



Dear Valued Ocean Key Owner Association Member,

The Report includes the following information:

1. The full legal name of the time-share project and its addresses;
2. The full legal name of the Association;
3. Names and mailing addresses of the members of the Association's Board of Directors and the name of the person who prepared the report;
4. The managing entity's name, address, and contact person for the project;
5. A statement of whether or not the developer control period has terminated for the time-share estate project;
6. Financial statements of the Association audited by an independent certified public accounting firm of the Association;
 - a. Balance Sheets for the years 2021 and 2022.
 - b. Statements of Revenue and Expenses for the years ending 2021 and 2022.
 - c. Statements of the net changes in the financial position of the Association for the years ended 2021 and 2022.
7. Statements on the following;
 - a. Time-share estates occupancy expenses.
 - b. The regular assessment.
 - c. Any special assessments or other charges due for the current year from each time-share owner.
8. A copy of the current budget reflecting the anticipated time-share estate occupancy expenses along with:
 - a. A statement as to who prepared the budget.
 - b. A statement of the budgetary assumptions concerning occupancy factors.
 - c. A description of any provision made in the budget for reserve for repairs and replacement.
 - d. A statement of any other reserves.
 - e. The projected financial liability for each time-share estate owner, including a statement of: (i) the nature of all charges, assessments, maintenance fees, and other expenses which may be assessed, (ii) the current amounts assessed, and (iii) the method and formula for changing any such assessments.
 - f. A statement of any services not reflected in the budget that the developer provides or expenses it pays, that it expects may become a time-share expense assessment attributable to each of those services or expenses for the Association and for each time-share.

9. A statement of the location of the books and records of the Association along with the name and contact address of the custodian of such books and records.

Ocean Key Owners Association
Company Information

<u>Description</u>	<u>Legal Name</u>	<u>Address</u>
Time-share Project	Ocean Key Resort Time-Share Project	424 Atlantic Avenue Virginia Beach, VA 23451
Association	Ocean Key Owners Association	424 Atlantic Avenue Virginia Beach, VA 23451 Attn: Joe Cantrell, President
Managing Entity	VSA Management Corp.	P.O. Box 9295 Virginia Beach, VA 23450 Attn: Mary McGregor, Hospitality Department
Location of Books & Records	Ocean Key Owners Association	2829 Guardian Lane, #220 Virginia Beach, VA 23452 Attn: Joe Cantrell, President

Ocean Key Owners Association
Board of Directors

<u>Name</u>	<u>Office or Principal Occupation</u>	<u>Address</u>
Joe Cantrell	Ocean Key Owners Association President	2829 Guardian Lane, #220 Virginia Beach, VA 23452
Michael Taylor	Ocean Key Owners Association Treasurer	2829 Guardian Lane, #220 Virginia Beach, VA 23452
Scott Weber	Ocean Key Owners Association Secretary	2829 Guardian Lane, #220 Virginia Beach, VA 23452

The Annual Report was prepared by the accounting team of VSA Management Corp.

Ocean Key Owners Association

**Independent Auditor's Report,
Financial Statements, and
Supplementary Information**

December 31, 2022 and 2021



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Independent Auditor's Report

Board of Directors
Ocean Key Owners Association
Virginia Beach, VA

Opinion

We have audited the accompanying financial statements of Ocean Key Owners Association, which comprise the balance sheet as of December 31, 2022, and the related statements of revenues and expenses, changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ocean Key Owners Association as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ocean Key Owners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ocean Key Owners Association's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Ocean Key Owners Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ocean Key Owners Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Future Major Repairs and Replacements (Unaudited) on page 16 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Report on Summarized Comparative Information

We have previously audited Ocean Key Owners Association's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

FORVIS,LLP

**Norfolk, VA
July 9, 2023**

Ocean Key Owners Association
Balance Sheets
December 31, 2022 with Comparative Totals for 2021

	<u>Operating Fund</u>	<u>Reserve for Replacement Fund</u>	<u>2022 Total</u>	<u>2021 Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,950,688	\$ 1,443	\$ 1,952,131	\$ 2,397,063
Accounts receivable, net of allowance for doubtful accounts of \$722,819 at December 31, 2022	123,277	-	123,277	95,453
Due from related parties	324,909	-	324,909	8,235
Prepaid expenses	129,904	-	129,904	83,705
Other current assets	3,052	-	3,052	3,052
Interfund borrowings	(765,496)	765,496	-	-
Total current assets	<u>1,766,334</u>	<u>766,939</u>	<u>2,533,273</u>	2,587,508
Property and equipment, net	15,508	-	15,508	20,135
Investments	2,521	-	2,521	2,521
Total assets	<u>\$ 1,784,363</u>	<u>\$ 766,939</u>	<u>\$ 2,551,302</u>	<u>\$ 2,610,164</u>
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Accounts payable and accrued expenses	\$ 93,088	\$ -	\$ 93,088	\$ 85,054
Due to related parties	58,576	-	58,576	95,325
Contract liabilities - prepaid owners' assessments	1,296,471	-	1,296,471	1,491,797
Total liabilities	<u>1,448,135</u>	-	<u>1,448,135</u>	1,672,176
Fund balance	<u>336,228</u>	<u>766,939</u>	<u>1,103,167</u>	<u>937,988</u>
Total liabilities and fund balance	<u>\$ 1,784,363</u>	<u>\$ 766,939</u>	<u>\$ 2,551,302</u>	<u>\$ 2,610,164</u>

See accompanying notes.

Ocean Key Owners Association
Statements of Revenues and Expenses
Year Ended December 31, 2022 with Comparative Totals for 2021

	<u>Operating Fund</u>	<u>Reserve for Replacement Fund</u>	<u>2022 Total</u>	<u>2021 Total</u>
Revenues:				
Owner assessments	\$ 2,763,872	\$ 620,388	\$ 3,384,260	\$ 3,323,500
Other income	293,459	-	293,459	234,731
Room rental income	261,282	-	261,282	482,179
Interest income	30,311	-	30,311	19,552
	<u>3,348,924</u>	<u>620,388</u>	<u>3,969,312</u>	<u>4,059,962</u>
Total revenues				
Expenses:				
Property maintenance	665,453	-	665,453	392,032
Salaries and wages	638,866	-	638,866	701,256
Office and administrative expenses	611,464	-	611,464	614,354
Repairs and replacements	-	447,804	447,804	345,351
Utilities	352,784	-	352,784	360,992
Management fees	283,482	-	283,482	283,012
Bad debt, net of recoveries	251,644	-	251,644	254,861
Insurance	217,515	-	217,515	189,584
Supplies	140,536	-	140,536	108,930
Property taxes	111,560	-	111,560	145,685
Lease costs	49,619	-	49,619	38,432
Employee benefits	25,777	-	25,777	23,581
Depreciation	7,629	-	7,629	10,772
	<u>3,356,329</u>	<u>447,804</u>	<u>3,804,133</u>	<u>3,468,842</u>
Total expenses				
(Deficiency) excess of revenues over expenses	<u>\$ (7,405)</u>	<u>\$ 172,584</u>	<u>\$ 165,179</u>	<u>\$ 591,120</u>

Ocean Key Owners Association
Statements of Changes in Fund Balances
Years Ended December 31, 2022 and 2021

	<u>Operating Fund</u>	<u>Reserve for Replacement Fund</u>	<u>Total</u>
Fund balance, December 31, 2020	\$ 92,411	\$ 254,457	\$ 346,868
Excess of revenues over expenses	<u>251,222</u>	<u>339,898</u>	<u>591,120</u>
Fund balance, December 31, 2021	343,633	594,355	937,988
(Deficiency) excess of revenues over expenses	<u>(7,405)</u>	<u>172,584</u>	<u>165,179</u>
Fund balance, December 31, 2022	<u>\$ 336,228</u>	<u>\$ 766,939</u>	<u>\$ 1,103,167</u>

Ocean Key Owners Association
Statements of Cash Flows
Year Ended December 31, 2022 with Comparative Totals for 2021

	<u>Operating Fund</u>	<u>Reserve for Replacement Fund</u>	<u>2022 Total</u>	<u>2021 Total</u>
Cash flows from operating activities:				
(Deficiency) excess of revenues over expenses	\$ (7,405)	\$ 172,584	\$ 165,179	\$ 591,120
Adjustments to reconcile to net cash (used in) provided by operating activities:				
Bad debts, net of recoveries	251,644	-	251,644	254,861
Depreciation	7,629	-	7,629	10,772
Loss on disposal of equipment	-	-	-	1,575
Change in:				
Accounts receivable	(279,468)	-	(279,468)	(221,995)
Inventories	-	-	-	373
Prepaid expenses	(46,199)	-	(46,199)	10,086
Other current assets	-	-	-	927
Accounts payable and accrued expenses	8,034	-	8,034	(31,112)
Contract liabilities - prepaid owners' assessments	(195,326)	-	(195,326)	281,356
Net cash (used in) provided by operating activities	<u>(261,091)</u>	<u>172,584</u>	<u>(88,507)</u>	<u>897,963</u>
Cash flows from investing activities:				
Borrowings from (loans to) related parties, net	(353,423)	-	(353,423)	69,622
Purchase of property and equipment	(3,002)	-	(3,002)	(2,242)
Net cash (used in) provided by investing activities	<u>(356,425)</u>	<u>-</u>	<u>(356,425)</u>	<u>67,380</u>
Cash flows from financing activities:				
Interfund borrowings	174,848	(174,848)	-	-
Net change in cash and cash equivalents	<u>(442,668)</u>	<u>(2,264)</u>	<u>(444,932)</u>	<u>965,343</u>
Cash and cash equivalents, beginning of year	<u>2,393,356</u>	<u>3,707</u>	<u>2,397,063</u>	<u>1,431,720</u>
Cash and cash equivalents, end of year	<u>\$ 1,950,688</u>	<u>\$ 1,443</u>	<u>\$ 1,952,131</u>	<u>\$ 2,397,063</u>

See accompanying notes.

Notes to Financial Statements

1. Organization and Business

Ocean Key Owners Association (“Owners Association”) is a timeshare estate owners’ association organized as a nonprofit organization for the purpose of maintaining and preserving the common property of Ocean Key Resort (“Resort”). Ocean Key Resort is a timeshare conversion project having initially been constructed in 1988 as a hotel. The timeshare project exists on a parcel of land located in Virginia Beach, Virginia, which consists of a multi-story building containing 142 individual units and various ancillary facilities. Membership in the Owners Association consists of two classes - Class A member, Vacation Sales Associates, L.L.C. (“Developer”), and class B members, which consist of all timeshare owners, including the Developer. The Developer owned 1,360 unit-weeks at December 31, 2022, which approximates 26 units. The Developer owned 1,285 unit-weeks at December 31, 2021, which approximates 25 units. The Developer control period ended November 1, 2001. Therefore, the Developer has no future obligations to fund operating and maintenance expenses.

2. Summary of Significant Accounting Policies

Basis of accounting

The Owners Association prepares its financial statements on the accrual basis and presents them as separate funds based on its different funding policies for operations and replacement expenditures.

Fund accounting

Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating fund - The operating fund reflects the operating portion of annual assessments paid by the unit-week owners to meet the various day-to-day expenditures incurred in the administration and operation of the Owners Association and recreational facilities.

Reserve for replacement fund - The reserve for replacement fund is composed of the portion of the annual assessments designated in the budget to fund future major repairs and replacements.

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases (“Topic 842”)*. This ASU requires lessees to recognize a lease liability and a right-of-use (“ROU”) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (“Topic 842”): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

Ocean Key Owners Association
Notes to Financial Statements

The Owners Association adopted Topic 842 on January 1, 2022 (the “effective date”), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Owners Association elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Owners Association has lease agreements with nonlease components that relate to the lease components. The Owners Association elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. Also, the Owners Association elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Owners Association did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022.

The standard did not significantly affect the Owners Association’s balance sheet, statement of revenues and expenses, changes in fund balances, or cash flows as there were no long-term leases in place during 2022 that would qualify for asset and liability recognition under ASC 842.

Cash and cash equivalents

The Owners Association considers all highly liquid investments with a remaining maturity of three months or less at the time of purchase to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Accounts receivable and allowance for doubtful accounts

Accounts receivable consists of unpaid assessments from owners and amounts due from a rental broker, which are stated net of an allowance for doubtful accounts. The Owners Association evaluates such receivables for impairment due to their relative balances, and provides for losses on accounts receivable through a provision for doubtful accounts. Accounts over 90 days are considered past due. The allowance is an amount management believes will be adequate to absorb probable losses on existing receivables. Receivables are charged off against the allowance when they are deemed uncollectable by management. Accounts receivable at January 1, 2021 were \$128,319.

Property and equipment

The Owners Association does not capitalize common real property. Common real property includes property that is directly associated with units (i.e., property without which the units could not be occupied, including exterior property and public areas). Common real property also includes property that is not directly associated with a unit, such as recreational facilities, although individual unit owners may benefit from its use.

The Owners Association does not capitalize personal property that is directly associated with units, such as room furnishings. The Owners Association does capitalize personal property and equipment not directly associated with units to which it has title, or other evidence of ownership such as recreational equipment and vehicles.

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives, which range as follows:

Equipment	5 - 7 years
Vehicle	5 years
Software	3 years
Furniture and fixtures	5 - 7 years
Leasehold improvements	7 years
Building	7 years

Ocean Key Owners Association
Notes to Financial Statements

Investment in LLCs

The Owners Association accounts for its investment in unconsolidated affiliates by the equity method. The Owners Association records its share of such earnings (loss) in the Statements of Revenues and Expenses as "Other income" and the carrying value of the Owners Association's investment in unconsolidated affiliates is recorded in the balance sheets as "Investments."

Revenue recognition

Owner assessments

Owner assessments revenue (undesignated and designated for future repairs and replacements) is billed annually in the amount of the assessment allocation specified for the current year operations based on the annual budget adopted by the Board of Directors. Annual owner assessments charged to owners are recognized ratably into revenue over the year to which they apply as the performance obligation (maintaining the resort and units to be available for owner use) related to owner assessments revenue is accomplished ratably throughout the year. Revenue is therefore recognized over time, on the output method, based on the passage of time with 1/12th of the annual owner assessments being recognized into revenue each month as the year progresses. Owner assessments revenue also includes buyback fees, which are recognized at a point in time.

Room rental income

Room rental revenue is recorded over time, ratably over the period of the guests stay as the performance obligation (providing a unit to renter) is accomplished over the time period the unit has been rented. The Owners Association rents unit-weeks that are not used by the owners to other individuals on a per night basis. The Owners Association collects all rents and pays costs associated with renting the rooms, including marketing costs.

Other income

Other income consists of a variety of guest fees and charges where revenue is recognized at a point in time, when the transaction is completed as the performance obligation is accomplished immediately.

Other income also includes a cell tower lease, which is recognized straight line over the term of the lease.

Disaggregation of revenue from contracts with customers

The following table disaggregates the Owners Association's revenue based on the timing of satisfaction of performance obligations for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Performance obligations satisfied over time	\$ 3,508,573	\$ 3,642,528
Performance obligations satisfied at a point in time	<u>460,739</u>	<u>417,434</u>
	<u>\$ 3,969,312</u>	<u>\$ 4,059,962</u>

Performance obligations

Contracts are generally considered to be a single performance obligation due to the Owners Association's ability and requirement under contract to provide a deliverable of goods and services that are innately integrated and interdependent upon one another. In certain situations, the Owners Association is delivering a series, or group, of integrated products that are substantially the same but otherwise distinct in value and under the terms of the contract. In these situations, the contract is treated as a single performance obligation.

**Ocean Key Owners Association
Notes to Financial Statements**

Variable consideration

There are no variable consideration or significant costs to obtain contracts.

Contract liabilities

Owners are billed annually in November (September for 2021) for assessment fees for the subsequent period. The liability "Contract liabilities – prepaid owners' assessments" represents assessments from owners paid in advance of their timeshare week. Contract liabilities at January 1, 2021 were \$1,210,441.

Advertising costs

Advertising costs are charged to operations as incurred and were \$9,569 and \$5,000 for 2022 and 2021, respectively.

Income taxes

The Owners Association has elected to file its income tax return as a homeowners' association in accordance with Internal Revenue Code Section 528. Under that Section, the Owners Association is not taxed on uniform assessments to members and other income received from Owners Association members solely as a function of their membership in the Owners Association. The Owners Association is taxed at the rate of 32% on its investment income and other nonexempt function income.

Concentration of credit risk

Financial instruments that potentially subject the Owners Association to concentration of credit risk consist of cash transactions accounts and accounts receivable.

The Owners Association places its cash transaction accounts with high credit quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, the Owners Association places deposits in financial institutions that may be in excess of federally insured amounts. The Owners Association has not experienced any financial loss related to such deposits.

Risk related to accounts receivable from owners is somewhat limited due to the large number of owners involved. The unit owners are required to pay all outstanding maintenance fees before use of the unit is permitted.

Estimates

The preparation of financial statements in accordance 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and may have an impact on future periods.

Significant estimates required in the preparation of the Owners Association's financial statements include allowance for doubtful accounts. Due to the material nature of these estimates, variances from the estimates could result in material changes to actual results.

Comparative information

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Owners Association's detailed financial statements for 2021 from which the summarized information was derived.

Ocean Key Owners Association
Notes to Financial Statements

Subsequent events

In preparing these financial statements, the Owners Association has evaluated events and transactions for potential recognition or disclosure through July 9, 2023, the date the financial statements were available to be issued.

3. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Equipment	\$ 69,191	\$ 82,114
Vehicle	2,728	2,728
Software	64,226	68,476
Furniture and fixtures	1,695	5,213
Leasehold improvements	13,395	13,395
Building	<u>1,280</u>	<u>1,280</u>
	152,515	173,206
Accumulated depreciation	<u>(137,007)</u>	<u>(153,071)</u>
	\$ 15,508	\$ 20,135

Depreciation expense was \$7,629 and \$10,772 for 2022 and 2021, respectively.

4. Investment in LLCs

In August 2011, the Owners Association and another unrelated entity formed Ocean Water, LLC (“OW”) with the purpose of leasing and managing real estate as an overflow parking lot (“Lot”). Each member has 50% ownership in the OW and will be responsible for expenses related to the Lot.

In December 2016, the Owners Association and two other entities formed OSKAR, LLC (“OSKAR”) with the purpose of providing housekeeping services. Each member has a 33.3% ownership in OSKAR.

The following summarizes the activity in the LLCs in 2022:

	<u>OW</u>	<u>OSKAR</u>
Total assets	\$ 11,107	\$ 398,099
Total liabilities	\$ (2,093)	\$ (390,401)
Members' (equity) deficit	\$ (9,014)	\$ (7,698)
Revenues	\$ 28,235	\$ (1,355,409)
Expenses	\$ (28,235)	\$ 1,355,409
Net income (loss)	\$ -	\$ -
Advances to LLCs by Owners Association	\$ 2,093	\$ 208,564

Ocean Key Owners Association
Notes to Financial Statements

The following summarizes the activity in the LLCs in 2021:

	<u>OW</u>	<u>OSKAR</u>
Total assets	\$ 4,655	\$ 182,347
Total liabilities	\$ (6,072)	\$ (174,648)
Members' deficit (equity)	\$ 1,417	\$ (7,699)
Revenues	\$ (27,928)	\$ (1,020,254)
Expenses	\$ 27,928	\$ 1,020,254
Net income (loss)	\$ -	\$ -
Advances to LLCs by Owners Association	\$ 6,072	\$ 1,707

5. Reserve for Replacement Fund

The Owners Association's governing documents require that funds be accumulated for future major repairs and replacements. Such funds are accounted for in the replacement fund. Accumulated funds, which aggregate to a balance of \$766,939 and \$594,355 at December 31, 2022 and 2021, respectively, are held in separate accounts and are generally not available for normal operating expenses.

The Owners Association's Board of Directors estimated the remaining useful lives and the replacement costs of the components of common property. The estimates are based on a site inspection performed by a structural engineer in March 2014 and updated by management through December 31, 2022. Funding of such major repairs and replacements is being done over the estimated useful lives of components based on the study's estimates of current replacement cost. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Owners Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

6. Owner Assessments

The annual assessment to owners in 2022 and 2021 ranged from \$490 to \$1,520 and \$467 to \$1,441, respectively, per timeshare week. Interest on late payments is recognized on assessments when paid by the timeshare owner.

At December 31, 2022, the Owners Association had received assessments of \$1,296,471 from owners in advance for calendar year 2023. At December 31, 2021, the Owners Association had received assessments of \$1,491,797 from owners in advance for calendar year 2022. These amounts are reflected as a contract liabilities – prepaid owners' assessments in the balance sheets.

7. Related Party Transactions

Related parties include the Owners Association's management company, Developer and its owner ("Vacatia"), OSKAR, and other owners' associations that share the same management company. The board of directors of the Owners Association has a controlling interest in the management company and the Developer.

Ocean Key Owners Association
Notes to Financial Statements

In the normal course of business, these related parties may collect certain revenues on behalf of the Owners Association. Amounts due to the Owners Association are reflected as due from related parties on the balance sheets.

Expenses of the Owners Association include allocations from these related parties. These expenses relate to the daily operating activities of the Owners Association. Unpaid amounts are reflected as due to related parties on the balance sheets.

Amounts due from and due to related parties at December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Due from related party:		
Vacatia	\$ 107,411	\$ -
OSKAR	208,564	1,707
Ocean Sands Owners Association	6,442	-
Ocean Water	2,093	6,072
Management company	399	410
Developer	-	46
	<u>\$ 324,909</u>	<u>\$ 8,235</u>
Due to related party:		
Current portion		
Management company	\$ 48,120	\$ 81,467
Developer	8,114	1,533
Atrium Owners Association	2,342	2,404
Ocean Sands Owners Association	-	9,921
	<u>\$ 58,576</u>	<u>\$ 95,325</u>

Payments to the management company are as follows:

	<u>2022</u>	<u>2021</u>
Management fees	\$ 283,482	\$ 283,012
Resort revenue incentive fees (included net of room rental income)	\$ 945,898	\$ 52,905
Accounting fees (included in office and administrative expense)	\$ 348,368	\$ 326,699

During 2022 and 2021, the Owners Association received \$17,742 and \$19,953, respectively, in rental income from the Developer.

During 2022 and 2021, the Owners Association paid \$429,085 and \$219,446, respectively, in housekeeping fees to OSKAR, which are included in property maintenance on the statements of revenues and expenses.

During 2022 and 2021, the Owners Association paid \$14,265 and \$13,867, respectively, in lease costs (called rent and leases in 2021) to the Developer for the use of office space, which is included in rentals and leases on the statements of revenues and expenses. There are no enforceable contracts for related party lease costs.

8. Contingent Liabilities

The Owners Association is exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the Owners Association's financial position or the results of operations.

9. Commitment

As of December 31, 2022, the Owners Association has a signed contract committing them to \$288,000 of work related to repairs and refurbishments within the property that is expected to be completed in 2023.

Supplementary Information

Ocean Key Owners Association
Future Major Repairs and Replacements (Unaudited)
December 31, 2022

The Owners Association's Board of Directors estimated the remaining useful lives and the replacement costs of the components of common property. The estimates are based on a site inspection performed by a structural engineer in March 2014 and updated by management through December 2022. Funding of such major repairs and replacements is being done over the estimated useful lives of components based on the study's estimates of current replacement costs.

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

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs	Replacement Fund Balance at December 31, 2022
Exteriors	1 to 28	\$ 922,395	
Equipment	1 to 29	<u>4,234,427</u>	
		<u>\$ 5,156,822</u>	<u>\$ 766,939</u>

**Ocean Key Owners Association
2023 Budget**

Revenues

Maintenance Fees	\$3,449,820
Room Cleaning Fees	\$253,750
Late & Interest Fees/Surcharges	\$102,820
Non-Member Fees	\$107,353
Lease Income	\$66,660
Other Income	\$31,825

Total Revenue **\$4,012,228**

Budget Prepared by Joe Cantrell, President 9/2022

The 2023 Budget assumes an average of 73% occupancy during 2023.

The 2023 Budget includes reserve expenditures of \$413,145.

The 2023 Budget includes several departmental revenues which offset expenses to owners and reduces maintenance costs. Additional reserve funding or special assessments were not included in the 2023 Budget.

The Ocean Key Owners Association is out of developer control.

There are no other services or expenses currently paid by the developer which are expected to become timeshare expenses to the Association at any subsequent time.

Expenses

Operational Expenses	\$926,075
Housekeeping Support	\$594,220
Reserves	\$413,145
Maintenance & Unit Supplies	\$360,020
Admin & General	\$351,756
Utilities	\$347,540
Property Management	\$340,258
Bad Debt	\$283,549
Insurance	\$247,275
Taxes & Depreciation	\$121,682

Total Expenses **\$3,985,520**

November: Annual assessment fee statements and information letters are mailed.

January 1st: Annual Assessments are due each year.