

**FAIRSHARE VACATION PLAN USE  
MANAGEMENT TRUST**

**FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2018 AND 2017**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Fairshare Vacation Plan Use Management Trust  
Las Vegas, Nevada

We have audited the accompanying financial statements of Fairshare Vacation Plan Use Management Trust (the Trust), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in fund balance, and cash flows for the years 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these 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 the auditors' 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 the Trust as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matter Regarding a Correction of an Error***

As discussed in Note 7 to the financial statements, the Trust had been incorrectly recording certain expenses in the improper service period. This resulted in an overstatement of a prepaid asset, understatement of accrued expenses and deferred tax asset, and an overstatement of fund balance for the year ended December 31, 2017. These amounts were corrected by management of the Trust during the current year. Our opinion is not modified with respect to that matter.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
May 14, 2019

**FAIRSHARE VACATION PLAN USE MANAGEMENT TRUST**  
**BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**  
(IN THOUSANDS)

	2018	Restated 2017
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 3,156	\$ 9,056
Assessments Receivable, Net of Allowance	2,401	2,168
Trust Accounts Receivable	2,347	1,904
Receivable from Developer - Trust	2,493	3,781
Funds Held in Escrow for Members (Note 4)	21,914	15,520
Income Tax Receivable	921	861
Prepaid Expenses and Other	720	711
Net Deferred Tax Asset	2,765	2,466
Total Assets	\$ 36,717	\$ 36,467
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 4,912	\$ 3,788
Deferred Revenue	940	928
Payable to Developer	1,116	48
Amounts Receivable and Funds Collected and Held in Escrow for Members	19,399	18,967
Total Liabilities	26,367	23,731
<b>FUND BALANCE</b>	10,350	12,736
Total Liabilities and Fund Balance	\$ 36,717	\$ 36,467

See accompanying Notes to Financial Statements.

**FAIRSHARE VACATION PLAN USE MANAGEMENT TRUST**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**  
**(IN THOUSANDS)**

	2018	2017
<b>REVENUES</b>		
Program Fee Assessments	\$ 91,240	\$ 88,582
Reservations	29,683	28,322
VIP Program	18,599	18,019
Financial Services	8,729	8,730
Rental and Housekeeping	4,341	4,445
Interest Income	298	120
Total Revenues	152,890	148,218
<b>EXPENSES</b>		
Reservation Services	45,588	42,915
Housekeeping	23,993	23,385
Exchange Company Fees	22,611	21,630
VIP Program	19,471	18,390
Financial Services	14,596	13,842
Credit Card Fees	10,527	9,733
Bad Debt	6,835	5,546
Management Fees	4,321	4,198
Owner Services	4,783	4,702
Inventory Management	1,778	1,735
Directory and Magazine Printing	958	1,011
Other	479	757
Total Expenses	155,940	147,844
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE PROVISION FOR INCOME TAXES</b>	(3,050)	374
<b>INCOME TAX (BENEFIT) EXPENSE</b>	(664)	1,267
<b>DEFICIT OF REVENUES OVER EXPENSES</b>	(2,386)	(893)
Fund Balance - Beginning of Year, As Previously Reported	12,736	14,834
Restatement - Prior Period Adjustment	-	(1,205)
<b>FUND BALANCE - END OF YEAR</b>	\$ 10,350	\$ 12,736

See accompanying Notes to Financial Statements.

**FAIRSHARE VACATION PLAN USE MANAGEMENT TRUST**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**  
**(IN THOUSANDS)**

	2018	Restated 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Deficit of Revenues over Expenses	\$ (2,386)	\$ (893)
Adjustments to Reconcile Deficit of Revenues over Expenses to Net Cash Used by Operating Activities:		
Bad Debt	6,835	5,546
Net Deferred Income Taxes	(664)	1,267
Income Tax Refund	365	-
Changes in Operating Assets and Liabilities:		
Assessments Receivable	(7,068)	(4,993)
Trust Accounts Receivable	(443)	5,569
Funds Held in Escrow for Members	(6,394)	(1,789)
Income Tax Receivable	(60)	501
Prepaid Expenses and Other	(9)	(2,128)
Accounts Payable and Accrued Expenses	1,124	(845)
Deferred Revenues	12	40
Amounts Receivable and Funds Collected and Held in Escrow for Members	432	(3,059)
Change in Net Receivable/Payable to Developer:		
Receivable from Developer - Trust	1,288	(721)
Payable to Developer	1,068	(673)
Net Cash Used by Operating Activities	(5,900)	(2,178)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(5,900)	(2,178)
Cash and Cash Equivalents - Beginning of Year	9,056	11,234
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 3,156	\$ 9,056

See accompanying Notes to Financial Statements.

**FAIRSHARE VACATION PLAN USE MANAGEMENT TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**  
**(IN THOUSANDS)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Fairshare Vacation Plan Use Management Trust (the Trust) was created in June 1991 by the Fairshare Vacation Plan Use Management Trust Agreement (the Agreement). The Agreement provides for the establishment of the Fairshare Vacation Plan Reservation Program (the Plan), a reservation system used by members of vacation ownership interests (VOI) from Wyndham Vacation Resorts, Inc. (WVR), to reserve accommodations in locations other than the location in which they acquired their VOI. The Agreement also provides for the advance collection of home owners' association (HOA) assessments from members of the Plan. The Trust holds the HOA assessments as an agent for the members of the Plan (see Note 4) and does not recognize these assessments as receivables or revenues.

**Cash and Cash Equivalents**

The Trust considers all highly liquid investments, not held in escrow, and with an original maturity of six months or less when purchased to be cash equivalents.

**Fair Value of Financial Instruments**

The carrying amounts of the Trust financial instruments, including cash and cash equivalents, accounts receivable, and funds held in escrow for members approximate their fair value due to the immediate or short-term nature of these instruments.

**Revenue Recognition**

The Trust collects a nonrefundable annual program fee from each member to fund the operations of the Plan program. Approximately 95% of all fees are billed on a monthly basis. Fees are recognized ratably over the assessment period.

**Funds Held in Escrow for Members**

The Trust collects HOA assessments from members of the Plan. The assessments collected are held in escrow for the benefit of each member of the Plan until such amounts are payable to the HOA as directed by the member. The funds are invested in interest-bearing instruments with the income earned included in income and used to reduce operating costs, thereby reducing the amount of each member's program fee assessment.

**Amounts Receivable and Funds Collected and Held in Escrow for Members**

The Trust bills and collects HOA assessments that are due to various HOAs. The Trust remits these assessments to the various HOAs on behalf of the members. Amounts collected are held in escrow as required per the Agreement. HOA assessments received from members that have not been remitted to the various HOAs are recorded as a liability and presented as funds collected and held in escrow for members in the accompanying balance sheets. Although the Trust bills members for HOA assessments, it is not responsible for paying delinquent HOA assessments in accordance with the Agreement.



**FAIRSHARE VACATION PLAN USE MANAGEMENT TRUST**  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Trust Accounts Receivable**

The Trust is responsible for monitoring the receivable due to the trust based on advances provided to resorts during the fixed week maintenance fee reconciliation process. The resorts are paid in full for valid members, even if the billing process has not yet taken place, or if the owner is behind on payments but still a member of the Trust. The uncollected portion of the payment submitted to the resort is recorded as a receivable and future payments from those owners are offset against the receivable.

**Income Taxes**

The Trust accounts for income taxes under the asset and liability method in accordance with FASB ASC 740, *Income Taxes* (ASC 740), under which it recognizes deferred income taxes, net of valuation allowances, for the estimated future tax effects of temporary differences between the financial statement carrying amounts of existing assets and liabilities and its tax basis and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Use of Estimates**

The Trust prepares these 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 the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during this same reporting period. Actual results may differ from those estimates. Significant estimates that the Trust uses in preparation of financial statements include deferred revenues, bad debt expense, and the allowance for bad debt.

**Recently Issued Accounting Pronouncements**

The Financial Accounting Standards Board (FASB) and other entities issued new or modifications to, or interpretations of the *Accounting Standards Codification* (ASC) guidance during 2018. The Trust has carefully considered the new pronouncements that altered accounting principles generally accepted in the United States of America and, other than as disclosed in these notes to the financial statements, does not believe that any other new or modified principles will have a material impact on the Trust's reported financial position or operations in the near term.

**Reclassifications**

Certain 2017 balances have been reclassified to conform with the 2018 presentation with no effect on the amount previously reported as excess of revenues over expenses. There was a reclassification of amounts from prepaids and amounts held in escrow of \$2,238 that had previously been separately stated; however, the balance has been reclassified and netted. The reclassification did not have an impact on reported excess of expenses over revenues.

**FAIRSHARE VACATION PLAN USE MANAGEMENT TRUST**  
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**NOTE 2 ASSESSMENTS RECEIVABLE**

Assessments receivable consists primarily of amounts due from members for program fees and other fees for services. The Trust does not permit a member to make a reservation if their account is delinquent. Its policy is to provide a valuation allowance on all receivables for the amount it does not expect to collect based on a methodology that considers past collection experience, among other factors. The allowance for bad debt at December 31, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Allowance - Beginning of Year	\$ (10,023)	\$ (11,092)
Bad Debt	(6,835)	(5,546)
Receivables Charged Off	5,434	6,615
Allowance - End of Year	<u>\$ (11,424)</u>	<u>\$ (10,023)</u>

**NOTE 3 RELATED PARTY TRANSACTIONS**

WVR (the Developer) serves as the Plan manager and receives a management fee for services provided. WVR provides services related to servicing the members such as reservation transactions, financial services, inventory management, VIP program funding, accounting, and auditing services, program management, and printing brochures and directories, some of which are outsourced to other Wyndham subsidiaries. The Trust reimburses both WVR and those Wyndham subsidiaries for services rendered. During the years ended December 31, 2018 and 2017, the Trust recorded expenses of \$67,241 and \$63,702, respectively, related to these services.

Payables to the Developer for the transactions previously mentioned as of December 31 were as follows:

	<u>2018</u>	<u>2017</u>
Payables to Developer:		
Fees for Trust Services	\$ (1,260)	\$ (370)
Limited Use Points Servicing Fee	144	322
Total	<u>\$ (1,116)</u>	<u>\$ (48)</u>

WVR collects certain fees on behalf of the Trust. These fees include conversion costs to join the Trust and member reimbursements paid to WVR through reward programs and points conversions. These fees are included in the Receivable from Developer - Trust as of December 31, was as follows:

	<u>2018</u>	<u>2017</u>
Receivable from Developer - Trust:		
Member Reimbursements	\$ 2,370	\$ 3,632
Conversion Fees	123	149
Total	<u>\$ 2,493</u>	<u>\$ 3,781</u>

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**NOTE 3 RELATED PARTY TRANSACTIONS (CONTINUED)**

Members of VOI properties from WVR assign their use rights to the Plan. At the point of sale, the member begins paying a monthly amount to the Trust representing one-twelfth of the annual assessment. WVR is liable and pays separate of the Trust for the HOA assessments for the VOI properties that it owns.

As part of WVR's marketing program to sell the VOI properties, WVR created a VIP program for members. Members who qualify for the VIP program receive special services and discounts on services related to their use of the property purchased from WVR. WVR paid a VIP marketing fee to the Trust to administer this VIP program of \$17,620 and \$16,318 in 2018 and 2017, respectively. The remaining amount of VIP revenues are funded by third parties.

**NOTE 4 FUNDS HELD IN ESCROW FOR MEMBERS**

Funds held in escrow for members are carried at cost basis which approximates fair value and consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash	\$ 21,415	\$ 15,319
Money Market	499	201
Total, at December 31	<u>21,914</u>	<u>15,520</u>
Amounts Transferred in January to Operating Cash	<u>7,355</u>	<u>2,238</u>
Balance after Transfers	<u>\$ 14,559</u>	<u>\$ 13,282</u>

The funds held in escrow for members includes amounts due to the operating cash account as of December 31. These amounts were not transferred until the following month.

**NOTE 5 CONCENTRATIONS**

Cash and cash equivalents are maintained at various financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. The Trust places its funds with high credit quality financial institutions and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

**NOTE 6 INCOME TAXES**

The provision for income taxes consisted of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Current	\$ -	\$ -
Deferred	(664)	1,267
Income Tax (Benefit) Expense	<u>\$ (664)</u>	<u>\$ 1,267</u>

**FAIRSHARE VACATION PLAN USE MANAGEMENT TRUST**  
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**NOTE 6 INCOME TAXES (CONTINUED)**

At December 31, 2018, the Trust had U.S. net operating loss carryforwards of approximately \$2,227, which will begin to expire in 2029. The utilization of net operating loss carryforwards may be limited under Internal Revenue Code Section 382 in the event there have been or will be significant changes in the Trust prior to utilization of the carryforward.

In December 2017, the United States passed the Tax Cuts and Jobs Act that reduced the statutory rate for U.S. corporations from 34% to 21% for tax years beginning after December 31, 2017. Due to this change, the Trust's deferred tax assets and liabilities are required to be revalued at the enacted rate at which they are expected to be recognized. Based on the revaluation at the enacted rate, the impact to the Trust at December 31, 2017 was to reduce the deferred tax asset by an additional \$1,102 and increase the provision for income taxes by the same amount.

As of December 31, 2018 and 2017, net deferred tax assets were \$2,765 and \$2,466, respectively. Realization of these net deferred tax assets depends upon the generation of sufficient future taxable income. A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. The Trust has determined, based on future profitability, these net deferred tax assets will more likely be realized.

The following table shows the deferred tax assets and liabilities reflecting the expected tax rate of 21% in 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Deferred Tax Assets:		
Allowance for Bad Debt	\$ 2,399	\$ 2,105
Credit Balances	48	48
Prepaid Expenses	468	685
Total Deferred Tax Assets	<u>2,915</u>	<u>2,838</u>
Deferred Tax Liability - Prepaid Expenses	<u>(150)</u>	<u>(372)</u>
Net Deferred Tax Assets	<u>\$ 2,765</u>	<u>\$ 2,466</u>

**NOTE 7 PRIOR PERIOD ADJUSTMENT**

During the Trust's internal review of the exchange membership process, an update was made to adjust the service period for points memberships. The Trust pays for two types of annual memberships, points and weeks, each paid in four quarterly installments for current Trust members. While the Trust previously recorded these payments in the same way, the internal review noted that the service periods differ among the membership types.

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**NOTE 7 PRIOR PERIOD ADJUSTMENT (CONTINUED)**

As such, the Trust prepared an analysis to determine the impact of adjusting for the newly communicated service period. As a result of this correction, the opening fund balance as of January 1, 2017 was reduced by \$1,205 and the 2017 exchange company fees was increased by \$111, with a corresponding decrease of \$1,093 in prepaid expense, \$543 increase in accounts payable and accrued expenses, and an increase of \$320 of deferred tax assets.

Selected balance sheet data as of December 31, 2017, were as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Prepaid Expenses and Other	\$ 4,042	\$ 711
Accounts Payable and Accrued Expenses	3,245	3,788
Deferred Tax Asset	2,146	2,466

The restated prepaid expenses and other also includes the reclassification described in Note 1.

Selected operations data as of December 31, 2017, were as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Exchange Company Fees	\$ 21,519	\$ 21,630

Selected cash flows data as of December 31, 2017, were as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Net Income (Loss)	\$ (782)	\$ (893)
Prepaid Expenses and Other	(2,203)	(2,128)
Accounts Payable and Accrued Expenses	(881)	(845)

**NOTE 8 SUBSEQUENT EVENTS**

The Trust has evaluated subsequent events through May 14, 2019, the date the financial statements were available to be issued. There were no subsequent events that required recognition or disclosure.