CARLSBAD SEAPOINTE RESORT
OWNERS ASSOCIATION, INC.

6400 Surfside Lane, Carlsbad CA 92011

Audit Report
Financial Statements &
Supplemental Information

December 31, 2019

Contents

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Certified Public Accountants

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Independent Auditor's Report

Board of Directors and Members
Carlsbad Seapointe Resort Owners Association, Inc.
Carlsbad, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Carlsbad Seapointe Resort Owners Association, Inc., a non-profit corporation, which comprise the balance sheet as of December 31, 2019, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 Carlsbad Seapointe Resort Owners Association, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information regarding replacement fund balances on page 9 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.

Porter & Lasiewicz, CPAs
May 15, 2020

CARLSBAD SEAPOINTE RESORT
OWNERS ASSOCIATION, INC.

Balance Sheet

As of December 31, 2019

	Operating Fund	Replacement Fund	Total Funds
Assets			
Cash	$ 2,041,854	$ 835,003	$ 2,876,857
Accounts Receivable	2,991,736	967,811	3,959,547
Prepaid Expense	110,388	–	110,388
Loan Fees Net of Accumulated Amortization of $42,600	–	21,300	21,300
Due To / From Other Fund	50,774	(50,774)	–
Total Assets	**$ 5,194,752**	**$ 1,773,340**	**$ 6,968,092**
Liabilities and Fund Balances			
Accounts Payable and Accrued Expense	$ 719,097	$ 928	$ 720,025
Accrued Payroll	40,371	–	40,371
Assessments and Other Revenues Collected in Advance	4,337,278	1,525,432	5,862,710
Deferred Revenue	54,423	–	54,423
Amounts Due to Related Parties	123,791	–	123,791
Note Payable	–	1,783,095	1,783,095
Total Liabilities	5,274,960	3,309,455	8,584,415
Fund Balances	(80,208)	(1,536,115)	(1,616,323)
Total Liabilities and Fund Balances	**$ 5,194,752**	**$ 1,773,340**	**$ 6,968,092**

See Auditors' Report
The Notes to Financial Statements Are An Integral Part of This Statement

Carlsbad Seapointe Resort
Owners Association, Inc.

Statement of Revenues and Expenses and Changes in Fund Balances

For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total Funds
Revenues:			
Assessments	$ 3,427,652	$ 1,455,635	$ 4,883,287
Interest Income	1,959	1,352	3,311
Late Fees	55,795	–	55,795
Room Revenue	290,109	–	290,109
Resort Service and Parking Fees	226,574	–	226,574
Property Tax Revenue	644,587	–	644,587
Other Income	191,344	10,100	201,444
Total Revenues	**$ 4,838,020**	**$ 1,467,087**	**$ 6,305,107**
Expenses:			
Front Desk	$ 472,402	$ –	$ 472,402
Housekeeping	1,132,555	–	1,132,555
Laundry	45,356	–	45,356
Owner Services and Guest Activities	325,368	–	325,368
Administration, Sales and Advertising	586,199	20,444	606,643
Repairs, Replacements and Maintenance	603,333	338,539	941,872
Telephone and Utilities	434,180	–	434,180
Security	62,054	–	62,054
Fixed Expenses	614,093	–	614,093
Property Taxes and Insurance	569,929	–	569,929
Sales and Advertising	15,649	–	15,649
Income Taxes	800	–	800
Loan Interest	–	111,987	111,987
Bad Debts Expense	40,973	59,597	100,570
Total Expenses	**$ 4,902,891**	**$ 530,567**	**$ 5,433,458**
Excess (Deficiency) of Revenues Over Expenses	(64,871)	936,520	871,649
(Deficit) Beginning of Year	(15,337)	(2,472,635)	(2,487,972)
Fund Balance (Deficit), End of Year	**$ (80,208)**	**$ (1,536,115)**	**$ (1,616,323)**

See Auditors' Report
The Notes to Financial Statements Are An Integral Part of This Statement

Carlsbad Seapointe Resort
Owners Association, Inc.

Statement of Cash Flows

For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total Funds
Cash Flows From Operating Activities:			
Excess (Deficiency) of Revenues Over Expenses	$ (64,871)	$ 936,520	$ 871,649
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:			
Bad Debts	40,973	59,597	100,570
Amortization	–	12,780	12,780
Change in Assets and Liabilities:			
(Increase) in Accounts Receivable	(49,326)	(105,275)	(154,601)
Decrease in Other Receivable	728	–	728
(Increase) in Prepaid Expenses	(61,694)	–	(61,694)
(Decrease) Increase in Accounts Payable and Accrued Expense	(3,064)	2,863	(201)
(Decrease) Increase in Accrued Payroll	(10,548)	–	(10,548)
Increase in Deferred Revenue	149,428	94,577	244,005
(Decrease) in Amounts Due to Related Parties	(29,049)	–	(29,049)
Total Adjustments	**37,448**	**64,542**	**101,990**
Cash Provided (Used) By Operations	(27,423)	1,001,062	973,639
Cash Flows from Investing Activities:			
Net Borrowing Between Funds	(42,388)	42,388	–
Cash Provided (Used) By Investing Activities	(42,388)	42,388	–
Cash Flows from Financing Activities:			
Payments on Note Payable	–	(992,832)	(992,832)
Cash (Used) By Financing Activities	–	(992,832)	(992,832)
Net Increase (Decrease) In Cash	(69,811)	50,618	(19,193)
Cash, Beginning of Year	2,111,665	784,385	2,896,050
Cash, End of Year	$ 2,041,854	$ 835,003	$ 2,876,857
Supplemental Information:			
Cash Paid for Income Taxes	$ 800	$ –	$ 800
Cash Paid for Interest	$ –	$ 111,987	$ 111,987

See Auditors' Report
The Notes to Financial Statements Are An Integral Part of This Statement

Carlsbad Seapointe Resort
Owners Association, Inc.

Notes to the Financial Statements

For the Year Ended December 31, 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

Carlsbad Seapointe Resort Owners Association, Inc. (the "Association") is a nonprofit, mutual benefit corporation under the Laws of California. The primary purpose of the Association is to administer, manage, and operate the 95-unit timeshare condominium project known as the Carlsbad Seapointe Resort, and the Use program therein, located in Coronado, California. Carlsbad Seapointe Resort Owners Association, Inc. was incorporated on July 10, 1995. The Association has three classes of voting membership. Class A members are annual owners who are entitled to two votes for each annual vacation ownership. Class B members are biennial owners who are entitled to one vote for each biennial vacation ownership. Class C member is the declarant who is entitled to two (2) votes for each annual vacation ownership.

The Association's Board of Directors is comprised of five members elected by the membership. The Board of Directors, among other things, establishes assessments on members of the Association and establishes user fees for Association amenities.

Accounting Method

The Association maintains its books of account on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

Fund Accounting

The Association's governing documents provide certain guidelines for managing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds, established according to their nature and purpose:

Operating Fund – Used to account for financial resources available for the general operations of the Association.

Replacement Fund – Used to account for financial resources designated for future major repairs and replacements of the amenities.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.

The Association maintains bank accounts at various financial institutions. Balances in these accounts may occasionally exceed the FDIC federally insured amount of $250,000.

Accounts Receivable, Allowance for Uncollectible Accounts

Association members are subject to annual maintenance fees to provide funds for the Association's operating expenses and major repairs and replacements. Accounts receivable at December 31, 2019 represent amounts due from members whose property is subject to lien and foreclosure. The Association's collection policy includes, among other things, assessing a late charge and interest, and filing a lien and assessing a lien fee on payments not received within the allowable time periods.

Accounts receivable at December 31, 2019 consist principally of advance billings for the year ending December 31, 2020. Accordingly, no allowance has been established for maintenance fee-related receivables as of December 31, 2019.

All accounts receivable are payable within ten days after the interval owner is billed. Interest, at rates determined by the board of directors, is charged on delinquent maintenance fees. The Association may suspend rights and privileges of interval owners with delinquent maintenance fees as defined in the by-laws. The Association's policy is to write-off all unpaid receivables not collected by December 31 of the year in which the maintenance fee pertains. Subsequent collection is recognized as a bad debt recovery in the year received, which is netted with bad debt expense on the statement of revenue, expenses and changes in fund balance (deficit).

Loan fees

Loan fees are capitalized and amortized over the life of the loan on a straight-line basis. Amortization expense and accumulated amortization related to the loan fees at the and for the year ended December 31, 2019 were $42,600 and $12,780, respectively.

Property, Equipment and Depreciation

Real property common areas are not capitalized on the Association financial statements as they are owned by the individual owners and not the Association.

Common areas are restricted to use by Association members, their tenants, and guests. The Association is responsible for the preservation and maintenance of the common areas.

Common area property not capitalized on the financial statements consists of building interiors, exteriors, sauna, jacuzzi, and laundry facilities.

Amounts due between funds
Amounts due between the funds consist of lending/borrowing arrangements outstanding at the end of the year are reported as "due to/from other funds."

Deferred Revenue
Deferred revenue represents maintenance fee revenues billed in advance during 2019 that are applicable to the following year.

Interest Income
The Association records interest income in the respective fund holding the investments but records related income tax expenses in the operating fund.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates included in the preparation of these financial statements include estimated bad debts and estimates of replacement fund components relating to useful life, replacement cost, inflation rates, and tax rates. Actual results could differ from those estimates.

New Accounting Pronouncements
Leases
In February 2016, the Financial Accounting Standards Board "(FASB)" issued ASU 2016-02 Leases (Topic 842), which among other things, requires the recognition of lease assets and lease liabilities by lessees, including for those leases classified as operating leases under previous GAAP, along with the disclosure of key information about leasing arrangements. When effective, the ASU will supersede FASB ASC 840, Leases, and add Topic 842, Leases, to the FASB ASC. In addition to replacing FASB ASC 840 with FASB ASC 842, the ASU amends and supersedes a number of other Topics throughout the FASB ASC. The amendments in the update are effective for fiscal years beginning after December 15, 2020. The Association is currently analyzing its accounting and financial reporting practices to determine the potential impact on the financial statements of this pronouncement.

Revenue Recognition
On May 28, 2014, the FASB and the International Accounting Standards Board issued a converged standard on recognition of revenue from contracts with customers. FASB ASC 606, Revenue from Contracts with Customers was issued as a result of this convergence. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services.

ASC 606 revenue recognition guidance does not apply to contracts within the scope of other standards such as insurance and lease contracts. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2018.

The Association has analyzed its accounting and financial reporting practices to determine the potential impact on the financial statements of this pronouncement. The Association has determined that it does not have any contracts with customers as defined by ASC 606.

NOTE 2 – REPLACEMENT FUND AND RESTRICTED CASH:

The Association's governing documents require funds to be accumulated for the replacement of its common areas and for general operations. The Association believes that it has complied in all material respects with these requirements.

Funds accumulated are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such expenditures are necessary.

However, actual expenditures may vary from the estimated amounts and the variations may be material. In addition, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, to borrow the necessary funds, or to delay major repairs and replacements until the funds are available.

The Association annually reviews its reserve funding program as part of the budget process. Cash and investment balances accumulated for the designated capital reserves represent cash restricted for this purpose only.

The assessments designated for major repairs and replacements during the year ended December 31, 2019 totaled $1,455,635.

The Association commissioned a reserve study in 2020 to estimate these future funding requirements. The study used a pooled funding method that included an inflation factor of 3% to estimate future expenditures.

NOTE 3 – INCOME TAXES:

The Association qualifies as a tax-exempt Timeshare Association for all income and expenses related to its exempt function purpose of the acquisition, construction, management, maintenance and care of Association property. The net nonexempt income from earned interest is taxed at 32% by the Federal Government based upon the Association's election to file Form 1120-H.

For California State income tax purposes, the Association is taxed on all net income from nonmember activities. Net member income or losses are not subject to taxation. The tax rate for Association net taxable income is 8.84%.

The Association's policy is to record interest expense or penalties levied on income tax in operating expenses. For the year ended December 31, 2019 no interest or penalties on income tax were paid or accrued.

Carlsbad Seapointe Resort Owners Association, Inc.'s federal and state tax returns are open for examination for the years ended December 31, 2017, 2018, and 2019.

The Association evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2019, the Association does not believe that it has taken any positions that would require the recording of any additional tax liability, nor does it believe there are any unrealized tax benefits that would either increase or decrease within the next year.

NOTE 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS:

The Associations earns revenues from ancillary services to include rental of nonperforming intervals, sales of merchandise, housekeeping service, wedding venue service, laundry service, and activities. Revenues related to these activities are generally recognized at a point in time. Revenue generated from the types of contracts listed above totaled $481,242 in the current fiscal year.

The following economic factors affect the nature, amount, timing, and uncertainty of the Association's revenue and cash flows as indicated:

Type of customer and geographical location: These types of goods and services of the Association are provided to members and nonmembers of the Association within the United States.

Type of contract: These types of contracts tend to be short-term (i.e. less than one year) in duration.

A description of the Association's performance obligations with customers follows:

Performance Obligations: Timing of Satisfaction
The Association typically satisfies its performance obligations as goods are delivered and as services are rendered. Goods and services are delivered to customers almost immediately upon payment. Therefore, the Association satisfies its performance obligation in a point of time when in relation to these types of contracts.

Performance Obligations: Significant Payment Terms
Payments for services may be received prior to receipt of those services by the members, however, most of these payments are due upon receipt.

Performance Obligations: Nature
The services provided by the Association are performed by the property management company or by an outside vendor where the Association acts as an agent.

Transaction price:
In estimating a contract's transaction price, the Association considers all the information (historical, current, and forecasted) that is reasonable and available to it and identifies a reasonable number of possible consideration amounts. The information that the Association uses to determine transaction price is similar to the information that the Association's management uses in establishing the prices of goods and services. The Association allocates the transaction price to each item sold based upon input methods to include resources consumed, labor hours and other costs incurred.

NOTE 5 – NOTE PAYABLE:

The Association obtained a loan in May of 2016 for the renovation of the interior units and common areas. Monthly interest-only payments of 3.50% plus the Five-Year Interest Rate Swap, as published by the Federal Reserve System and no less than 4.75%, were due until August 2016. In August 2016, the outstanding balance of the existing loan converted to a term loan to be paid in full over 60 months. The loan agreement requires monthly payments of $19,126 and provides for an interest rate of 5.483%. The loan is secured by all Association assets and future income and assessments generated. The note agreement requires the Association to maintain a minimum debt service coverage ratio of 1.15 to 1.00 and a minimum aggregate cash balance equal to 20% of annual assessments.

The Association must maintain a deposit account with the bank and must allow the lender to automatically deduct the monthly loan payment form the account through ACH.

The note matures in July of 2021. The outstanding balance of the loan at the year ended December 31, 2019 was $1,783,095. The Association paid $111,987 in interest for the year ended December 31, 2019.

Principal maturities of the loan payable in future years are estimated as follows:

Year	Principal
12/31/20	$ 1,043,887
12/31/21	$ 739,208
Total	$ 1,783,095

Unamortized loan fees as of December 31, 2019 were $21,300.

NOTE 6 – RELATED PARTIES:

Management Agreements
The Association is operated under a management agreement with a professional property management company, Grand Pacific Resort Services, LP, (GPRS), a California Limited Partnership. The agreement became effective August 1995. The Board of Directors maintains control of Association matters. However, it has appointed the management company to perform the day-to-day management functions of the Association. In addition, the Association compensates GPRS, for project management services to include services provided by the manager's in-house construction management personnel relating to the renovation project. Management fees under this agreement were $429,007 for the year ended December 31, 2019. During the year, amounts may be owed from GPRS to the Association, or owed to GPRS from the Association. As of December 31, 2019, $50,602 was due to Grand Pacific Resort Services, LP, by the Association for management services.

Advanced Financial Corporation
In addition, the Association compensates GPRS, and Advanced Financial Corporation (AFC), for other services provided, including but not limited to assessment billing and collections, computer services, reservation, and coordination of Board of Directors and member meetings.

During the year ended December 31, 2019, the total amount paid to GPRS and AFC for billing, collection, accounting and computer, and reservation services was $263,701. The Association also reimburses GPRS for any out of pocket expenses paid. As of December 31, 2019, the Association owed Advanced Financial Company $55,577.

ResorTime Affiliate Agreement

The Association participates in the Grand Pacific Resorts Inc. ResorTime program under which all owners of any timeshare resort participating in the ResorTime program may rent timeshare units at any other participating resort on a space-available basis.

Inventory Management Agreement

The Association participates in the Grand Pacific Resort guaranteed room rental revenue program where the management company guarantees a certain amount of room rental revenue for the fiscal year to be paid to the Association. Each year, the management company estimates anticipated room rental revenue during the budget process. For the year ended December 31, 2019, the guaranteed room rental revenue earned was $290,109 as a result of the rental program. As of December 31, 2019, $15,270 was due to Grand Pacific Resort Services, LP, by the Association for management services associated with this rental program.

Unit Week Inventory

The Association and Advanced Commercial Corporation (ACC), a company affiliated with GPRS, entered into an agreement regarding the unpurchased vacation intervals. ACC will bear the cost of foreclosing, deeding back, marketing and reselling the unpurchased vacation intervals.

At the conclusion of the foreclosure process, title of the intervals is conveyed to ACC at which time ACC will market and resell the intervals.

Licensing Agreement

The Association has entered into an agreement with Grand Pacific Resorts Inc. where the members and guest of the Association are permitted to use the recreational facility located on the property in exchange for a monthly fee of $2,836 (subject to annual cost-of-living increases and the addition of units). The agreement expires 2026. The agreement provides for an automatic five-year renewal upon the expiration date. The total amount paid as a result of this agreement for the year ending December 31, 2019 was $29,817.

Grab N' Go Revenue

The Association has entered into an agreement with Grand Pacific Resort Services to build and equip the Grab N' Go Market located next to the front desk on site at the resort. Once built the agreement stipulates that GPRS will own and operate the concession in the Market and that the Association will provide the labor necessary for ordering merchandise, stocking, and cashier service in exchange for thirty-three percent (33%) of the net income. Net income received as a result of this agreement was $3,065 for the year ended December 31, 2019.

NOTE 7 – OPERATING LEASE:

August 1996, the Association entered into a lease agreement for telephone equipment with GPRS. The Association has also granted GPRS the exclusive right to provide local and long-distance services and operator-assisted services. The original term of the lease agreement was ten years with automatic renewals for five years unless terminated earlier. The total lease payments made by the Association for the year ended December 31, 2019 as a result of this agreement was $68,004.

NOTE 8 – WIRELESS AGREEMENT:

In February 2017, the Association entered into an agreement for wireless broadband service and equipment with ECCO Wireless USA Inc. The term of the agreement is three years with automatic renewals for 6 months unless terminated earlier. The total expense incurred by the Association for the year ended December 31, 2019 as a result of this agreement was $18,456.

NOTE 9 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The Association maintains demand accounts at various banks. At December 31, 2019, the aggregate balance of these accounts exceeds the federally insured limits by $1,597,377.

Financial instruments that potentially subject the Association to credit risk consist principally of cash and cash receivables.

NOTE 10 – SUBSEQUENT EVENTS:

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the results of the Association's operations during the subsequent year. The extent of the financial impact is unknown as of the date of this report.

The financial statements were issued on and subsequent events were evaluated through May 15, 2020.

Carlsbad Seapointe Resort
Owners Association, Inc.

Supplemental Information on Replacement Fund Balances

For the Year Ended December 31, 2019

(unaudited)

The Board of Directors commissioned a study in 2020 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association has assessed the present condition of all common area components; estimated replacement costs relying upon published data, contractor's or engineer's estimates, and previously paid amounts; and estimated remaining lives, relying upon consultants or published data. Funding has been provided using a pooled calculation with provisions for inflation of 3%, interest earnings of 1%, and no provision for taxes.

The following table is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives	Estimated Current Replacement Cost
Common Area	0-29 Years	29,359,341
FF&E	4-19 Years	8,167,776
Totals		$ 37,527,117
Reserve Cash Balance at December 31, 2019		$ 835,003
Note Payable at December 31, 2019		$ (1,783,095)
Reserve Fund Balance at December 31, 2019		$ (1,536,115)