for the immediately prior fiscal year multiplied by the percentage change over the prior twelve months in the Consumer Price Index. The agreement expires April 2, 2024. MRHC provides all management and maintenance of the facilities. For the years ended December 31, 2018 and 2017, the management fee was \$721,351 and \$709,294, respectively, and is recorded in the Combined Statements of Revenues, Expenses and Changes in Fund Balance - Operating Fund.

NOTE 7 - LEASE INCOME

The Association leases land to a service provider for placement of a cell phone tower. For each of the years ended December 31, 2018 and 2017, lease income of approximately \$18,000, was recorded in lease and other income in the Combined Statements of Revenues, Expenses, and Changes in Fund Balances - Operating Fund.

(Continued)

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Marriott Ownership Resorts, Inc. ("MORI") entered into a Golf Facility Use, Access and Easement Agreement ("Agreement") dated May 11, 1993 with Ford's Colony Country Club, Inc. ("FCCC"). The Agreement provides for certain rights related to use of the facility by Association members as well as adherence to rules and regulations by members. The term of the agreement is through 2032. Fees paid annually by the Association were determined at the origination of the agreement and may be increased annually at the discretion of FCCC not to exceed increases in the Consumer Price Index. According to this agreement, in the event the lender or lenders having a mortgage against all or a portion of the property comprising the golf course facility acquire title to said property, the annual golf maintenance fee may be increased on a one-time basis by up to 50% and certain usage rights of the Association members may be reduced. Fees paid by the Association under this Agreement for the years ended December 31, 2018 and 2017 were \$352,328 and \$344,744, respectively.

NOTE 9 – CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Association maintains its cash and cash equivalents and investments with what the Board of Directors believes to be a high credit quality financial institution. In addition, the Board of Directors maintains its investments in a portfolio that it believes limits the amount of market exposure.

In an effort to fulfill their fiduciary responsibility to protect and maintain assets for the Association, the Board of Directors for the Association has implemented a formal investment policy statement in reference to all cash, cash equivalents and investable funds for the reserve for replacement and operating funds. The investment policy statement stipulates that 90% of investment funds shall be invested in federally insured or guaranteed vehicles with no risk to principal as long as these investments are held-to-maturity and no more than 10% of the portfolio may be invested in stock mutual funds.

Since the Board of Directors has incorporated an analysis that identifies the use of these funds at specific times and the investments are structured with maturity dates to coincide with these anticipated expenditures, notwithstanding emergencies not under the control of the Board of Directors, the Association is able to and prepared to hold these investments to their stated maturity dates.

The MVC Trust is a Florida land trust established to hold certain real property, including timeshare interests, utilized as part of the Marriott Vacation Club Destinations vacation ownership plan. As of December 31, 2018 and 2017, the MVC Trust held 1,765 (17%) and 1,524 (15%) of the timeshare interests in the Association, respectively.

NOTE 10 – SUBSEQUENT EVENTS

The Association has performed an evaluation of subsequent events through June 11, 2019 which is the date the combined financial statements were issued.

MANOR CLUB AT FORD'S COLONY
TIME-SHARE ASSOCIATION AND AFFILIATE
SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
Year Ended December 31, 2018

On behalf of the Board of Directors, a study was completed during 2016 to estimate the remaining useful lives and the replacement costs of the components of common property.

The following table is based on the study with subsequent review by the Board and presents significant information about the components of common property.

	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	Calculated 2019 Funding Requirement	Components of Fund Balance at December 31, 2018
Roof replacement	5	\$ 4,060,608	\$ 396,259	\$ 419,911
Furniture and fixtures	5	27,938,793	2,364,826	6,579,006
Building painting	2	136,127	(7,318)	155,387
External building maintenance	9	6,172,170	1,227,719	(365,766)
Pavement resurfacing	7	333,740	144,436	(69,125)
Common area rehabilitation	6	8,767,906	780,460	221,632
		<u>\$ 47,409,344</u>	<u>\$ 4,906,382</u>	<u>\$ 6,941,045</u>

**Manor Club at Ford's Colony Time-Share Association
Board of Directors**

NAME & ADDRESS	PHONE & FAX	OFFICE HELD	TERM
Patrick Brown c/o Marriott's Manor Club 101 St. Andrews Drive Williamsburg, Virginia 23188	Phone: 757-258-1120 Fax: 757-258-5705 ownerboard.manorclub@vacationclub.com	President	2017 – 2020
Gerard Desmond c/o Marriott's Manor Club 101 St. Andrews Drive Williamsburg, Virginia 23188	Phone: 757-258-1120 Fax: 757-258-5705 ownerboard.manorclub@vacationclub.com	Vice President	2016 – 2019
Amber Gerry Kein c/o Marriott's Manor Club 101 St. Andrews Drive Williamsburg, Virginia 23188	Phone: 757-258-1120 Fax: 757-258-5705 ownerboard.manorclub@vacationclub.com	Secretary/Treasurer	2018 – 2021

**Manor Club at Ford's Colony Condominium Association
Board of Directors**

NAME & ADDRESS	PHONE & FAX	OFFICE HELD	TERM
Patrick Brown c/o Marriott's Manor Club 101 St. Andrews Drive Williamsburg, Virginia 23188	Phone: 757-258-1120 Fax: 757-258-5705 ownerboard.manorclub@vacationclub.com	President	2016 – 2019
Gerard Desmond c/o Marriott's Manor Club 101 St. Andrews Drive Williamsburg, Virginia 23188	Phone: 757-258-1120 Fax: 757-258-5705 ownerboard.manorclub@vacationclub.com	Vice President	2017 – 2020
Amber Gerry Kein c/o Marriott's Manor Club 101 St. Andrews Drive Williamsburg, Virginia 23188	Phone: 757-258-1120 Fax: 757-258-5705 ownerboard.manorclub@vacationclub.com	Secretary/Treasurer	2018 – 2021

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