

Financial Statements

**Desert Breezes Resort
Timeshare Owners Association**

**For the Year Ended
October 31, 2021**

Desert Breezes Resort Timeshare Owners Association

Contents

October 31, 2021

(Summarized Totals for October 31, 2020)

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Independent Auditor's Report

Board of Directors
Desert Breezes Resort
Timeshare Owners Association
Palm Desert, California

We have audited the accompanying financial statements of Desert Breezes Resort Timeshare Owners Association which comprise the balance sheet as of October 31, 2021, and the related statements of income, expenses, changes in fund balances, cash flows, and other operating income and expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Desert Breezes Resort Timeshare Owners Association as of October 31, 2021, 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements 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, which 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.

Other Matter

The prior year summarized comparative information has been derived from the Association's October 31, 2020 financial statements and, in our report dated February 3, 2021, we expressed an unqualified opinion on those financial statements.

FITZGERALD & ASSOCIATES, INC. CPAs

Redlands, California
December 23, 2021

**Desert Breezes Resort
Timeshare Owners Association**

**Balance Sheet
October 31, 2021**

(Summarized Totals for October 31, 2020)

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Fund</u>	<u>2021 Total</u>	<u>2020 Total</u>
Assets					
Cash, including interest-bearing deposits	\$ 1,706,133	\$ 428,363	\$ -	\$ 2,134,496	\$ 1,757,900
Accounts receivable, net (Note 4)	50,432	-	-	50,432	27,634
Interest receivable	-	-	-	-	58
Prepaid expenses (Note 5)	171,309	-	-	171,309	164,790
Property and equipment, net (Note 6)	-	-	100,000	100,000	100,000
Interfund borrowing	(50,907)	50,907	-	-	-
Total assets	<u>\$ 1,876,967</u>	<u>\$ 479,270</u>	<u>\$ 100,000</u>	<u>\$ 2,456,237</u>	<u>\$ 2,050,382</u>
Liabilities and Fund Balances					
Accounts payable	\$ 119,616	\$ -	\$ -	\$ 119,616	\$ 118,838
Accrued expenses (Note 7)	119,987	-	-	119,987	92,114
Prepaid assessments	1,069,079	-	-	1,069,079	970,464
Total liabilities	<u>1,308,682</u>	<u>-</u>	<u>-</u>	<u>1,308,682</u>	<u>1,181,416</u>
Fund balances	<u>568,285</u>	<u>479,270</u>	<u>100,000</u>	<u>1,147,555</u>	<u>868,966</u>
Total liabilities and fund balances	<u>\$ 1,876,967</u>	<u>\$ 479,270</u>	<u>\$ 100,000</u>	<u>\$ 2,456,237</u>	<u>\$ 2,050,382</u>

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

**Desert Breezes Resort
Timeshare Owners Association**

**Statement of Revenue, Expenses,
and Changes in Fund Balances
For the Year Ended October 31, 2021
(Summarized Totals for October 31, 2020)**

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Fund</u>	<u>2021 Total</u>	<u>2020 Total</u>
Revenue					
Member assessments	\$ 2,826,648	\$ 213,293	\$ -	\$ 3,039,941	\$ 2,865,112
Interest income	325	769	-	1,094	14,345
Rental income	303,028	-	-	303,028	245,620
Bonus time	75,726	-	-	75,726	58,903
Other income (Schedule)	84,202	-	-	84,202	68,558
Total revenue	<u>3,289,929</u>	<u>214,062</u>	<u>-</u>	<u>3,503,991</u>	<u>3,252,538</u>
Expenses					
Bad debt expense	852,800	-	-	852,800	687,293
Front desk	182,286	-	-	182,286	212,498
General maintenance	507,619	-	-	507,619	442,958
General and administrative (Schedule)	700,026	-	-	700,026	723,964
Housekeeping	502,524	-	-	502,524	558,136
Income taxes	28,628	-	-	28,628	24,811
Repairs and replacements	-	162,327	-	162,327	266,492
Utilities	289,192	-	-	289,192	269,113
Total expenses	<u>3,063,075</u>	<u>162,327</u>	<u>-</u>	<u>3,225,402</u>	<u>3,185,265</u>
Excess revenue (expenses)	226,854	51,735	-	278,589	67,273
Fund balance, beginning of year	<u>341,431</u>	<u>427,535</u>	<u>100,000</u>	<u>868,966</u>	<u>801,693</u>
Fund balance, end of year	<u>\$ 568,285</u>	<u>\$ 479,270</u>	<u>\$ 100,000</u>	<u>\$ 1,147,555</u>	<u>\$ 868,966</u>

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

**Desert Breezes Resort
Timeshare Owners Association**

**Statement of Cash Flows
For the Year Ended October 31, 2021
(Summarized Totals for October 31, 2020)**

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Fund</u>	<u>2021 Total</u>	<u>2020 Total</u>
Cash Flows From Operating Activities					
Excess revenue (expenses)	\$ 226,854	\$ 51,735	\$ -	\$ 278,589	\$ 67,273
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:					
Bad debt expense (recovery)	852,800	-	-	852,800	687,293
Changes in:					
Accounts receivable	(875,598)	-	-	(875,598)	(662,943)
Interest receivable	58	-	-	58	2,208
Prepaid expenses	(6,519)	-	-	(6,519)	(35,586)
Accounts payable	778	-	-	778	(139,976)
Accrued expenses	27,873	-	-	27,873	(15,345)
Prepaid assessments	98,615	-	-	98,615	(179,629)
Net cash provided (used) by operating activities	<u>324,861</u>	<u>51,735</u>	<u>-</u>	<u>376,596</u>	<u>(276,705)</u>
Cash Flows From Financing Activities					
Interfund borrowing	<u>50,907</u>	<u>(50,907)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>50,907</u>	<u>(50,907)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	375,768	828	-	376,596	(276,705)
Cash, beginning of year	<u>1,330,365</u>	<u>427,535</u>	<u>-</u>	<u>1,757,900</u>	<u>2,034,605</u>
Cash, end of year	<u>\$ 1,706,133</u>	<u>\$ 428,363</u>	<u>\$ -</u>	<u>\$ 2,134,496</u>	<u>\$ 1,757,900</u>

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

**Desert Breezes Resort
Timeshare Owners Association**

**Statement of Other Operating Income and Expenses
For the Year Ended October 31, 2021
(Summarized Totals for October 31, 2020)**

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	<u>2021</u> <u>Total</u>	<u>2020</u> <u>Total</u>
Other Income		
Cleaning	\$ 5,013	\$ 2,345
COVID-19 grants and credits	8,585	-
Golf	250	620
Late fee income	4,971	15,582
Resort fees	34,430	35,988
Upgrade revenue	17,123	10,104
Other income	13,830	3,919
	<u>\$ 84,202</u>	<u>\$ 68,558</u>
General and Administrative		
Bank charges	\$ 52,777	\$ 43,875
Insurance	120,159	107,696
Legal and professional fees	8,488	7,129
Management fees	241,212	236,484
Master association dues	107,992	107,992
Property taxes	39,936	46,718
Payroll and related	107,142	126,803
Taxes and licenses	5,326	9,095
Other general and administrative	16,994	38,172
	<u>\$ 700,026</u>	<u>\$ 723,964</u>

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

Desert Breezes Resort Timeshare Owners Association

Notes to Financial Statements October 31, 2021

(Summarized Totals for October 31, 2020)

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1. Organization and Other Matters

Desert Breezes Resort Timeshare Owners Association was organized as a corporation in August 1984. The Association is responsible for the maintenance and operation of the common areas of 76 condominium units, representing 3,876 timeshare intervals, located in Palm Desert, California. The Association is a sub-association of the Desert Breezes Master Association.

2. Significant Accounting Policies

Comparative Information

The financial statements include certain October 31, 2020 comparative information. With respect to the balance sheet, the statement of revenue, expenses, and changes in fund balances, the statement of cash flows, and the statement of other operating income and expenses, such prior year information is not presented by fund. Accordingly, such information should be read in conjunction with the Association's financial statement for the year ended October 31, 2020 from which the summarized information was derived.

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. These estimates and assumptions affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Accounting

The Association's governing documents provide guidelines for managing its financial activities. To ensure compliance with limitations and restrictions on the use of financial resources, the Association maintains its records using fund accounting. They classify transactions for accounting and reporting purposes in funds established according to their nature and purpose.

Operating Fund - This fund is used to account for the financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to account for financial resources designated for future major repairs and replacements.

Capital Fund - This fund is used to account for capital assets purchased by the Association and the related depreciation expense over the life of the asset.

Desert Breezes Resort Timeshare Owners Association

Notes to Financial Statements October 31, 2021

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2. Significant Accounting Policies (continued)

Cash and Cash Equivalents

For financial statement purposes, the Association considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Major Repairs and Replacements

Members pay a portion of their Association dues for reserve expenses, generally major repairs and replacements. The Association deposits these funds in separate interest-bearing bank accounts. See Note 8 for a further discussion of reserves.

Member Assessments

Members are subject to annual assessments to provide funds for operating expenses, future major repairs and replacements and capital asset acquisitions. The annual budget and assessments of owners are determined by the board of directors and are approved by the owners. Assessments receivable at the reporting date represent amounts due from members.

The Association's policy is to accrue interest on all amounts due, including delinquent assessments, reasonable collection costs and late charges commencing 30 days after assessments become due. Interest and related charges are recorded as income when billed to the owner. See Note 4 for details on accounts receivable. The Association's policies permit various collection remedies for delinquent assessments, principally the cancellation of the membership.

The Association recognizes revenue from members as the related performance obligations are satisfied. The Association's determination is that the performance obligation for replacement reserve funds is the funding of the budgeted assessments to the replacement fund so that when the funds need to be expended, the funds are available. Therefore, if the budgeted amount is transferred to reserve bank accounts, then the performance obligation has been met and the related revenue is recognized. If the Association does not transfer the budgeted reserve assessment, a contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments.

Property and Equipment

The costs of real property and the related improvements to such property in which the Association has title to are not presented as depreciable assets in the Association's financial statements as their disposition is restricted. The Association capitalizes personal property to which it has title at cost and depreciates them using the straight-line method over useful lives ranging from five to ten years. See Note 6 for additional information on property and equipment.

Desert Breezes Resort Timeshare Owners Association

Notes to Financial Statements October 31, 2021 (Summarized Totals for October 31, 2020)

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2. Significant Accounting Policies (concluded)

Prepaid Assessments

Prepaid assessments consist of members' annual assessments received in advance. The Association recognizes these amounts as income when they are earned in the subsequent year.

3. Income Taxes

Timeshare associations may elect to be taxed as regular corporations or as timeshare associations. The Association elected to be taxed as a timeshare association in accordance with Internal Revenue Code Section 528 for the year ending October 31, 2021 and 2020. Under that Section, the Association is not taxed on assessments to members and other income received from association members solely as a function of their membership in the Association. The Association is taxed for federal purposes at the rate of 32% and taxed for state purposes at a rate of 8.84% on its nonexempt function income such as interest.

The Association's state and federal income tax filings are subject to audit by various taxing authorities. While the Association currently has no income tax returns under audit, the open tax audit periods, for which the statute of limitations has not expired, are 2018 through 2021.

4. Accounts Receivable

Accounts receivable at the reporting dates consist of the following amounts:

	<u>2021</u>	<u>2020</u>
Member assessments	\$4,590,185	\$3,960,015
Due from Trading Places		
International (TPI)-rentals	50,432	27,634
Allowance for doubtful accounts	<u>(4,590,185)</u>	<u>(3,960,015)</u>
Accounts receivable, net	<u>\$50,432</u>	<u>\$27,634</u>

Desert Breezes Resort Timeshare Owners Association

Notes to Financial Statements October 31, 2021 (Summarized Totals for October 31, 2020)

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5. Prepaid Expenses

Prepaid expenses at the reporting dates consist of the following amounts:

	<u>2021</u>	<u>2020</u>
Income taxes	\$7,883	\$11,199
Insurance	68,873	63,029
Payroll deposit to TPI	54,000	54,000
Property taxes	26,062	14,287
Master association dues	8,999	8,999
Other prepaid expenses	<u>5,492</u>	<u>13,276</u>
Total prepaid expenses	<u>\$171,309</u>	<u>\$164,790</u>

6. Property and Equipment

Property and equipment at the reporting dates consist of the following amounts:

	<u>2021</u>	<u>2020</u>
Vehicles	\$16,252	\$16,252
Clubhouse building	229,659	229,659
Land	<u>100,000</u>	<u>100,000</u>
Total property and equipment	345,911	345,911
Less accumulated depreciation	<u>(245,911)</u>	<u>(245,911)</u>
Property and equipment-net	<u>\$100,000</u>	<u>\$100,000</u>

7. Accrued Expenses

Accrued expenses at the reporting dates consist of the following amounts:

	<u>2021</u>	<u>2020</u>
Sales and use tax	\$320	\$15
Payroll and related costs	106,638	81,210
Other accrued expenses	<u>13,029</u>	<u>10,889</u>
Total accrued expenses	<u>\$119,987</u>	<u>\$92,114</u>

Desert Breezes Resort Timeshare Owners Association

Notes to Financial Statements

October 31, 2021

(Summarized Totals for October 31, 2020)

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8. Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

Association Reserves, Inc. conducted a study in September 2020 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Fund requirements consider an annual inflation rate of 3 percent and interest of 1 percent, net of taxes, on amounts funded for future repairs and replacements. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study. See the supplementary information presented on page 13 for additional details.

The board of directors decided to fund 45 percent of the amount recommended by the study for the year ended October 31, 2021. Accordingly, \$213,293 was included in the October 31, 2021 budget. Because actual expenditures may vary from estimated future expenditures and the variations may be material, amounts accumulated in the 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 to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

9. Supplemental Cash Flow Information

Cash flows from operating activities included state and federal income tax payments of \$25,312 in the fiscal year ended October 31, 2021 and \$26,215 in the fiscal year ended October 31, 2020.

10. Commitments and Contingencies

The Association amended its management agreement with Trading Places International (TPI) beginning November 1, 2017 through December 31, 2022. The agreement increases the professional management fee for the fiscal year beginning November 1, 2017 with increases of 2% for each of the subsequent four years. The contract automatically renews for successive additional five-year terms unless terminated earlier by majority of the board members within a ninety-day window before the expiration of the current term. TPI will provide administrative, financial, and accounting services for the Association.

11. Financial Instruments

The Association maintains several accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Association occasionally maintains deposits in excess of Federal limits. At the reporting dates, the Association's cash balances in excess of FDIC coverages totaled \$631,694 and \$351,467 for October 31, 2021 and 2020, respectively. Management periodically makes transfers to other financial institutions to stay within the FDIC limits.

**Desert Breezes Resort
Timeshare Owners Association**

**Notes to Financial Statements
October 31, 2021
(Summarized Totals for October 31, 2020)**

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12. Subsequent Events

Management has evaluated subsequent events through December 23, 2021, the date which the financial statements were available for issue.

Supplementary Information

**Desert Breezes Resort
Timeshare Owners Association**

**Supplementary Information on Future
Major Repairs and Replacements (Unaudited)
October 31, 2021**

Association Reserves, Inc., conducted a study in September of 2020 to estimate the remaining useful lives and replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3% and interest of 1%, net of taxes, on amounts funded for future major repairs and replacements.

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

Component	Estimated Remaining Useful Life (Years)	Estimated September 2020 Replacement Cost	Estimated 10/31/2022 Funding Requirement	Reserve Expenditures For the Year Ended 10/31/2021	Replacement Fund Balance At 10/31/2021
General common areas	0-25	\$ 437,000	\$ 44,918	\$ (29,028)	\$ 296,556
Unit building exteriors	0-13	1,154,125	118,628	(29,300)	783,211
Unit building interiors	0-16	2,621,500	269,455	(77,775)	1,778,999
Clubhouse exterior	0-8	99,650	10,243	(15,960)	67,624
Clubhouse interior	0-22	167,050	17,170	-	113,363
Laundry facilities	0-12	59,200	6,085	-	40,174
Pool and spa general	0-11	40,100	4,122	-	27,213
Pool and spa (Clubhouse)	0-3	52,600	5,407	-	35,695
Pool and Spa (Main)	0-12	107,250	11,024	(5,132)	72,782
Spa #1	0	12,950	1,331	(5,132)	8,788
Spa #2	0-6	12,950	1,331	-	8,788
Spa #3	0	12,950	1,331	-	8,788
Spa #4	0-9	12,950	1,331	-	8,788
Spa #5	0-7	12,950	1,331	-	8,788
Spa #6	0-6	12,950	1,331	-	8,788
Spa #7	0-6	12,950	1,331	-	8,788
Spa #8	0-7	12,950	1,331	-	8,788
Fund deficit		-	-	-	(2,806,653)
Totals		\$ 4,842,075	\$ 497,700	\$ (162,327)	\$ 479,270

See independent auditors' report.