

May 30, 2019

Dear Marriott's Sabal Palms Owner,

Attached please find the 2018 Audit Report for the Sabal Palms of Orlando Condominium Association, Inc. This report is being provided as outlined in the Sabal Palms of Orlando Condominium Association, Inc., Bylaws.

If you have questions about the audit, please contact me by email at [eugene.martin@vacationclub.com](mailto:eugene.martin@vacationclub.com) or by phone at 407-238-6212.

Sincerely,

*Eugene Martin*

General Manager  
Marriott's Sabal Palms

**Sabal Palms of Orlando  
Condominium  
Association, Inc.**

**Financial Statements**

**December 31, 2018 and 2017**

**Sabal Palms of Orlando Condominium Association, Inc.**  
**Index**  
**December 31, 2018 and 2017**

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## Report of Independent Auditors

The Board of Directors of  
Sabal Palms of Orlando Condominium Association, Inc.

We have audited the accompanying financial statements of Sabal Palms of Orlando Condominium Association, Inc. (the "Association"), which comprise the balance sheet as of December 31, 2018 and the related statements of revenues, expenses and changes in fund balance - operating fund, of revenues, expenditures and changes in fund balance - reserve for replacement fund and of revenues, expenses and changes in fund balance - property tax fund for the years ended December 31, 2018 and 2017, and of cash flows for the year ended December 31, 2018.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 the 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 our 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, we 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 Sabal Palms of Orlando Condominium Association, Inc. at December 31, 2018, and the results of its operations for the years ended December 31, 2018 and 2017 and its cash flows for the year ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.



**Other Matters**

We previously audited the balance sheet as of December 31, 2017 and the related statements of revenues, expenses and changes in fund balance – operating fund, of revenues, expenditures and changes in fund balance – reserve for replacement fund, of revenues, expenses and changes in fund balance – property tax fund and of cash flows for the year then ended (not presented herein), and in our report dated April 26, 2018, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of December 31, 2017 and for the year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying other financial information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, excluding the information marked "unaudited," on which we express no opinion, 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 basic 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, the information, excluding the information marked "unaudited," is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements (Unaudited) on page 19 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers 22P".

Tampa, Florida  
April 25, 2019

# Sabal Palms of Orlando Condominium Association, Inc.

## Balance Sheets

December 31, 2018, with Summarized Comparative Totals for December 31, 2017

	2018			Total	2017
	Operating Fund	Reserve for Replacement Fund	Property Tax Fund		
<b>Assets</b>					
Cash and cash equivalents	\$ 801,831	\$ 591,283	\$ 5,367	\$ 1,398,481	\$ 3,094,260
Investments	-	3,351,105	181,213	3,532,318	1,698,872
Maintenance fees receivable, less allowance for doubtful accounts of approximately \$28,000 and \$46,000 in 2018 and 2017, respectively	36,102	-	4,015	40,117	79,061
Maintenance fees receivable due from MRHC	124,521	56,160	20,036	200,717	170,584
Accrued interest receivable	-	12,362	-	12,362	8,026
Income tax receivable	-	-	-	-	111
Prepaid expenses and other assets	58,446	-	-	58,446	62,959
Fixed assets, net	57,117	-	-	57,117	11,157
Due from (to) Operating/Reserve for Replacement/Property Tax Funds	11,621	(11,621)	-	-	-
Total assets	<u>\$ 1,089,638</u>	<u>\$ 3,999,289</u>	<u>\$ 210,631</u>	<u>\$ 5,299,558</u>	<u>\$ 5,125,030</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accrued expenses	\$ 76,433	\$ 2,250	\$ -	\$ 78,683	\$ 73,697
Unearned maintenance fees	819,923	370,433	133,531	1,323,887	2,398,891
Income tax payable	12,446	-	-	12,446	-
Due to Marriott Vacations Worldwide Corporation	17,017	-	-	17,017	12,689
Due to Royal Palms of Orlando Condominium Association, Inc.	-	-	-	-	2,215
Due to Vacation Way Recreation Association, Inc.	-	-	-	-	5,446
Total liabilities	<u>925,819</u>	<u>372,683</u>	<u>133,531</u>	<u>1,432,033</u>	<u>2,492,938</u>
Fund balances	<u>163,819</u>	<u>3,626,606</u>	<u>77,100</u>	<u>3,867,525</u>	<u>2,632,092</u>
Total liabilities and fund balances	<u>\$ 1,089,638</u>	<u>\$ 3,999,289</u>	<u>\$ 210,631</u>	<u>\$ 5,299,558</u>	<u>\$ 5,125,030</u>

The accompanying notes are an integral part of these financial statements.

**Sabal Palms of Orlando Condominium Association, Inc.**  
**Statements of Revenues, Expenses and Changes in Fund Balance – Operating**  
**Fund**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b>Revenues</b>		
Maintenance fees	\$ 3,221,616	\$ 3,046,439
Bank interest	12,826	6,161
Operating interest	20,135	34,212
Maintenance fee late charges	13,775	15,175
Convenience Outlet, net	11,134	11,207
Miscellaneous income	4,655	26,814
Total revenues	3,284,141	3,140,008
<b>Expenses</b>		
Accounting and administration	351,218	335,288
Activities	41,910	33,290
Annual audit	12,500	12,175
Bad debt (benefit) expense	(5,266)	55,843
Board of Directors' expense	14,352	17,379
Cable television	25,214	25,758
Credit card fees	63,879	68,282
Disaster recovery (Note 4)	500	10,514
Electricity	169,923	154,900
Florida Division of Land Sales fee	8,000	8,000
Front desk	224,084	201,077
Gas	4,588	2,247
High-speed internet	26,130	26,171
Housekeeping, net	926,092	851,955
Income tax expense	20,558	8,049
Insurance	124,031	110,816
Landscaping and grounds maintenance	101,509	80,687
Legal	8,730	3,357
Loss prevention	19,395	19,668
Maintenance	431,275	397,083
Management fee	482,585	460,124
Owner services	174,320	164,440
Pest control	17,618	14,387
Pool maintenance	37,890	46,628
Postage, printing and handling	14,850	15,374
Refuse collection	4,689	4,242
Telephone	22,600	22,001
Tram expense	15,678	15,088
Water and sewer	75,281	68,693
Total expenses	3,414,133	3,233,516
Deficit of revenues over expenses	(129,992)	(93,508)
<b>Fund balance</b>		
Beginning of year	293,811	387,319
End of year	\$ 163,819	\$ 293,811

The accompanying notes are an integral part of these financial statements.

**Sabal Palms of Orlando Condominium Association, Inc.**  
**Statements of Revenues, Expenditures and Changes in Fund Balance – Reserve**  
**for Replacement Fund**  
**Years Ended December 31, 2018 and 2017**

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	2018	2017
<b>Revenues</b>		
Reserve for replacement assessment	\$ 1,531,896	\$ 1,460,000
Reserve investment interest	46,623	7,881
Reserve fee interest	7,973	13,836
Realized loss on fair value investments	(9,271)	-
Unrealized (loss) gain on fair value investments	(14,840)	65,172
Total revenues	1,562,381	1,546,889
<b>Expenditures</b>		
Furniture and fixtures	142,373	556,030
Pavement resurfacing	33,479	2,274
Common area rehabilitation	53,788	223,443
Total expenditures	229,640	781,747
Excess of revenues over expenditures	1,332,741	765,142
<b>Fund balance</b>		
Beginning of year	2,293,865	1,528,723
End of year	\$ 3,626,606	\$ 2,293,865

The accompanying notes are an integral part of these financial statements.



**Sabal Palms of Orlando Condominium Association, Inc.**  
**Statements of Revenues, Expenses and Changes in Fund Balance – Property Tax Fund**  
**Years Ended December 31, 2018 and 2017**

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	2018	2017
<b>Revenues</b>		
Property tax assessments	\$ 554,922	\$ 554,922
Property tax investment interest	6,474	3,351
Total revenues	<u>561,396</u>	<u>558,273</u>
<b>Expenses</b>		
Property taxes	<u>528,712</u>	<u>544,069</u>
Total expenses	<u>528,712</u>	<u>544,069</u>
Excess of revenues over expenses	32,684	14,204
<b>Fund balance</b>		
Beginning of year	<u>44,416</u>	<u>30,212</u>
End of year	<u>\$ 77,100</u>	<u>\$ 44,416</u>

The accompanying notes are an integral part of these financial statements.

# Sabal Palms of Orlando Condominium Association, Inc.

## Statements of Cash Flows

For the Year Ended December 31, 2018, with Summarized Comparative Totals for the Year Ended December 31, 2017

	2018			Total	2017
	Operating Fund	Reserve for Replacement Fund	Property Tax Fund		
<b>Cash flows from operating activities</b>					
(Deficit) excess of revenues over expenses/expenditures	\$ (129,992)	\$ 1,332,741	\$ 32,684	\$ 1,235,433	\$ 685,838
Adjustments to reconcile (deficit) excess of revenues over expenses/expenditures to net cash (used in) provided by operating activities					
Bad debt (benefit) expense	(5,266)	-	-	(5,266)	55,843
Depreciation expense	13,914	-	-	13,914	13,304
Realized loss on fair value investments	-	9,271	-	9,271	-
Unrealized loss (gain) on fair value investments	-	14,840	-	14,840	(65,172)
Changes in operating assets and liabilities					
Decrease in maintenance fees receivable	39,979	-	4,231	44,210	45,767
(Increase) decrease in maintenance fees receivable due from MRHC	(21,448)	(6,724)	(1,961)	(30,133)	8,713
Decrease (increase) in accrued interest receivable	60	(4,396)	-	(4,336)	(1,626)
Decrease (increase) in income tax receivable	111	-	-	111	(111)
Decrease in prepaid expenses other assets	4,513	-	-	4,513	3,957
Decrease in due from Marriott Vacations Worldwide Corporation	-	-	-	-	61,128
Increase (decrease) in accrued expenses	5,512	(526)	-	4,986	3,925
(Decrease) increase in unearned maintenance fees	(634,201)	(324,876)	(115,927)	(1,075,004)	361,438
Increase (decrease) in income tax payable	12,446	-	-	12,446	(1,440)
Increase in due to Marriott Vacations Worldwide Corporation	4,328	-	-	4,328	12,689
(Decrease) increase in due to Royal Palms of Orlando Condominium Association, Inc.	(2,215)	-	-	(2,215)	2,215
(Decrease) increase in due to Vacation Way Recreation Association, Inc.	(747)	(4,699)	-	(5,446)	5,446
(Decrease) increase in due to/from Operating/Reserve for Replacement/Property Tax Funds	(13,424)	11,143	2,281	-	-
Net cash (used in) provided by operating activities	(726,430)	1,026,774	(78,692)	221,652	1,191,914
<b>Cash flows from investing activities</b>					
Purchases of investments	(245,000)	(3,295,014)	(518,225)	(4,058,239)	(2,802,576)
Proceeds from maturities of investments	1,145,000	470,825	584,857	2,200,682	3,814,732
Additions to fixed assets	(59,874)	-	-	(59,874)	-
Net cash provided by (used in) investing activities	840,126	(2,824,189)	66,632	(1,917,431)	1,012,156
Net increase (decrease) in cash and cash equivalents	113,696	(1,797,415)	(12,060)	(1,695,779)	2,204,070
<b>Cash and cash equivalents</b>					
Beginning of year	688,135	2,388,698	17,427	3,094,260	890,190
End of year	\$ 801,831	\$ 591,283	\$ 5,367	\$ 1,398,481	\$ 3,094,260
<b>Supplemental disclosures</b>					
Cash paid during the year for income taxes	\$ 8,001	\$ -	\$ -	\$ 8,001	\$ 9,600

The accompanying notes are an integral part of these financial statements.

# **Sabal Palms of Orlando Condominium Association, Inc.**

## **Notes to Financial Statements**

### **December 31, 2018 and 2017**

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#### **1. Summary of Significant Accounting Policies**

Sabal Palms of Orlando Condominium Association, Inc. (the "Association") was incorporated in 1986 in the State of Florida. Operations of the Association commenced as of January 17, 1987 (the first week of occupancy), under the management of Marriott Resorts Hospitality Corporation ("MRHC"). The purpose of the Association is to operate and maintain the accommodations and facilities of the Sabal Palms Condominium time-sharing plan. As of December 31, 2018 and 2017, the Association consisted of 4,000 unit weeks. The Declaration of Condominium for Sabal Palms provides that each unit-week owner has an undivided interest in the facilities comprising the common elements and, accordingly, condominium assets are not recorded on the financial records of the Association. Expenditures made for furnishings, improvements and equipment used for maintenance and operation of the common elements of the condominium are included in fund expenses in the year of expenditure. Income and expenses are allocated to unit owners based on the number of units held.

The Association's financial statements for the years ended December 31, 2018 and 2017 were prepared pursuant to Chapters 718 and 721 of the Florida Statutes.

#### **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 financial statements as of and for the year ended December 31, 2017. Within the Balance Sheets and 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 financial statements as of and for the year ended December 31, 2017.

#### **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. 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 Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

#### **Reserve for Replacement Fund**

Florida Statutes require the Association to accumulate funds for future repairs and replacements. The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate accounts and generally are not available for normal operations.

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

**Sabal Palms of Orlando Condominium Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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On November 2, 2018, at a duly called meeting of Sabal Palms of Orlando Condominium Association, Inc., a majority of the voting interests voting in person or by limited proxy voted to approve the reduction of reserves for capital expenditures and deferred maintenance. The Board of Directors is 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, a funding requirement of \$1,579,158 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 of Directors' approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The following table presents the Reserve for Replacement Fund balance by components:

	<b>Components of Fund Balance at December 31, 2017</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Components of Fund Balance at December 31, 2018</b>
Roof replacement	\$ 507,288	\$ 140,882	\$ -	\$ 648,170
Furniture and fixtures	724,381	1,176,898	142,373	1,758,906
Building painting	36,058	82,750	-	118,808
External building maintenance	823,612	(479)	-	823,133
Pavement resurfacing	34,692	4,555	33,479	5,768
Common area rehabilitation	167,834	157,775	53,788	271,821
	<u>\$ 2,293,865</u>	<u>\$ 1,562,381</u>	<u>\$ 229,640</u>	<u>\$ 3,626,606</u>

Interest earned on the Reserve for Replacement Fund is retained in the Reserve for Replacement Fund. Expenditures include reserve items purchased in each category.

**Property Tax Fund**

The Association established a fund for the payment of assessed property taxes on the facility. Members are charged based on a good faith estimate of the tax bill for the year, which is paid in arrears on a calendar-year basis. Funds accumulated for the payment of property taxes are maintained in a separate cash account.

**Cash and Cash Equivalents**

The Association considers money in checking accounts, money market funds, and certificates of deposit with an original maturity of three months 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.

# Sabal Palms of Orlando Condominium Association, Inc.

## Notes to Financial Statements

### December 31, 2018 and 2017

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#### **Investments**

Investments consist of certificates of deposit, U.S. treasury strips, equity-linked certificates of deposit, and treasury inflation-protected securities.

The Association's certificates of deposit and U.S. treasury strips 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.

The Association's equity-linked certificates of deposit are principal-protected structured products. At maturity, the Association will receive their principal plus a "supplemental payment" or minimum interest, if any, that is based on the performance of an underlying index or market measure.

The Association's treasury inflation-protected securities are inflation-indexed securities. The rate of return on such securities is adjusted periodically to compensate for inflation as measured by the U.S. Department of Labor's consumer price index. At maturity, the Association is guaranteed by the U.S. Department of the Treasury to receive the greater of the adjusted principal balance or the original principal.

The equity-linked certificates of deposit and treasury inflation-protected securities are adjusted to fair value at the end of each period, with unrealized gains or losses shown as a component of revenues (the "Fair Value Option"). The Fair Value Option selected by the Association is considered to provide a more transparent presentation to users of the financial statements.

#### **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).

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.

**Sabal Palms of Orlando Condominium Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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The following table summarizes the Association's investments recorded at fair value on a recurring basis at December 31, 2018 and 2017:

	<b>2018</b>			
	<b>Fair Value Measurements Using</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Equity-linked certificates of deposit	\$ -	\$ 506,100	\$ -	\$ 506,100
	<b>2017</b>			
	<b>Fair Value Measurements Using</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity-linked certificates of deposit	\$ -	\$ 449,065	\$ -	\$ 449,065
Treasury inflation-protected securities	\$ 101,962	\$ -	\$ -	\$ 101,962

**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.

**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 of between four and ten years.

**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.

Pursuant to the Florida Statutes, the total income tax expense has been reported in the Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund, regardless of the fund in which the related taxable income was recorded.

# Sabal Palms of Orlando Condominium Association, Inc.

## Notes to Financial Statements

### December 31, 2018 and 2017

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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 elect not 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 financial statements for the year ended December 31, 2018. The Association's federal income tax returns for 2015, 2016 and 2017 are subject to examination by the Internal Revenue Service, generally for a period of three years after the federal income tax returns were filed.

#### **Allocation of Income and Expenses**

The common expenses and surpluses of the Association are shared by the unit owners in the same proportions as their ownership in the common elements as specified in the Association's Declaration of Condominium documents.

#### **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

**Sabal Palms of Orlando Condominium Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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.

**2. Investments**

Investments are classified as follows at December 31, 2018 and 2017:

	2018		2017	
	Amortized Cost/Principal	Fair Market Value	Amortized Cost/Principal	Fair Market Value
Equity-linked certificates of deposit	\$ 500,000	\$ 506,100	\$ 400,000	\$ 449,065
Treasury inflation-protected securities	\$ -	\$ -	\$ 100,007	\$ 101,962
U.S. treasury strips (held-to-maturity)	\$ 181,213	\$ 180,873	\$ 247,845	\$ 247,470
Certificates of deposit (held-to-maturity)	2,845,005	2,821,075	900,000	900,014
	<u>\$ 3,026,218</u>	<u>\$ 3,001,948</u>	<u>\$ 1,147,845</u>	<u>\$ 1,147,484</u>

\* Investments on the Balance Sheets is the sum of the fair market value of the equity-linked certificates of deposit and treasury inflation-protected securities and the amortized cost of the certificates of deposit and U.S. treasury strips.

The contractual maturities of the investments at December 31, 2018 and 2017 are as follows:

	2018		2017	
	Amortized Cost/Principal	Fair Market Value	Amortized Cost/Principal	Fair Market Value
Due within one year	\$ 671,213	\$ 669,457	\$ 1,147,845	\$ 1,147,484
Due between one to five years	2,505,005	2,501,151	500,007	551,027
Due after one to five years	350,000	337,440	-	-
	<u>\$ 3,526,218</u>	<u>\$ 3,508,048</u>	<u>\$ 1,647,852</u>	<u>\$ 1,698,511</u>

During the year ended December 31, 2018, an equity-linked certificate of deposit of \$250,000 was sold prior to maturity for \$275,618 and treasury inflation-protected securities of \$200,014 were forced into early redemption at a value of \$195,205. These redemptions resulted in a total gain of \$20,809. In prior years, \$30,080 was netted in unrealized gains on fair value investments with \$9,271 included in realized loss on fair value investments for the year ended December 31, 2018 in the Statements of Revenues, Expenditures and Changes in Fund Balance – Reserve for Replacement Fund.



**Sabal Palms of Orlando Condominium Association, Inc.**  
**Notes to Financial Statements**  
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The equity-linked certificates of deposit and treasury inflation-protected securities had unrealized (losses) gains of (\$14,840) and \$65,172 for the years ended December 31, 2018 and 2017, respectively, which are included in the Statements of Revenues, Expenditures, and Changes in Fund Balance – Reserve for Replacement Fund.

**3. Fixed Assets**

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

	<b>2018</b>	<b>2017</b>
Golf carts	\$ 101,021	\$ 53,034
Convenience outlet equipment	2,410	2,410
Key watcher system	11,887	-
Less: Accumulated depreciation	<u>(58,201)</u>	<u>(44,287)</u>
	<u>\$ 57,117</u>	<u>\$ 11,157</u>

Depreciation expense was \$13,914 and \$13,304 for the years ended December 31, 2018 and 2017, respectively.

**4. Disaster Recovery**

The Association incurred \$500 and \$10,514 of expenses relating to damage caused by Hurricane Irma for the years ended December 31, 2018 and 2017, respectively. The expenses are recorded in disaster recovery expense in the Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund. The Association's expenses did not exceed the Association's property insurance deductible.

The disaster recovery expenses consisted of the following for the years ended December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>	<b>Total</b>
Landscaping	\$ -	\$ 5,788	\$ 5,788
Roof and facade	-	3,660	3,660
Miscellaneous	500	1,066	1,566
	<u>\$ 500</u>	<u>\$ 10,514</u>	<u>\$ 11,014</u>

**Sabal Palms of Orlando Condominium Association, Inc.**  
**Notes to Financial Statements**  
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**5. Income Taxes**

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

	2018	2017
Federal	\$ 20,558	\$ 8,049

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

**6. Management Agreement**

The Association entered into a management agreement with MRHC for a term of three years with automatic three-year renewals unless sooner terminated by written notice or applicable law. MRHC is required to perform all management, maintenance, and operations of the facilities in exchange for an annual fee of 10% of all fees MRHC is required to collect. For the years ended December 31, 2018 and 2017, the management fee was \$482,585 and \$460,124, respectively, and is recorded in the Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

**7. Convenience Outlet**

During 2013, the Association commenced operations of the Convenience Outlet, the food and beverage facility located in the common area of the Association. The Convenience Outlet had revenues of \$35,027 and expenses of \$23,893 for the year ended December 31, 2018 and revenues of \$30,386 and expenses of \$19,179 for the year ended December 31, 2017, which are recorded in the Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

**8. Maintenance Fees Receivable**

The Florida Administrative Code 61B-40.0061 states that reserves are common assessments and must be fully funded in the same frequency as due. The Reserve for Replacement Fund accounts receivable represents interfund receivables. Pursuant to the Florida Administrative Code, replacement reserves are to be funded in the amounts stated in the budget within thirty days from the date such assessments are collected, but no later than 180 days from the date such assessments are due.

Effective May 3, 2010, the Association entered into a Foreclosed Inventory Purchase Agreement with Marriott Ownership Resorts, Inc. ("MORI"). Effective December 31, 2017 the original Foreclosed Inventory Purchase Agreement was terminated.

Effective January 1, 2018, 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.

# Sabal Palms of Orlando Condominium Association, Inc.

## Notes to Financial Statements

### December 31, 2018 and 2017

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As of April 25, 2019, the new agreement is in full effect and neither party has opted to terminate the agreement.

#### 9. 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 \$17,017 and \$12,689, 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 \$200,717 and \$170,584, respectively.

The amount due to Royal Palms of Orlando Condominium Association, Inc. from the Association at December 31, 2018 and 2017 was \$0 and \$2,215, respectively.

The amount due to Vacation Way Recreation Association, Inc. from the Association at December 31, 2018 and 2017 was \$0 and \$5,446, respectively.

#### 10. 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 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 the association 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 have implemented a formal investment policy statement in reference to all cash, cash equivalents and investable funds for the reserve for replacement, operating and property tax funds. The investment policy statement stipulates that all funds shall be invested in federally insured or guaranteed vehicles with no risk to principal as long as these investments are held-to-maturity.

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 to 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 1,014 (25%) and 895 (22%) of the timeshare interests in the Association, respectively.

**Sabal Palms of Orlando Condominium Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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**11. Subsequent Events**

The Association has performed an evaluation of subsequent events through April 25, 2019 which is the date the financial statements were issued. Through the Association's evaluation, no material subsequent events were noted.

**Sabal Palms of Orlando Condominium Association, Inc.**  
**Comparison of Actual Revenues and Expenses to Budget Amounts – Operating**  
**Fund**  
**Year Ended December 31, 2018**

	Actual	Budget (Unaudited)	2018 Budget Variance (Unaudited)
<b>Revenues</b>			
Maintenance fees	\$ 3,221,616	\$ 3,221,616	\$ -
Bank interest	12,826	5,602	7,224
Operating interest	20,135	36,280	(16,145)
Maintenance fee late charges	13,775	16,500	(2,725)
Convenience Outlet, net	11,134	8,272	2,862
Miscellaneous income	4,655	-	4,655
Total revenues	<u>3,284,141</u>	<u>3,288,270</u>	<u>(4,129)</u>
<b>Expenses</b>			
Accounting and administration	351,218	364,379	13,161
Activities	41,910	36,849	(5,061)
Annual audit	12,500	12,650	150
Bad debt (benefit) expense	(5,266)	31,083	36,349
Board of Directors' expense	14,352	20,000	5,648
Cable television	25,214	26,136	922
Credit card fees	63,879	68,439	4,560
Disaster recovery (Note 4)	500	-	(500)
Electricity	169,923	166,547	(3,376)
Florida Division of Land Sales fee	8,000	8,000	-
Front desk	224,084	210,034	(14,050)
Gas	4,588	2,170	(2,418)
High-speed internet	26,130	27,108	978
Housekeeping, net	926,092	873,151	(52,941)
Income tax expense	20,558	8,952	(11,606)
Insurance	124,031	127,274	3,243
Landscaping and grounds maintenance	101,509	94,541	(6,968)
Legal	8,730	5,000	(3,730)
Loss prevention	19,395	22,225	2,830
Maintenance	431,275	438,671	7,396
Management fee	482,585	482,585	-
Owner services	174,320	174,320	-
Pest control	17,618	15,000	(2,618)
Pool maintenance	37,890	37,933	43
Postage, printing and handling	14,850	15,146	296
Refuse collection	4,689	4,051	(638)
Telephone	22,600	22,600	-
Tram expense	15,678	15,663	(15)
Water and sewer	75,281	62,763	(12,518)
Total expenses	<u>3,414,133</u>	<u>3,373,270</u>	<u>(40,863)</u>
Deficit of revenues over expenses	<u>\$ (129,992)</u>	<u>\$ (85,000)</u>	<u>\$ (44,992)</u>

**Sabal Palms of Orlando Condominium Association, Inc.**  
**Supplementary Information on Future Major Repairs and Replacements**  
**(Unaudited)**  
**Year Ended December 31, 2018**

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Florida Statutes, Chapter 718, requires the Association to accumulate funds for future repairs and replacements.

MRHC, on behalf of the Board of Directors, conducted a reserve study during 2014 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 of Directors and presents significant information about the components of common property.

	<b>Estimated Remaining Useful Lives (Years)</b>	<b>Estimated Current Replacement Costs</b>	<b>2019 Funding Requirement</b>	<b>Components of Fund Balance at December 31, 2018</b>
Roof replacement	6	\$ 1,991,637	\$ 164,537	\$ 648,170
Furniture and fixtures	7	12,838,303	1,166,472	1,758,906
Building painting	6	321,959	25,027	118,808
External building maintenance	10	835,023	871	823,133
Pavement resurfacing	8	95,299	8,080	5,768
Common area rehabilitation	7	2,263,322	214,171	271,821
		<u>\$ 18,345,543</u>	<u>\$ 1,579,158</u>	<u>\$ 3,626,606</u>

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