June 25, 2018

Dear Marriott Vacation Club Pulse[SM], San Diego Owner,

Please find the attached 2017 Audit Report for 701 A Street Commercial Condominium Association. The report is provided to you as outlined in the Association Bylaws, Article X: Corporate Records, Section 10.4 Dissemination of Information to Members.

If you have any questions, please contact me by telephone at 619.819.6600 or by email at william.quiseng@vacationclub.com.

Sincerely,

Bill Quiseng

General Manager
Marriott Vacation Club Pulse, San Diego

701 A Street Commercial Condominium Association, Inc.

Financial Statements
December 31, 2017

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Year Ended December 31, 2017

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Report of Independent Auditors

The Board of Directors of
701 A Street Commercial Condominium Association, Inc.

We have audited the accompanying financial statements of 701 A Street Commercial Condominium Association, Inc. (the “Association”), which comprise 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, and of cash flows for the year then ended.

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 audits. We conducted our audits 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 701 A Street Commercial Condominium Association, Inc. at December 31, 2017 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 Matter

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements (Unaudited) on page 13 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.

PricewaterhouseCoopers LLP

Certified Public Accountants
Tampa, Florida
June 14, 2018

701 A Street Commercial Condominium Association, Inc.
Balance Sheet
December 31, 2017

	Operating Fund	Reserve for Replacement Fund	Total
Assets			
Cash and cash equivalents	$ 2,832,407	$ 1,221,659	$ 4,054,066
Investments	3,500,000	2,226,000	5,726,000
Accrued interest receivable	3,580	7,957	11,537
Prepaid expenses and other assets	152,014	-	152,014
Fixed assets, net	21,251	-	21,251
Due from Marriott Resorts Hospitality Corporation	21,746	-	21,746
Due from Operating Fund	-	2,739	2,739
Due to Reserve for Replacement Fund	(2,739)	-	(2,739)
Total assets	$ 6,528,259	$ 3,458,355	$ 9,986,614
Liabilities and Fund Balances			
Liabilities			
Accrued expenses	$ 237,864	$ 6,924	$ 244,788
Unearned maintenance fees	5,697,196	904,583	6,601,779
Income tax payable	12,966	3,370	16,336
Due to Marriott Vacations Worldwide Corporation	38,827	-	38,827
Total liabilities	5,986,853	914,877	6,901,730
Fund balances	541,406	2,543,478	3,084,884
Total liabilities and fund balances	$ 6,528,259	$ 3,458,355	$ 9,986,614

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

701 A Street Commercial Condominium Association, Inc.
Statement of Revenues, Expenses and Changes in Fund Balance – Operating Fund
Year Ended December 31, 2017

Revenues	
Maintenance fees	$ 10,383,060
Bank interest	35,193
Total revenues	10,418,253
Expenses	
Access Agreement (Note 4)	200,000
Accounting and administration	892,775
Activities	141,639
Audit fees	16,350
Board of Directors' expense	3,696
Cable television	75,945
Electricity	301,030
Fitness center	24,894
Front desk	1,141,848
Gas	70,128
High-speed internet	27,500
Housekeeping	2,555,375
Human resources	160,133
Income tax expense	13,966
Insurance	387,979
Loss prevention/security	559,930
Maintenance	1,245,270
Management fee	1,368,008
Pest control	8,828
Pool maintenance	51,934
Property taxes	587,985
Reciprocal Easement Agreement (Note 5)	57,974
Telephone	39,775
Water and sewer	85,237
Total expenses	10,018,199
Excess of revenues over expenses	400,054
Fund balance	
Beginning of year	141,352
End of year	$ 541,406

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

701 A Street Commercial Condominium Association, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balance – Reserve for Replacement Fund
Year Ended December 31, 2017

Revenues	
Reserve for replacement assessment	$ 105,000
Special reserve assessment	2,567,572
Bank interest	11,484
Total revenues	2,684,056
Expenditures	
Furniture and fixtures	127,867
Common area rehabilitation	8,741
Income tax expense	3,970
Total expenditures	140,578
Excess of revenues over expenditures	2,543,478
Fund balance	
Beginning of year	-
End of year	$ 2,543,478

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

701 A Street Commercial Condominium Association, Inc.
Statement of Cash Flows
Year Ended December 31, 2017

	Operating Fund	Reserve for Replacement Fund	Total
Cash flows from operating activities			
Excess of revenues over expenses/expenditures	$ 400,054	$ 2,543,478	$ 2,943,532
Adjustments to reconcile excess of revenues over expenses/expenditures to net cash provided by operating activities			
Depreciation expense	8,401	-	8,401
Changes in operating assets and liabilities			
Increase in accrued interest receivable	(3,580)	(7,957)	(11,537)
Decrease in prepaid expenses and other assets	124,844	-	124,844
Decrease in income tax receivable	800	-	800
Increase in due from Marriott Resorts Hospitality Corporation	(15,326)	-	(15,326)
Increase in accrued expenses	136,969	6,924	143,893
Increase in unearned maintenance fees	5,697,196	904,583	6,601,779
Increase in income tax payable	12,966	3,370	16,336
Decrease in due to Marriott Vacations Worldwide Corporation	(32,656)	-	(32,656)
Increase (decrease) in due from/to Operating/Reserve for Replacement Funds	2,739	(2,739)	-
Net cash provided by operating activities	6,332,407	3,447,659	9,780,066
Cash flows from investing activities			
Purchases of investments	(7,500,000)	(2,226,000)	(9,726,000)
Proceeds from maturity of investments	4,000,000	-	4,000,000
Net cash used in investing activities	(3,500,000)	(2,226,000)	(5,726,000)
Net increase in cash and cash equivalents	2,832,407	1,221,659	4,054,066
Cash and cash equivalents			
Beginning of year	-	-	-
End of year	$ 2,832,407	$ 1,221,659	$ 4,054,066
Supplemental disclosures of cash flow information			
Cash paid during the year for income taxes	$ 200	$ 600	$ 800

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

1. Summary of Significant Accounting Policies

701 A Street Commercial Condominium Association, Inc. (the "Association") was incorporated on November 10, 2016 in the State of California. The purpose of the Association is to manage, operate, and maintain, the condominium project located in San Diego County, California, commonly known as 701 A Street Commercial Condominium (the "Condominium Project"). The Association consists of nine units: four Hotel Units containing guest rooms on floors 12 and 14-27 of the hotel, and five Non-Hotel Units containing other commercial space. The Association's declaration provides that each unit owner has an undivided interest in the facilities and, accordingly, the condominium assets are not recorded in the financial records of the Association. Operations of the Association commenced on November 14, 2016 under the management of Marriott Resorts Hospitality Corporation ("MRHC").

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 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.

The amount of annual contribution is based on estimates of future needs for repairs and replacements. MRHC, on behalf of the Board of Directors, utilizes a third-party vendor to conduct 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 Association is funding for major repairs and replacements over the remaining estimated useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the Reserve for Replacement Fund. Accordingly, a funding requirement of $1,905,750 has been included in the 2018 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.

On August 18, 2017, the Board of Directors approved a special assessment to fund the beginning Reserve for Replacement Fund balance based on the results of the reserve study that was completed in 2017. As such, a special assessment of $2,567,572 is recorded in the Statement of Revenues, Expenses and Changes in Fund Balance – Reserve for Replacement Fund for the year ended December 31, 2017.

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.

Investments
Investments consist of certificates of deposit. 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).

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 recorded at fair value on a recurring basis at December 31, 2017.

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 an estimated useful life of five years.

Unearned Maintenance Fees
Unearned maintenance fees represent prepayment of the next year's maintenance fees.

Income Taxes
The Association accounts for income taxes in accordance with ASC 740, *Income Taxes* ("ASC 740"). 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.

Condominium 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 condominium 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 condominium rights to use, or condominium ownership interests in, real property.

The Association plans on making this election for 2017; 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 financial statements for the year ended December 31, 2017. The Association's federal income tax return for 2016 is subject to examination by the Internal Revenue Service, generally for a period of three years after the federal income tax return was 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"), as Amended. ASU 2014-09 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. Although the Association expects to adopt ASU 2014-09, as amended, commencing in fiscal year 2019, the Association continues to evaluate the impact that adoption of this accounting standards update will have on its financial statements and disclosures.

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, with early adoption permitted. Although the Association expects to adopt ASU 2016-02 commencing in fiscal year 2020, the Association continues to evaluate the impact that adoption of this accounting standards update will have on its financial statements and disclosures.

2. Investments

Investments are classified as follows at December 31, 2017:

	Amortized Cost	Fair Market Value
Certificates of deposit (held-to-maturity)	$ 5,726,000	$ 5,718,628
Total	$ 5,726,000	$ 5,718,628

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

	Amortized Cost	Fair Market Value
Due within one year	$ 4,240,000	$ 4,239,370
Due between one to five years	1,486,000	1,479,258
	$ 5,726,000	$ 5,718,628

3. Fixed Assets

Fixed assets, net consisted of the following at December 31, 2017:

Property Management System	$ 29,652
Less: Accumulated depreciation	(8,401)
	$ 21,251

Depreciation expense was $8,401 for the year ended December 31, 2017. The expense is allocated as a component of Front Desk expenses found on the Statement of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

4. Access Agreement

Effective January 1, 2017, the Association entered into a License and Access Agreement with Marriott Ownership Resorts, Inc. ("MORI"). MORI is the owner of Non-Hotel Unit 2 and Non-Hotel Unit 5. Non-Hotel Unit 2 (the “Restaurant”) contains a restaurant, bar and lounge, and related supporting areas and Non-Hotel Unit 5 (the “MarketPlace”) contains a retail sundry store operated by MORI as an ancillary business. The Association desired to provide its members and guests with access to a Restaurant and Marketplace at the Condominium. In exchange for operating these two amenities, MORI offers a ten percent discount on food and beverage purchases from the Restaurant and MarketPlace. To cover the operational loss per the agreement, the access agreement fee for the year ended December 31, 2017 was $200,000 and is recorded in the Statement of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

5. Reciprocal Easement Agreement

In 2016, MORI assigned the Amended and Restated Reciprocal Easement and Operating Agreement and the First Amendment, collectively known as the Reciprocal Easement Agreement ("REA”) with Symphony Towers (“Base Building Owner”), to the Association whereas all rights and obligations as Hotel Owner (“Association”) were transferred. The rights and obligations of the Association (as defined in the REA) are subject to further limitations as set forth in the Association’s governing documents. The REA provides, among other things, the Base Building Owner and Association certain reciprocal easement rights. The Association is responsible for maintaining the hotel property, premises, tower, stairwells and sky lobby, each defined in the REA. Symphony Towers is responsible for maintaining the Base Building as defined in the REA. The expenses associated with maintaining the loading dock, trash compactor, and fire and life safety control systems are shared by the Base Building Owner and Association. The agreement shall continue until terminated as provided in the REA. The Reciprocal Easement Agreement expense for the year ended December 31, 2017 was $57,974, and is recorded in the Statement of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

6. Income Taxes

The provision for income taxes consisted of the following for the year ended December 31, 2017:

	Total	Operating Fund	Reserve for Replacement Fund
Federal	$ 13,951	$ 10,863	$ 3,088
State	3,985	3,103	882
	$ 17,936	$ 13,966	$ 3,970

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

7. Management Agreement

On November 14, 2016, the Association entered into a management agreement with MRHC, for an initial term of ten years with automatic renewal for successive five year periods unless sooner terminated by either party per the terms of the agreement. MRHC is responsible for the management, maintenance and operations of the facilities, in exchange for an annual fee of 15% of the annual budget of the Association, exclusive of the management fee itself. The management fee for the year ended December 31, 2017 was $1,368,008, and is recorded in the Statement of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

8. Related Party Transactions

Certain services, including off-site accounting and administration are provided by MRHC and allocated to the Association based on the number of units, as a percentage of total units the respective service covers. The amount due from MRHC at December 31, 2017 was $21,746. Marriott Vacations Worldwide Corporation ("MVWC"), the indirect parent company of MRHC, pays all invoices on behalf of the Association, subject to reimbursement by the Association. The amount due to MVWC at December 31, 2017 was $38,827.

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 maintains its investments in a portfolio that the Board 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 and operating funds. The investment policy objectives are safety of principal, adequate liquidity, and maximization of current income, with an emphasis on minimizing exposure of principal loss.

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, 2017, the MVC Trust and MORI held 48% and 52% of the units in the Association, respectively.

10. Subsequent Events

The Association has performed an evaluation of subsequent events through June 14, 2018 which is the date the financial statements were issued.

701 A Street Commercial Condominium Association, Inc.
Supplementary Information on Future Major Repairs and Replacements (Unaudited)
Year Ended December 31, 2017

On behalf of the Board of Directors, a reserve study was completed in 2017 to estimate the remaining useful lives and the replacement costs of the components of common property.

The following tables are based on the study with subsequent review by the Board of Directors and present significant information about the components of common property.

Common Area Reserves

	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	2018 Funding Requirement	Components of Fund Balance at December 31, 2017
Roof replacement	17	$ 1,460,033	$ 49,989	$ 41,894
External building maintenance	14	4,452,209	187,896	871,405
Common area rehabilitation	11	7,942,540	445,405	761,138
		$ 13,854,782	$ 683,290	$ 1,674,437

Hotel Unit Reserves

	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	2018 Funding Requirement	Components of Fund Balance at December 31, 2017
Furniture and fixtures	13	$ 14,375,889	$ 913,103	$ 51,868
External building maintenance	14	2,911,395	143,763	364,829
Common area rehabilitation	11	2,629,202	163,132	452,344
		$ 19,916,486	$ 1,219,998	$ 869,041

Exclusive Use Common Area Reserves

	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	2018 Funding Requirement	Components of Fund Balance at December 31, 2017
Furniture and fixtures	14	$ 69,774	$ 2,122	$ -
Building painting	4	3,431	340	-
		$ 73,205	$ 2,462	$ -

701 A Street Commercial Condominium Association, Inc.
Board of Directors

Name	Office Held	Term
Rich Hayward	President	2017 – 2020
Tom McCormack	Vice President	2017 – 2018
Jeff Comfort	Secretary/Treasurer	2017 – 2019

As of xx.xx.xx