Hilton Grand Vacations Club
MARBRISA
CARLSBAD

Grand Pacific MarBrisa Owners Association, Inc.

5500 Grand Pacific Drive, Carlsbad, CA 92008

Financial Statements

December 31, 2014

Contents

Independent Auditor's Report

To the Board of Directors and Owners
Grand Pacific MarBrisa Owners Association, Inc.
Carlsbad, California

Report on the Financial Statements
We have audited the accompanying financial statements of Grand Pacific MarBrisa Owners Association, Inc. (the Association), which comprise the statement of assets, liabilities and fund balance as of December 31, 2015, the related statements of revenues, expenses and changes in fund balance (deficit), and cash flows 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 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 Grand Pacific MarBrisa Owners Association, Inc. as of December 31, 2015 and the changes in its fund balance and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 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 7 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. Such information is the responsibility of the Association's management. 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.

RSM US LLP
San Francisco, California
June 27, 2016

Hilton Grand Vacations Club
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Grand Pacific MarBrisa Owners Association, Inc.

Statement of Assets, Liabilities and Fund Balance

December 31, 2015

	Operating Fund	Replacement Fund	Total
Assets			
Cash	$ 6,438,782	$ 653,815	$ 7,092,597
Assessments and other receivables, net	4,667,808	662,068	5,329,876
Prepaid expenses	311,346	-	311,346
Due from operating fund	-	401,925	401,925
Total assets	**$11,417,936**	**$1,717,808**	**$13,135,744**
Liabilities and Fund Balance			
Accounts payable and accrued liabilities	$ 2,527,331	$ 1,497	$ 2,528,828
Due to related parties, net	1,553,948	-	1,553,948
Due to replacement fund	401,925	-	401,925
Deferred assessments	6,799,682	1,153,264	7,952,946
Total liabilities	**11,282,886**	**1,154,761**	**12,437,647**
Fund balance	135,050	563,047	698,097
Total liabilities and fund balance	**$11,417,936**	**$1,717,808**	**$13,135,744**

See notes to the financial statements

Hilton Grand Vacations Club
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Grand Pacific MarBrisa Owners Association, Inc.

Statement of Revenues, Expenses and Changes in Fund Balance (Deficit)

Year Ended December 31, 2015

	Operating Fund	Replacement Fund	Total
Revenues			
Assessments	$ 7,004,660	$ 786,947	$ 7,791,607
Interest revenue	4,632	1,707	6,339
Room revenue and other income	1,182,490	-	1,182,490
Total revenues	**8,191,782**	**788,654**	**8,980,436**
Expenses:			
Front office	368,333	-	368,333
Housekeeping	1,851,950	-	1,851,950
Owner relations and guest activities	228,082	-	228,082
Administration and sales	822,946	14,336	837,282
Fixed expenses	954,614	-	954,614
Insurance and property taxes, net	1,622,503	-	1,622,503
Repairs, replacements and maintenance	955,102	448,416	1,403,518
Utilities	821,715	-	821,715
Uncollectible assessments, net	419,739	28,563	448,302
Provision for income taxes	800	-	800
Total expenses	**8,045,784**	**491,315**	**8,537,099**
Excess of revenues over expenses	**145,998**	**297,339**	**443,337**
Fund balance (deficit), beginning of year	(10,948)	265,708	254,760
Fund balance, end of year	$ 135,050	$ 563,047	$ 698,097

See notes to the financial statements

Hilton Grand Vacations Club
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Grand Pacific MarBrisa Owners Association, Inc.

Statement of Cash Flows

Year Ended December 31, 2015

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:			
Excess of revenues over expenses	$ 145,998	$ 297,339	$ 443,337
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Uncollectible assessments, net	419,739	28,563	448,302
(Increase) decrease in operating assets:			
Assessments and other receivables, net	(768,880)	(271,781)	(1,040,661)
Prepaid expenses	(25,530)	-	(25,530)
Due from operating fund	-	(153,104)	(153,104)
Increase (decrease) in operating liabilities:			
Accounts payable and accrued liabilities	381,024	(37,177)	343,847
Due to related parties, net	222,832	-	222,832
Due to replacement fund	153,104	-	153,104
Deferred assessments	862,235	451,644	1,313,879
Net cash provided by operating activities	**1,390,522**	**315,484**	**1,706,006**
Net increase in cash	**1,390,522**	**315,484**	**1,706,006**
Cash, beginning of year	5,048,260	338,331	5,386,591
Cash, end of year	$ 6,438,782	$ 653,815	$ 7,092,597
Supplemental disclosure of cash flow information:			
Cash paid during the year for income taxes			$ 800

See notes to the financial statements

Notes to the Financial Statements

December 31, 2015

Note 1. Association and Membership

Grand Pacific MarBrisa Owners Association, Inc. (the Association) was incorporated on April 28, 2006, as a California nonprofit mutual benefit corporation, with the specific and primary purpose of promoting the interests and welfare of the owners of vacation intervals situated in the project known as Grand Pacific MarBrisa in Carlsbad, California. The Association is comprised of Class A memberships for annual owners, Class B memberships for biennial owners and Class C memberships for vacation intervals still owned by the project's developer. Annual memberships are entitled to two votes and biennial memberships are entitled to one vote. Vacation interval sales commenced in June 2006.

In accordance with the Association's by-laws, each vacation interval owner is subject to basic, special and personal charge assessments by the Association.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The financial statements of the Association have been prepared on the accrual basis of accounting. Accordingly, all significant receivables, revenues and gains are recognized when earned, and expenses, liabilities and losses are recognized when incurred.

Fund accounting: The Association uses fund accounting, which requires that funds, such as the operating fund and replacement fund, be classified separately for accounting and reporting purposes. Disbursements from the operating and replacement funds are generally at the discretion of the Board of Directors (the Board) and the Association's management. Disbursements from the replacement fund generally may be made only for designated purposes.

Concentration of credit risk: The Association maintains its cash in bank accounts and money market accounts that exceed the federally insured limit of $250,000. The Association has not experienced any losses in such accounts. Management believes the Association is not exposed to significant credit risk relating to cash.

Assessments and deferred assessments: For the year ended December 31, 2015, each annual vacation membership owner was generally assessed $934 for a three-bedroom unit, $949 for a two-bedroom luxury unit, $885 for a two-bedroom unit, $783 for a one-bedroom unit and $662 for a studio unit, inclusive of the replacement fund assessment. Biennial vacation membership assessments are one-half of the annual membership assessment amount. Under this program, units within the unit type originally purchased can be used once every two years.

For the year ended December 31, 2016, each annual vacation membership owner was generally assessed $989 for a three-bedroom unit, $1010 for a two-bedroom luxury unit, $936 for a two-bedroom unit, $830 for a one-bedroom unit and $702 for a studio unit, inclusive of the replacement fund assessment, is included in deferred assessments until earned.

The Association's policy is to bill the annual assessments in advance and recognized them as revenue on a pro rata basis over the period covered by the billing. As of December 21, 2015, the Association has billed in advance $7,952,946 of year 2016 assessments and collected $3,429,348. Deferred assessments include year 2016 amounts billed but not collected of $4,523,598 as of December 31, 2015.

Allowance for doubtful accounts: Assessments receivable at December 31, 2015 consist principally of advance assessment billings for the year ending December 31, 2016. Accordingly, an allowance for doubtful accounts has not been established as of December 31, 2015.

All assessments are due and payable January 1 after the interval owner is billed. Interest, at rates determined by the Board, is charged on delinquent assessments. The Association may suspend rights and privileges of interval owners with delinquent assessments as defined in the bylaws. The Association's policy is to write off all assessment receivables after all efforts to collect have been exhausted by December 31 of the year in which the assessment pertains. Subsequent collection is recognized as bad debt recovery in the year received, which is netted with uncollectible assessments on the statement of revenues, expenses and changes in fund balance (deficit).

Common property: Property and equipment consists of vacation condominium units, common area (land and real property), common furnishings and Association personal property as defined in the Declaration of Covenants, Conditions and Restrictions. The Association does not capitalize land, real property and common furnishings directly associated with the vacation condominium units since the interval owners directly or indirectly own these assets. Should the Association directly acquire any personal property, it will be capitalized and depreciated by the straight-line method over its estimated useful life. Expenses incurred for the repair and replacement of commonly owned assets are reported as expenses in the replacement fund on the statement of revenues, expenses and changes in fund balance (deficit).

Replacement fund assessments: The Association has designated certain amounts as replacement funds to provide for the payment of future repair and rehabilitation expenditures, as specifically approved by the Association's Board. The Association's replacement fund program is subject to a reserve analysis study. The most recent study conducted on February 4, 2016 was prepared by Association Reserves San Diego, LLC, who specializes in the preparation of reserve studies. The preparation of the reserve analysis is based upon certain assumptions in regards to existing reserve fund balances, inflation and investment rate factors, the estimated life span and the current cost of the reserve items. Furthermore, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Based on the study and the estimates contained in the underlying report, the Association's management believes that the existing replacement funding program together with the future business plan is adequate to meet future repair and rehabilitation expenditures. Should such funds not be adequate, or if additional funds are needed, the Association has the right, subject to certain limitations, to increase the annual assessments, pass special assessments, or delay the expenditures until funds are available.

Presentation of certain taxes: The Association collects various taxes, generally occupancy taxes, and remits these amounts to applicable taxing authorities. The Association's accounting policy is to exclude these taxes from revenues and expenses.

Accounting of 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 amounts reported as assets, liabilities, revenues, expenses and related disclosures. Actual results could differ from these estimates.

Subsequent events: Management has assessed subsequent events through June 27, 2016, the date on which the financial statements were available to be issued.

Note 3. Related Parties

Management agreement: The Association is operated under a management agreement with Hilton Grand Vacation Club, LLC (HGVC), who has subcontracted with a professional property management company, Grand Pacific Resort Services, L.P. (GPRS), an affiliate of the developer. The Association's management's budget is within the guidelines established by the California Bureau of Real Estate, which regulates common interest developments. Management fees under this agreement were $603,212 for the year ended December 31, 2015, of which $563,894 is allocated as fixed expenses under the operating fund and $39,318 is allocated as repairs, replacement and maintenance under the replacement fund.

The Association pays an additional licensing fee to HGVC equal to 2.5 percent of all expenses, before management fees and other adjustments. Licensing fees were $151,937 for the year ended December 31, 2015, and are allocated as administration and sales under the operating fund.

Exchange affiliation agreement: Effective September 2006, the Association has entered into an exchange affiliation agreement with HGVC to offer vacation interval owners at the Association the opportunity to utilize the exchange services and related benefits provided through HGVC. Owners who submit a HGVC enrollment agreement and pay the applicable enrollment and transaction fees shall be entitled to full access to all the benefits, reservations and exchange services offered by HGVC. The term of the agreement is five years and is automatically renewable for successive one-year periods, unless terminated in accordance with the agreement. The liability for the 2016 unpaid HGVC memberships has been accrued on the statement of assets, liabilities and fund balance as of December 31, 2015. As of December 31, 2015, the Association owed HGVC $951,062 under this agreement and is reported under due to related parties on the statement of assets, liabilities and fund balance.

Other: In addition, the Association shall compensate GPRS and Advanced Financial Corporation (AFC), an affiliate of the developer, for other services provided, including but not limited to assessments billing and collection, accounting and computer services, file and reservation system maintenance, owner relations service, and Board and members meetings coordination. The Association also reimburses GPRS for any out-of-pocket expenses paid. At December 31, 2015, the Association owed GPRS and AFC and other related parties $611,305 for services provided, including $140,840 of fees billed to interval owners included in assessments and other receivables, which will be collected by the Association on behalf of AFC. At December 31, 2015, the Association incurred $237,595 in expense for these services, which has been allocated to administration and sales, fixed expenses and owner relations and guest services under the operating fund on the statement of revenues, expenses and changes in fund balance (deficit).

Cost-sharing agreement: The Association has entered into a cost and facilities sharing agreement with Grand Pacific Carlsbad, L.P. (the Developer), a California limited partnership, to share common operating expenses related to the common facilities, private road and parking lot shared with the nearby hotel owned by the Developer. These expenses shall be shared between the Association and the Developer based on the burden each places on the property, as measured by such factors as the number of rooms, occupancy rates and occupants per unit. Currently, allocation percentages for the Association and the Developer are 44 percent and 56 percent, respectively. In addition, as consideration for allowing the Association to use roadways, parking facilities and other common facilities, the Association pays the Developer, in advance, an annual facilities fee, subject to annual consumer price index increases, based on the number of intervals. For both 2015 and 2016, the fee per interval was $22. The Association incurred expenses of $138,809 for the year ended December 31, 2015, which is allocated to fixed expenses under the operating fund. For the year ended December 31, 2016, the Association paid the Developer $156,373, which has been recorded as prepaid expenses on the statement of assets, liabilities and fund balance at December 31, 2015.

Note 4. Income Taxes

For federal tax purposes, the Association is taxed under Internal Revenue Code Section 528 as an exempt organization. The Association is taxed on its non-exempt income less expenses directly connected with the production of the non-exempt income. Exempt function income is not subject to tax. Income tax is calculated at 32 percent of taxable income.

For state tax purposes, the Association is organized as a non-exempt membership organization and is taxed on its excess nonmember income (principally interest and usage by nonmembers) at the normal corporate tax rates.

Federal and state income taxes for 2015 were $0 and $800, respectively.

Uncertain tax position: The Association identifies and evaluates all uncertain tax positions and believes that positions taken are more likely than not to be sustained upon examination for all open tax years. The Association's tax returns are subject to examination by federal taxing authorities for a period of three years from the date they are filed and a period of four years for California taxing authorities.

Note 5. Property Taxes

Real and personal property tax expense is based on taxes billed by the county as well as an estimate made by the Association for certain parcels of real and personal property that have been placed in service at the Association but have not been billed by or paid to the county as of December 31, 2015. As of December 31, 2015, the property taxes estimated and included in the statement of assets, liabilities, and fund balance was $2,332,772. It is reasonably possible that the estimated liability may change materially in the near future.

Supplementary Information on Future Major Repairs and Replacements (Unaudited)

Association Reserves San Diego, LLC conducted an updated site visit study on February 4, 2016 to estimate the remaining useful lives and the replacement costs of the components of common property subject to future repairs and replacements. Estimated current replacement costs have been based on the average best and worst case estimates using Association cost history, database industry history, vendor history and national industry cost estimation guides. The estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement, or the costs incurred since the date of the study. During 2015 the Association conducted repairs and replacements totaling $448,416.

The following tables are based on the site visit study conducted on February 4, 2016, and present a condensed summary of information about the items of property. Recommended funding requirements are based on the assumptions that the inflation rate and interest rate are 3 percent and 1 percent, respectively:

Components	Estimated Remaining Life in Years	Estimated Current Replacement Costs
Common areas	1-30	$ 1,697,300
Mechanical	1-24	1,016,805
Recreation, Cove	2-25	1,012,100
Recreation, Sunset	3-25	281,500
Unit interiors	1-30	17,268,770
Total		**$ 21,276,475**