ASSOCIATION OF APARTMENT OWNERS OF MARRIOTT'S KAUA'I RESORT AND BEACH CLUB

FINANCIAL STATEMENTS

December 31, 2011

ASSOCIATION OF APARTMENT OWNERS OF
MARRIOTT'S KAUA'I RESORT AND BEACH CLUB

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Report of Independent Certified Public Accountants

To the Board of Directors of
Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club

We have audited the accompanying balance sheet of Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club (the "Association") as of December 31, 2011, and the related statements of revenues, expenses and changes in fund balance – operating fund, revenues, expenses and changes in fund balance – reserve for replacement fund, revenues, expenses and changes in fund balance – special assessment fund, revenues, expenses and changes in fund balance – CIP fund, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cherry, Bekaert & Holland, L.L.P.

Tampa, Florida
May 29, 2012

ASSOCIATION OF APARTMENT OWNERS OF
MARRIOTT'S KAUA'I RESORT AND BEACH CLUB

BALANCE SHEET

DECEMBER 31, 2011

	Operating Fund	Reserve for Replacement Fund	Special Assessment Fund	CIP Fund	Total
ASSETS					
Cash and cash equivalents	$ 352,070	$ 5,673,096	$ -	$ 1,600,387	$ 7,625,553
Investments	-	6,370,124	-	-	6,370,124
Accrued interest receivable	-	17,056	-	-	17,056
Maintenance fees receivable, less allowance for doubtful accounts of approximately $132,000	206,800	22,267	-	-	229,067
Prepaid expenses and other assets	417,991	-	-	-	417,991
Income tax receivable	22,091	-	-	-	22,091
Due from HPT TRS MI-135, Inc.	-	-	-	-	-
Due from (to) Operating Fund	-	156,818	-	(7,861)	148,957
Due to Reserve for Replacement Fund	(156,818)	-	-	-	(156,818)
Due from CIP Fund	7,861	-	-	-	7,861
Total Assets	$ 849,995	$ 12,239,361	$ -	$ 1,592,526	$ 14,681,882
LIABILITIES AND FUND BALANCES					
Accrued expenses	$ 89,734	$ -	$ -	$ -	$ 89,734
Income taxes payable	-	11,590	-	866	12,456
General excise tax payable	2,734	-	-	-	2,734
Due to Marriott Vacations Worldwide Corporation/Marriott International	4,640	-	-	-	4,640
Due to Marriott's Kaua'i Beach Club Owners Association, Inc.	273,885	22,267	-	-	296,152
Due to HPT TRS MI-135, Inc.	280,224	-	-	-	280,224
Total Liabilities	651,217	33,857	-	866	685,940
FUND BALANCES	198,778	12,205,504	-	1,591,660	13,995,942
Total Liabilities and Fund Balances	$ 849,995	$ 12,239,361	$ -	$ 1,592,526	$ 14,681,882

See notes to financial statements.

ASSOCIATION OF APARTMENT OWNERS OF
MARRIOTT'S KAUA'I RESORT AND BEACH CLUB

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE – OPEARATING FUND

YEAR ENDED DECEMBER 31, 2011

Revenues	
Maintenance fees	$ 15,034,329
Operating finance charges	65,379
Interest income	2,304
Total Revenues	15,102,012
Expenses	
Accounting and administration	689,685
Audit fees	7,154
Bad debt expense	132,464
Business license and registration	1,406
Electricity	4,452,255
Gas	614,017
General excise tax expense	2,615
Housekeeping	1,050,759
Income tax expense	8,356
Insurance	1,621,324
Legal	7,052
Management fee	1,046,457
Recreation and activities	655,024
Rent	349,413
Repairs and maintenance	2,945,028
Water and sewer	1,664,993
Total Expenses	15,248,002
Deficit of revenues over expenses	(145,990)
Fund Balance	
Beginning of year	344,768
End of year	$ 198,778

See notes to financial statements.

ASSOCIATION OF APARTMENT OWNERS OF
MARRIOTT'S KAUA'I RESORT AND BEACH CLUB

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE –
RESERVE FOR REPLACEMENT FUND

YEAR ENDED DECEMBER 31, 2011

Revenues	
Reserve for replacement assessment	$ 2,111,459
Interest income	34,316
Net unrealized loss on investments	(15,871)
Total Revenues	2,129,904
Expenses	
Furniture and fixtures	1,274,336
External building maintenance	10,986
Pavement resurfacing	85,000
Common area rehabilitation	-
Income tax expense	11,590
Total Expenses	1,381,912
Excess of revenues over expenses	747,992
Fund Balance	
Beginning of year	10,754,936
Transfer from the Special Assessment Fund approved by Board of Directors	702,576
End of year	$ 12,205,504

ASSOCIATION OF APARTMENT OWNERS OF
MARRIOTT'S KAUA'I RESORT AND BEACH CLUB

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE –
SPECIAL ASSESSMENT FUND

YEAR ENDED DECEMBER 31, 2011

Revenues	
Storm drain repair revenue	$ -
Total Revenues	-
Expenses	
Storm drain repair expenses	-
Total Expenses	-
Deficit of revenues over expenses	-
Fund Balance	
Beginning of year	702,576
Transfer to the reserve for Replacement Fund approved by Board of Directors	(702,576)
End of year	$ -

See notes to financial statements.

ASSOCIATION OF APARTMENT OWNERS OF
MARRIOTT'S KAUA'I RESORT AND BEACH CLUB

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE –
CIP FUND

YEAR ENDED DECEMBER 31, 2011

Revenues	
Interest income	$ 2,564
Total Revenues	2,564
Expenses	
CIP expenses (Note 7)	199,769
Income tax expense	866
Total Expenses	200,635
Deficit of revenues over expenses	(198,071)
Fund Balance	
Beginning of year	1,789,731
End of year	$ 1,591,660

See notes to financial statements.

ASSOCIATION OF APARTMENT OWNERS OF
MARRIOTT'S KAUA'I RESORT AND BEACH CLUB

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

	Operating Fund	Reserve for Replacement Fund	Special Assessment Fund	CIP Fund	Total
Cash flows from operating activities					
(Deficit) excess of revenues over expenses/expenditures	$ (145,990)	$ 747,992	$ -	$ (198,071)	$ 403,931
Adjustments to reconcile (deficit) excess of revenues over expenses/expenditures to net cash (used in) provided by operating activities:					
Bad debt expense	132,464	-	-	-	132,464
Unrealized loss on fair value instruments	-	15,871	-	-	15,871
Changes in operating assets and liabilities:					
Increase in maintenance fees receivable	(339,264)	(22,267)	-	-	(361,531)
Decrease in accrued interest receivable	-	1,594	-	-	1,594
Decrease (increase) in prepaid expenses and other assets	(69,816)	-	-	-	(69,816)
Decrease in income tax receivable	(737)	-	-	-	(737)
Decrease in due from HPT TRS MI-135, Inc.	2,318,607	-	-	-	2,318,607
Decrease in due from Essex House Condominium Corporation	20,891	-	-	-	20,891
Increase (decrease) in accrued expenses	1,794	-	-	(215,017)	(213,223)
Decrease in income taxes payable	-	(167)	-	(1,773)	(1,940)
Decrease in general excise tax payable	(39)	-	-	-	(39)
Decrease in due to Marriott Vacations Worldwide Corporation/Marriott International	(8,475)	-	-	-	(8,475)
Increase in due to HPT & RS MI-135, Inc.	280,224	-	-	-	280,224
Increase in due to Marriott's Kaua'i Beach Club Owners Association, Inc.	273,885	22,267	-	-	296,152
Increase (decrease) in due (to) from Operating/ Reserve for Replacement/Insurance Settlement/ Special Assessment/CIP Funds	(3,038,536)	3,033,274	-	5,262	-
Net cash (used in) provided by operating activities	(574,992)	3,798,564	-	(409,599)	2,813,973
Cash flows from investing activities					
Purchases of investments	-	(12,105,000)	-	-	(12,105,000)
Proceeds from maturities of investments	-	7,702,123	-	-	7,702,123
Net cash used in investing activities	-	(4,402,877)	-	-	(4,402,877)
Net decrease in cash and cash equivalents	(574,992)	(604,313)	-	(409,599)	(1,588,904)
Cash and cash equivalents					
Beginning of year	927,062	6,277,409	-	2,009,986	9,214,457
End of year	$ 352,070	$ 5,673,096	$ -	$ 1,600,387	$ 7,625,553
Supplemental disclosure of cash flow information					
Cash paid during the year for income taxes	$ 9,093	$ 11,757	$ -	$ 2,639	$ 23,489

See notes to financial statements.

Note 1 – Summary of Significant Accounting Policies

Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club (the "Association") was incorporated on February 17, 1995 in the State of Hawaii. The purpose of the Association is to administer and manage the condominium project created and established as Marriott's Kaua'i Resort and Beach Club condominium project. The complex consists of Marriott's Kaua'i Beach Club Owners Association, Inc. ("VOA"), HPT TRS MI-135, Inc. ("Hotel") and Marriott Kaua'i Ownership Resorts, Inc. ("MKORI") and on February 25, 2011, MKORI transferred its ownership interest in certain real property located in the Kilohana Tower to Essex House Condominium Corporation ("Essex", a subsidiary of Marriott International). The Association was managed under an agreement with Marriott Hotel Services, Inc. ("MHSI") until the year ended December 31, 2008. In 2009, MHSI assigned the management agreement to Essex.

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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Fund - The Association's fees and earnings from operations, which are restricted for the use and benefit of Association members, are recorded in the Operating Fund.

Reserve for Replacement Fund - The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for normal operations.

Essex, on behalf of the Association's Board of Directors ("Board") conducts ongoing studies to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the Supplementary Information on Future Major Repairs and Replacements (Unaudited) is based on these studies.

The Association is funding for major repairs and replacements over the estimated remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the Reserve for Replacement Fund. Accordingly, a funding requirement of $2,336,457 has been included in the 2012 budget.

Funds are being accumulated in the Reserve for Replacement Fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the Reserve for 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, subject to the Board of Directors' approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note 1 – Summary of Significant Accounting Policies (continued)

Special Assessment Fund - As a result of significant rainfall and flooding experienced on the island of Kaua'i during fiscal year 2005, the Association incurred expenses to permanently repair and/or replace the storm drainage system which has been recorded by the Association in the Special Assessment Fund. The Association levied a special assessment to the VOA, Hotel and MKORI to cover these expenses. The expenses net of any special assessment revenues levied to date are reflected as a Special Assessment Fund balance.

An additional special assessment was levied by the Association to the VOA, Hotel and MKORI for the installation of a Combined Heat and Power plant ("CHP"). The assessment was allocated based on the benefit that will be derived from the anticipated savings in electrical costs. The installation of the CHP plant will reduce the resort's dependence on electric consumption from the local utility cooperative and provide a system to heat the pool by capturing and utilizing waste heat.

Capital Improvement Fund - During 2009, the Board of Directors approved the creation of a Capital Improvement Fund ("CIP") to fund additional improvements to the property. The funding of the improvements was created through a special assessment to the VOA, Hotel and MKORI using the cost allocation model appropriate for the type of improvements performed.

Cash and Cash Equivalents - The Association considers money in checking accounts, money market funds, certificates of deposit, and investments with a maturity of three months or less, at date of purchase, to be cash equivalents.

The Association places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers $250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts.

Investments - The Association accounts for its investments in accordance with Accounting Standards Codification ("ASC") 320, *Investments - Debt and Equity Securities*. As of December 31, 2011, investments are carried at amortized cost, as the Association has the intent and ability to hold them until maturity. Investments consist of Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corp. Notes, Federal National Mortgage Notes, Federal Farm Credit Bank Bonds, U.S. Treasury Notes, Certificates of Deposit, and U.S. Treasury Bonds.

Note 1 – Summary of Significant Accounting Policies (continued)

Fair Value Measurements - The Association measures certain assets at fair value in accordance with current accounting standards on fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk on nonperformance. A fair value hierarchy is utilized which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Quoted prices for similar assets and liabilities in active markets or inputs that are observable.
- Level 3 – Inputs that are unobservable (for example, cash flow modeling inputs based on assumptions).

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Association had no investments recorded at fair value on a recurring basis at December 31, 2011.

Maintenance Fees Receivable - Maintenance fees receivable represents an amount due from owners.

Income Taxes - The Association accounts for income taxes in accordance with ASC 740, *Income Taxes*. ASC 740 utilizes the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax impact attributable to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered.

Condominium associations may elect to be taxed as exempt homeowners associations pursuant to Internal Revenue Code Section 528 ("Section 528") if they meet certain income, expenditure, and organizational requirements. Section 528 allows electing condominium associations to be taxed at a 32% rate on their "homeowners association taxable income," which is the excess of the association's gross income, excluding "exempt function income," over related deductions. "Exempt function income" includes membership dues, fees and assessments (less related expenses) from owners of condominium rights to use, or condominium ownership interests in, real property.

Note 1 – Summary of Significant Accounting Policies (continued)

The Association made this election for 2011; accordingly, deferred taxes have not been provided for temporary differences related to exempt function income. Should the Association not elect to be taxed as an exempt homeowners association in the future, deferred tax assets and liabilities may be recognized for existing temporary differences at that time, with a corresponding impact on income tax expense.

The Association has evaluated the effect of the guidance provided by generally accepted accounting principles related to accounting for uncertainty in income taxes. The Association has determined that the Association had no uncertain income tax positions that could have a significant effect on the financial statements for the year ended December 31, 2011. The Association's federal income tax returns since 2008 are subject to examination by the Internal Revenue Service; generally for a period of three years after the federal income tax returns were filed.

Cost Allocation Methodology - The complex consists of the VOA, the Hotel, MKORI and Essex. The hotel back office accounting system is utilized to record all expenses of these four entities. At the end of each month, allocations are made based on different methodologies to credit the hotel books and allocate costs to the timeshare and condominium operations.

These allocations are calculated utilizing a methodology developed by the management company (currently Essex). This methodology was based on the registration documents completed by a private consultant in 1994 in order to register the property as a condominium with a hotel and timeshare operation.

The various allocation methodologies are documented in the management company's standard operating procedures. Examples of the major allocation bases are: 1) check-ins, 2) bays cleaned, 3) guest mix, and 4) square footage ownership.

Subsequent Events - The Association has considered subsequent events through May 29, 2012, the date the financial statements were available to be issued, in connection with the preparation of these financial statements.

Note 2 – Investments

Investments are classified as follows at December 31, 2011:

	Amortized Cost	Fair Market Value
Federal Farm Credit Bank Bonds	$ 58,290	$ 59,182
Federal Home Loan Bank Bonds	331,032	333,395
Federal Home Loan Mortgage Corp.	283,438	285,746
Federal National Mortgage Assn. Notes	78,947	79,709
Certificates of deposit	4,450,000	4,442,320
U.S. Treasury Notes	1,168,417	1,176,646
	$ 6,370,124	$ 6,376,998

The contractual maturities of investments at December 31, 2011 are as follows:

	Amortized Cost	Fair Market Value
Due within one year	$ 3,184,811	$ 3,187,238
Due after one year through five years	3,185,313	3,189,760
Total	$ 6,370,124	$ 6,376,998

The investments had an unrealized loss of $15,871 for the year ended December 31, 2011 which is included in the Statement of Revenues, Expenditures, and Changes in Fund Balance - Reserve for Replacement Fund.

Note 3 – Income Taxes

The provision for income taxes consisted of the following for the year ended December 31, 2011:

	Total	Operating Fund	Reserve for Replacement Fund	CIP Fund
Federal	$ 19,789	$ 8,296	$ 10,694	$ 799
State	1,023	60	896	67
	$ 20,812	$ 8,356	$ 11,590	$ 866

Note 3 – Income Taxes (continued)

The Association is taxed only on interest and investment income, net of related expenses, in the Statements of Revenues, Expenses and Changes in Fund Balance – Operating, Reserve for Replacement and CIP Funds.

The financial position and results of operations of the Insurance Settlement Fund and Special Assessment Fund represent exempt function activities and, therefore, no provision for income taxes is required.

The difference between the provision for income taxes as presented, and the provision calculated by applying the statutory federal rate to (deficit) excess of revenues over expenses/expenditures, primarily relates to the use of applicable graduated federal tax rates.

Note 4 – Management Agreement

The Association entered into a management agreement with MHSI as the management company during 1994 for a term of one year with automatic one-year renewals unless sooner terminated by written notice or applicable law. The management company is responsible for the management, maintenance and operations of the facilities, in exchange for an annual fee of 6 1/2% of the annual budget of the Association, including replacement reserves contributions but excluding the management company's compensation. During 2009, MHSI assigned the management agreement to Essex. The management fee was $1,046,457 during the year ended December 31, 2011.

Note 5 – Leases

The Association leases land, buildings, vehicles and equipment under operating leases which range in expiration dates through 2060. The following is a schedule of future minimum rental payments under the operating leases having a remaining noncancelable term in excess of one year as of December 31, 2011:

Years Ending	
2012	$ 324,157
2013	261,719
2014	232,616
2015	232,616
2016	232,616
Thereafter	10,060,642
	$ 11,344,366

Rent expense under the operating leases for the year ended December 31, 2011 was approximately $349,413 and is included in the Statement of Revenues, Expenses, and Changes in Fund Balance – Operating Fund.

Note 6 – Special Assessment Fund

In October 2006 and September 2005, the Association levied a Special Assessment of $11,200,011 and $13,100,000, respectively, to fund the replacement of the resort's storm drainage system. The Assessment pertaining to the respective ownership groups is in the same ratio as the General Common Element Allocation percentages for the resort.

The original estimated costs to complete the Storm Drain Replacement project was approximately $13,100,000 which has been allocated to the entities as described above. As of December 31, 2007, the Association updated the estimated costs to complete the Storm Drain Replacement project to be approximately $24,000,000. The Storm Drain Replacement project was completed as of the year ended December 31, 2009. Total expenses incurred for the Storm Drain Replacement was $0 and $215,530 for the years ended December 31, 2011 and 2010, respectively, and is in the Statements of Revenues, Expenses, and Changes in Fund Balance – Special Assessment Fund. The Association did not incur any additional expenses during the year ended December 31, 2011 and the Board of Directors approved the remaining fund balance of $702,576 to be transferred to the reserve for Replacement Fund.

The Board of Directors dissolved the Special Assessment Fund during 2011.

Note 7 – Capital Improvement Fund

During the year ended December 31, 2009, the Board of Directors approved and assessed the creation of a Capital Improvement Fund ("CIP") in the amount of $10,655,684 to fund desired improvements to the property. The scope included the extension of the Porte Cochere, expansion of the Keiki pool, painting of the buildings, property signage, replacement of the pool deck and other repairs and enhancements. The work began in 2009 and was completed by the end of 2011. The allocation of the $10,655,684 assessment is as follows:

Hotel	$	6,343,434
VOA		4,231,702
MKORI		80,548
	$	10,655,684

During 2009, in order to pay the assessment for the CIP fund, the Association notified the VOA owners through the form of a mailer, to apply the settlement funds of $4,989,618 to the above assessment of $4,231,702 with the difference of $757,916 being assessed to the VOA owners through the form of a separate VOA assessment.

The expenses incurred during the year ended December 31, 2011 for the project was $199,769 and are on the Statement of Revenues, Expenses, and Changes in Fund Balance - Capital Improvement Fund. For the year ending December 31, 2012, no additional expenses are expected.

Note 8 – Related Party Transactions

The Hotel pays certain expenses on behalf of the Association for which the Association will reimburse the Hotel. The amount due to the Hotel at December 31, 2011 was $280,224.

The amount due to the VOA at December 31, 2011 was $296,152.

On November 21, 2011 (the "Spin-Off Date"), Marriott International, Inc. ("MI"), the then indirect parent company of Marriott Resorts Hospitality Corporation ("MRHC"), completed the spin-off of its vacation ownership operations and related residential business to Marriott Vacations Worldwide Corporation ("MVWC"), a new publicly traded company separate and independent from MI. Prior to the Spin-Off Date, MI paid certain expenses on behalf of the Association, subject to reimbursement by the Association. Subsequent to the Spin-Off Date, MVWC, the current indirect parent company of MRHC, pays certain expenses on behalf of the Association, subject to reimbursement by the Association. The amount due from the Association to MVWC at December 31, 2011 was $4,640.

Note 9 – Concentration of Credit Risk

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Association maintains its cash and cash equivalents and investments with what the Board of Directors believes to be a high credit quality financial institution. In addition, the Board of Directors maintains its investments in a portfolio that it believes limits the amount of market exposure.

In an effort to fulfill their fiduciary responsibility to protect and maintain assets for the Association, the Board of Directors for the Association has implemented a formal investment policy statement in reference to all cash, cash equivalents and investable funds for the reserve for replacement and operating funds. The investment policy statement stipulates that all funds shall be invested in federally insured or guaranteed vehicles with no risk to principal as long as these investments are held to maturity.

Since the Board of Directors has incorporated an analysis that identifies the use of these funds at specific times and the investments are structured with maturity dates to coincide with these anticipated expenditures; notwithstanding emergencies not under the control of the Board of Directors, the Association is able to and prepared to hold to these investments to their stated maturity dates.

SUPPLEMENTARY INFORMATION

ASSOCIATION OF APARTMENT OWNERS OF
MARRIOTT'S KAUA'I RESORT AND BEACH CLUB

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2011
(UNAUDITED)

On behalf of the Board of Directors, a study was completed during 2009 to estimate the remaining useful lives and the replacement costs of the components of common property.

The following table is based on the study with subsequent review by the Board of Directors and presents significant information about the components of common property:

	Estimated Remaining Usefule Lives (Years)	Estimated Current Replacement Costs	2012 Funding Requirement	Components of Fund Balance at December 31, 2011
Roof replacement	13	$ 3,069,779	$ 103,720	$ 667,029
Furniture and fixtures	10	27,215,235	1,195,405	6,518,267
Exterior building maintenance	11	2,786,856	111,282	621,737
Pavement resurfacing	4	3,426,574	376,273	1,145,891
Common are rehabilitation	9	11,264,865	549,777	3,252,580
		$ 47,763,309	$ 2,336,457	$ 12,205,504

MARRIOTT'S KAUA'I BEACH CLUB
OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2011

MARRIOTT'S KAUA'I BEACH CLUB
OWNERS ASSOCIATION, INC.

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CHERRY BEKAERT & HOLLAND
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Report of Independent Certified Public Accountants

To the Board of Directors of
Marriott's Kaua'i Beach Club Owners Association Inc.

We have audited the accompanying balance sheet of Marriott's Kaua'i Beach Club Owners Association Inc. (the "Association") as of December 31, 2011, and the related statements of revenues, expenses and changes in fund balance – operating fund, revenues, expenses and changes in fund balance – reserve for replacement fund, revenues, expenses and changes in fund balance – insurance settlement fund, revenues, expenses and changes in fund balance – special assessment, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements on page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cherry, Bekaert & Holland, L.L.P.

Tampa, Florida
May 29, 2012

MARRIOTT'S KAUA'I BEACH CLUB
OWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2011

	Operating Fund	Reserve for Replacement Fund	Insurance Settlement Fund	Special Assessment Fund	Total
ASSETS					
Cash and cash equivalents	$ 8,549,915	$ 2,858,792	$ -	$ -	$ 11,408,707
Investments	245,000	5,011,850	-	-	5,256,850
Maintenance fees receivable, less allowance for doubtful accounts of approximately $216,000 in 2011	256,873	118,680	-	-	375,553
Accrued interest receivable	6	14,654	-	-	14,660
Prepaid expenses and other assets	77,470	-	-	-	77,470
Income tax receivable	67,662	-	-	-	67,662
Due from Marriott Vacations Worldwide Corporation/Marriott International	732,000	-	-	-	732,000
Due from Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club	296,152	-	-	-	296,152
Due to Operating Fund	-	(16,505)	-	-	(16,505)
Due from Reserve for Replacement Fund	16,505	-	-	-	16,505
Total Assets	$ 10,241,583	$ 7,987,471	$ -	$ -	$ 18,229,054
LIABILITIES AND FUND BALANCES					
Accrued expenses	$ 17,129	$ 122,511	$ -	$ -	$ 139,640
Unearned maintenance fees	3,767,033	598,787	-	-	4,365,820
GET tax payable	21,775	-	-	-	21,775
Income taxes payable	-	29,170	-	-	29,170
Due to HPT TRS MI-135, Inc.	514,375	-	-	-	514,375
Total Liabilities	4,320,312	750,468	-	-	5,070,780
FUND BALANCES	5,921,271	7,237,003	-	-	13,158,274
Total Liabilities and Fund Balances	$ 10,241,583	$ 7,987,471	$ -	$ -	$ 18,229,054

See notes to financial statements.

MARRIOTT'S KAUA'I BEACH CLUB
OWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE –
OPERATING FUND

YEAR ENDED DECEMBER 31, 2011

Revenues	
Maintenance fees	$ 15,927,973
Association of Apartment Owners of Marriott Kaua'i Resort and Beach Club assessment	(7,387,787)
Maintenance fees, net	8,540,186
Interest	14,808
Week 53 income	33,286
Settlement agreement (Note 9)	435,484
Miscellaneous income	29,347
Late fee income and finance charges	212,018
Total Revenues	9,265,129
Expenses	
Accounting and administration	850,444
Audit fees	8,154
Bad debt expense	88,507
Billing and collection expense	97,920
Board of Directors' expense	15,454
Cable television	62,234
Credit card	297,620
Front desk	925,766
General excise tax	465,257
Housekeeping	1,845,108
Income tax expense	176,052
Insurance	6,501
Legal	17,627
Loss prevention	5,031
Maintenance	825,651
Management fee	865,860
Owner services	354,720
Postage and printing	49,744
Real estate and property taxes	985,125
Total Expenses	7,942,775
Excess of revenues over expenses	1,322,354
Fund Balance	
Beginning of year	4,598,917
End of year	$ 5,921,271

See notes to financial statements.

MARRIOTT'S KAUA'I BEACH CLUB
OWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE –
RESERVE FOR REPLACEMENT FUND

YEAR ENDED DECEMBER 31, 2011

Revenues	
Reserve for replacement assessment	$ 2,541,770
Late fee income	26,280
Interest income	86,076
Unrealized loss on investments	(40,150)
Total Revenues	2,613,976
Expenditures	
Furniture and fixtures	280,795
Income tax expense	28,917
Total Expenses	309,712
Excess of revenues over expenses	2,304,264
Fund Balance	
Beginning of year	4,937,437
Transfer to the Special Assessment Fund approved by the Board of Directors	(4,698)
End of year	$ 7,237,003

See notes to financial statements.

MARRIOTT'S KAUA'I BEACH CLUB
OWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE –
INSURANCE SETTLEMENT FUND

YEAR ENDED DECEMBER 31, 2011

Revenues	
Reserve for replacement assessment	$ -
Total Revenues	-
Expenses	
Insurance settlement refund	-
Total Expenses	-
Excess of revenues over expenses	-
Fund Balance	
Beginning of year	-
End of year	$ -

See notes to financial statements.

MARRIOTT'S KAUA'I BEACH CLUB
OWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE –
SPECIAL ASSESSMENT FUND

YEAR ENDED DECEMBER 31, 2011

Revenues	
Return of surplus	$ -
Total Revenues	-
Expenses	
Storm drain repair expenses	-
Total Expenses	-
Excess of revenues over expenses	-
Fund Balance	
Beginning of year	(4,698)
Transfer from the Reserve for Replacement Fund approved by the Board of Directors	4,698
End of year	$ -

See notes to financial statements.

MARRIOTT'S KAUA'I BEACH CLUB
OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2011

	Operating Fund	Reserve for Replacement Fund	Insurance Settlement Fund	Special Assessment Fund	Total
Cash flows from operating activities					
Excess of revenues over expenses/expenditures	$ 1,322,354	$ 2,304,264	$ -	$ -	$ 3,626,618
Adjustments to reconcile excess of revenues over expenses/expenditures to net cash (used in) provided by operating activities:					
Bad debt expense	88,507	-	-	-	88,507
Unrealized loss (gain) on fair value instruments	-	40,150	-	-	40,150
Changes in operating assets and liabilities:					
Decrease in maintenance fees receivable	362,939	26,573	-	-	389,512
(Increase) decrease in accrued interest receivable	(6)	1,029	-	-	1,023
Increase in prepaid expenses and other assets	(3,233)	-	-	-	(3,233)
Increase in income tax receivable	(67,662)	-	-	-	(67,662)
Increase in due from Marriott Vacations Worldwide Corporation/Marriott International	(430,545)	-	-	-	(430,545)
Decrease in due from Essex House Corporation	22,582	-	-	-	22,582
Increase in due from Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club	(296,152)	-	-	-	(296,152)
Increase in accrued expenses	17,129	122,511	-	-	139,640
Decrease in unearned maintenance fees	(222,628)	(34,034)	-	-	(256,662)
Decrease in GET tax payable	(102,347)	-	-	-	(102,347)
(Decrease) increase in income taxes payable	(13,785)	468	-	-	(13,317)
Increase in due to HPT TRS MI-135, Inc.	133,447	-	-	-	133,447
Decrease in due to Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club	(1,206)	-	-	-	(1,206)
Increase (decrease) in due (from) to Operating/ Reserve for Replacement/Insurance Settlement/Special Assessment Funds	2,970,708	(2,970,708)	-	-	-
Net cash provided by (used in) operating activities	3,780,102	(509,747)	-	-	3,270,355
Cash flows from investing activities					
Purchases of investments	(20,025,000)	(10,385,430)	-	-	(30,410,430)
Proceeds from maturities of investments	21,155,000	9,663,000	-	-	30,818,000
Net cash used in investing activities	1,130,000	(722,430)	-	-	407,570
Net increase (decrease) in cash and cash equivalents	4,910,102	(1,232,177)	-	-	3,677,925
Cash and cash equivalents					
Beginning of year	3,639,813	4,090,969	-	-	7,730,782
End of year	$ 8,549,915	$ 2,858,792	$ -	$ -	$ 11,408,707
Supplemental disclosure of cash flow information					
Cash paid during the year for income taxes	$ 257,499	$ 28,449	$ -	$ -	$ 285,948

See notes to financial statements.

Note 1 – Summary of Significant Accounting Policies

Marriott's Kaua'i Beach Club Owners Association, Inc. (the "Association") was incorporated on February 20, 1995 in the State of Hawaii, and commenced operations on October 1, 1995. The purpose of the Association is to administer and manage the vacation ownership program created and established as Marriott's Kaua'i Beach Club Vacation Ownership Program at the Marriott's Kaua'i Resort and Beach Club condominium project (the "Ownership Condominium"). As of December 31, 2011 and 2010, the Ownership Condominium consisted of 12,000 unit weeks. The Association's declaration of interval ownership provides that each unit week owner has an undivided interest in the facilities, and, accordingly, the condominium assets are not recorded on the financial records of the Association. The Association is managed under an agreement with Marriott Resorts Hospitality Corporation ("MRHC"). Under an on-site management agreement, MRHC delegates on-site management of the Association to Marriott Hotels Services, Inc. ("MHSI"). MHSI was the management company until it was assigned to Essex House Condominium Corporation ("Essex") during 2009, a subsidiary of Marriott International.

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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Fund - The Association's fees and earnings from operations, which are restricted for the use and benefit of Association members, are recorded in the Operating Fund.

Reserve for Replacement Fund - The Association is accumulating funds for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for normal operations.

Essex, on behalf of the Association's Board of Directors (the "Board") engages a third-party vendor to conduct ongoing studies to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on these studies.

The Association is providing funding for major repairs and replacements over the estimated remaining useful lives of the components based on the estimates of current replacement costs and considering amounts previously accumulated in the Reserve for Replacement Fund. Accordingly, the funding requirement of $2,385,659 has been included in the 2012 budget.

Funds are being accumulated in the Reserve for Replacement Fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the Reserve for 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, subject to the Board of Directors' approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note 1 – Summary of Significant Accounting Policies (continued)

Insurance Settlement Fund - As a result of significant rainfall and flooding experienced on the island of Kaua'i during fiscal 2005, the storm drainage system that services the Association, HPT TRS MI-135, Inc. (the "Hotel"), Marriott Kaua'i Ownership Resorts, Inc. ('MKORI") and the Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club, Inc. (the "AOAO") collapsed resulting in numerous sinkholes forming in the back dock, porte cochere and parking lot areas. The expenses for the temporary remediation and repairs of sinkholes and damage resulting from the flooding are recorded in the AOAO and the Association's share of the expenses reimbursed by insurance proceeds were allocated and recorded by the Association in the Insurance Settlement Fund based on agreed-upon General Common Element Allocation percentages.

Special Assessment Fund - In addition to those expenses noted immediately above, expenses incurred to permanently repair/replace the storm drainage system are recorded in the AOAO. The Association's share has been allocated in the form of Special Assessments levied by the AOAO and based on the agreed upon General Common Element Allocation percentages. The assessed expense is recorded by the Association in the Special Assessment Fund. At the Association's annual meeting held on October 13, 2005, the Association elected to obtain a loan from a financial institution and repay the loan amount over a three-year period. The Association has assessed each unit week holder a special assessment to repay the loan over a three year period beginning in fiscal 2006 (Note 6). The Special Assessment Fund recorded the special assessment revenues collected from the unit week holders, the loan interest and other related expenses as well as the Associations share of the total replacement/repair costs allocated by the AOAO.

An additional special assessment was levied by the AOAO for the installation of a Combined Heat and Power plant ("CHP"). The assessment was allocated based on the benefit that will be derived from the anticipated savings in electrical costs. The installation of the CHP plant will reduce the dependence on electric consumption from the local utility cooperative and provide a system to heat the pool by capturing and utilizing waste heat.

Cash and Cash Equivalents - The Association considers money in checking accounts, money market funds, certificates of deposit, and investments with a maturity of three months or less, at date of purchase, to be cash equivalents.

The Association places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers $250,000 for substantially all depository accounts and temporarily provides unlimited coverage through December 31, 2012 for certain qualifying and participating non-interest bearing transaction accounts.

Maintenance Fees Receivable - Maintenance fees receivable represents an amount due from owners. Effective January 1, 2010, the Association entered into a Foreclosed Inventory Purchase Agreement with Marriott Ownership Resorts, Inc. ("MORI"). This agreement shall automatically renew for an additional one (1) year term, unless either party terminates the agreement with a 45-day written notice. The agreement provides that MORI shall purchase the Association's foreclosed inventory subject to the terms of the agreement. Should either party terminate the agreement, there could be potential exposure regarding the allowance for doubtful accounts and bad debt expense.

Note 1 – Summary of Significant Accounting Policies (continued)

Investments - The Association holds certificates of deposit and accounts for them according to Accounting Standards Codification ("ASC") 320, *Investments - Debt and Equity Securities*. The investments are carried at amortized cost, as the Association has the intent and ability to hold them until maturity. Certificates of deposits are considered depository accounts and are insured by the FDIC.

Certain investments held by the Association consist of equity-linked certificates of deposit which are principal protected structured products. At maturity, the Association will receive their principal plus a "supplemental payment" or minimum interest if any, that is based on the performance of an underlying index or market measure. These investments are bank issued certificates of deposit that are insured by the FDIC up to $250,000 per certificate of deposit.

Equity-linked certificates of deposit are accounted for in accordance with ASC 815, *Derivatives and Hedging Embedded Derivatives*. These financial instruments are adjusted to fair value under the "Fair Value Option" at the end of each period, with unrealized gains or losses shown as a component of revenues. The "Fair Value Option" selected by the Association is considered to provide a more transparent presentation to users of the financial statements. These investments have been included in the investments caption in the balance sheet.

Fair Value Measurements - The Association measures certain assets at fair value in accordance with current accounting standards on Fair Value Measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). A fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. A fair value hierarchy is utilized which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels may be used to measure fair value:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – quoted prices for similar assets and liabilities in active markets or inputs that are observable.
- Level 3 – inputs that are unobservable (for example cash flow modeling inputs based on assumptions).

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Note 1 – Summary of Significant Accounting Policies (continued)

The following table summarizes the Association's investments recorded at fair value on a recurring basis at December 31, 2011:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity-linked certificates of deposit	$ -	$ 459,850	$ -	$ 459,850

Unearned Maintenance Fees - Maintenance fees for all unit weeks are receivables as of the beginning of each timeshare year. Unearned maintenance fees represent prepayment of the next year's maintenance fees. The fees for the unit weeks prior to the Association's year-end are classified as revenues; the remainders are considered unearned maintenance fees.

Income Taxes - The Association accounts for income taxes in accordance with ASC 740, *Income Taxes*. ASC 740 utilizes the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax impact attributable to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered.

Timeshare associations may elect to be taxed as exempt homeowners associations pursuant to Internal Revenue Code Section 528 ("Section 528") if they meet certain income, expenditure, and organizational requirements. Section 528 allows electing timeshare associations to be taxed at a 32% rate on their "homeowners association taxable income," which is the excess of the association's gross income, excluding "exempt function income," over related deductions. "Exempt function income" includes membership dues, fees, and assessments (less related expenses) from owners of timeshare rights to use, or timeshare ownership interests in, real property.

The Association made this election for 2011; accordingly, deferred taxes have not been provided for temporary differences related to exempt function income. Should the Association not elect to be taxed as an exempt homeowners association in the future, deferred tax assets and liabilities may be recognized for existing temporary differences at that time, with a corresponding impact on income tax expense.

The Association has evaluated the effect of the guidance provided by generally accepted accounting principles related to accounting for uncertainty in income taxes. The Association has determined that the Association had no uncertain income tax positions that could have a significant effect on the financial statements for the year ended December 31, 2011. The Association's federal income tax returns since 2008 are subject to examination by the Internal Revenue Service; generally for a period of three years after the federal income tax returns were filed.

Note 1 – Summary of Significant Accounting Policies (continued)

Cost Allocation Methodology - The complex is comprised of HPT TRS MI-135, Inc. (the "Hotel"), the Association, Marriott Kaua'i Ownership Resorts, Inc. ("MKORI") and Essex. The Hotel's back office accounting system is utilized to record all expenses of these four entities. At the end of each month, allocations are made based on different methodologies to credit the Hotel books and allocate costs to the timeshare and condominium operations.

These allocations are calculated utilizing a methodology developed by the management company (currently Essex). This methodology was based on the registration documents completed by a private consultant in 1994 in order to register the property as a condominium with a hotel and timeshare operation.

The various allocation methodologies are documented in the management company's standard operating procedures. Examples of the major allocation bases are: 1) check-ins, 2) bays cleaned, 3) guest mix, and 4) square footage ownership.

Subsequent Events - The Association has considered subsequent events through May 29, 2012, the date the financial statements were available to be issued, in connection with the preparation of these financial statements.

Note 2 – Investments

Investments are classified as follows at December 31, 2011:

	Amortized Cost	Fair Market Value
Equity-linked certificates of deposit	$ 500,000	$ 459,850
Certificates of deposit	4,797,000	4,848,010
	$ 5,297,000	$ 5,307,860

*Investments on the Balance Sheet is the sum of the fair market value of the equity-linked certificates of deposit and the amortized cost of the certificates of deposit.

Note 2 – Investments (continued)

The contractual maturity of investments held-to-maturity at December 31, 2011 are as follows:

	Amortized Cost	Fair Market Value
Due within one	$ 735,000	$ 734,896
Due after one year through five years	4,562,000	4,572,964
Total	$ 5,297,000	$ 5,307,860

The equity-linked certificates of deposit had an unrealized loss of ($40,150) for the year ended December 31, 2011, which are included in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Reserve for Replacement Fund.

Note 3 – Income Taxes

The provision for income taxes consisted of the following for the year ended December 31, 2011:

	Total	Operating Fund	Reserve for Replacement Fund
Federal	$ 170,299	$ 143,772	$ 26,527
State	34,670	32,280	2,390
	$ 204,969	$ 176,052	$ 28,917

The difference between the provision for income taxes as presented, and the provision calculated by applying the statutory federal rate to excess of revenues over expenses, primarily relates to state income taxes and the exclusion of exempt function income.

The financial position and results of operations of the Insurance Settlement Fund and Special Assessment Fund represent exempt function activities and, therefore, no provision for income taxes is required.

Note 4 – Management Agreement

The Association has entered into a management agreement with MRHC, as the management company, for a term of three years with automatic one-year renewals unless sooner terminated by written notice or applicable law. MHSI is responsible for the management, maintenance and operations of the facilities, in exchange for an annual fee of 10% of the annual budget of the Association, less certain charges identified in the agreement. During 2009, MHSI assigned the management agreement to Essex. The management fee was $865,860 during the year ended December 31, 2011 and is recorded in the Statement of Revenues, Expenses and Changes in Fund Balance - Operating Fund.

Note 5 – Insurance Settlement Fund

In early 2005, the island of Kaua'i experienced significant levels of rainfall. During one such rainfall on January 1, 2005 portions of the resort's storm drainage system collapsed resulting in a number of sinkholes forming in the back dock, porte cochere and parking lot areas. Subsequent heavy rains resulted in flooding inside the resort on January 8, 2005 and February 2, 2005 as the damaged drainage system could not handle the water flow. The expenses for the temporary remediation and repairs are divided into three separate events with the sinkholes being the vast majority of the overall expenses.

Expenses for the temporary repairs and remediation to common areas have been recorded on the AOAO's Statements of Revenues, Expenses and Changes in Fund Balance – Insurance Settlement Fund. Pending final resolution and payment from the insurance carrier, a liability was recorded from the Association to the AOAO for their portion of the expenses. Total expenses incurred by the AOAO, net of insurance claim proceeds of $1,493,043, through December 31, 2010 was $2,791,688. The net expenses incurred by AOAO were allocated based on the Association's General Common Element Allocation percentage of 46.83%.

In January 2010, the AOAO's management finalized the settlement with the insurance company for $447,566 which was received in April 2010. The Association's portion of the settlement was $209,595. The AOAO no longer anticipates any further expenses for the insurance fund, and both the Association's Board of Directors and AOAO's Board of Directors, have dissolved the respective insurance funds during 2011.

Note 6 – Special Assessment Fund and Note Payable

In October 2006 and September 2005, the Association was assessed $5,250,000 and $6,145,000, respectively, for its portion of the cost to replace the resort's storm drainage system. The option to obtain a loan and repay over a three year period was selected by popular vote at the annual meeting on October 13, 2005. In February 2006, the Association entered into a promissory note with the Bank of Hawaii in the amount of $6,145,000, and was paid in full with interest at 6.5% in 2009.

Note 6 – Special Assessment Fund and Note Payable (continued)

The original estimated costs to complete the Storm Drain Replacement project were approximately $13,100,000 which is an AOAO expense. The Association's share has been allocated based on the agreed-upon General Common Element allocation percentages. However, subsequent to December 31, 2007, the AOAO updated the estimated costs to complete the Storm Drain Replacement project to be approximately $24,000,000, which is the best estimate of the projected costs at the time. The Storm Drain Replacement project has been completed as of December 31, 2010.

The AOAO incurred expenses of $0 and $215,530 in 2011 and 2010, respectively, for the Storm Drain Replacement project. These expenses are allocated to the Association based on the General Common Element Allocation percentage of 46.83%, which totaled $0 and $100,933 in 2011 and 2010, respectively. The amount recorded as storm drain repair expense is the amount remitted to the AOAO for the special assessment levied in October 2006 that was utilized to fund the expenses incurred in 2009 and 2010.

During 2009, the AOAO approved a special assessment of $1,774,600, of which the Association's portion, as per the General Common Element Allocation percentage, was $826,750.

During 2010, the Association's Board of Directors approved a surplus return of $1,074,385. As a result of the project being completed, the Association's Board of Directors has elected in 2011 to transfer an amount of $4,698 from the reserve for replacement fund to the special assessment fund to cover the current fund deficit, and has dissolved the fund.

Note 7 – Related Party Transactions

Certain services, including accounting and administration, and reservations, are provided by MRHC and allocated to the Association based on the number of unit weeks, as a percentage of total unit weeks the respective service covers. The Hotel pays certain expenses on behalf of the Association for which the Association will reimburse the Hotel. The amount due to the Hotel at December 31, 2011 was $514,375. The amount due from the AOAO at December 31, 2011 was $296,152.

On November 21, 2011 (the "Spin-Off Date"), Marriott International, Inc. ("MI"), the then indirect parent company of Marriott Resorts Hospitality Corporation ("MRHC"), completed the spin-off of its vacation ownership operations and related residential business to Marriott Vacations Worldwide Corporation ("MVWC"), a new publicly traded company separate and independent from MI. Prior to the Spin-Off Date, MI paid certain expenses on behalf of the Association, subject to reimbursement by the Association. Subsequent to the Spin-Off Date, MVWC, the current indirect parent company of MRHC, pays certain expenses on behalf of the Association, subject to reimbursement by the Association. The amount due to the Association from MVWC at December 31, 2011 was $732,000.

Note 8 – Concentrations of Credit Risk

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Association maintains its cash and cash equivalents and investments with what the Board of Directors believes to be a high credit quality financial institution. In addition, the Board of Directors maintains its investments in a portfolio that it believes limits the amount of market exposure.

In an effort to fulfill their fiduciary responsibility to protect and maintain assets for the Association, the Board of Directors for the Association has implemented a formal investment policy statement in reference to all cash, cash equivalents and investable funds for the reserve for replacement and operating funds. The investment policy statement stipulates that all funds shall be invested in federally insured or guaranteed vehicles with no risk to principal as long as these investments are held to maturity.

Since the Board of Directors has incorporated an analysis that identifies the use of these funds at specific times and the investments are structured with maturity dates to coincide with these anticipated expenditures; notwithstanding emergencies not under the control of the Board of Directors, the Association is able to and prepared to hold to these investments to their stated maturity dates.

Note 9 – Hawaii Tax Audit

During the year ended December 31, 2009, the Hawaii Department of Taxation ("HDOT") assessed the Association additional General Excise Tax ("GET") on income earned during the fiscal periods ended 2003 through 2006. The total amount of this assessment was approximately $1,504,000. Of this amount, approximately $945,000 was attributed to the AOAO's portion of the budgeted maintenance fees collected by the Association, approximately $79,000 was related to GET payable for Tidy Fee income, approximately $474,000 was attributable to penalties and interest through May 20, 2008, and approximately $6,000 was related to miscellaneous income. The Association estimated interest from May 21, 2008 through the year ended December 31, 2009 to be approximately $172,000 and had credits in the year ended December 31, 2009 of approximately $109,000, and recorded the total GET expense for the years ended 2003 to 2006 of approximately $1,567,000.

As a result of being placed on notice by the state of Hawaii, the Association recorded an additional expense of approximately $1,048,000 for the periods 2007 through 2009. The standard GET expense for 2009 is approximately $569,000. Therefore, the total expense for GET recorded during the year ended December 31, 2009 was approximately $3,184,000, which was recorded in the Statements of Revenues, Expenses and Changes in Fund Balance - Operating Fund. The Association paid to the State of Hawaii during the year ended December 31, 2009 of approximately $635,000, and had previously accrued for $658,000 for the year ended December 31, 2008. The GET expense liability at December 31, 2009 was approximately $3,207,000.

Note 9 – Hawaii Tax Audit (continued)

On April 14, 2011, HDOT and the Association entered into a settlement agreement with regards to the 2003 through 2009 tax years, as well as tax treatment for the 2010 and 2011 tax years. As part of this settlement agreement, the Association was required to pay $261,065 to HDOT, which satisfied any and all claims and GET for the years 2004 through 2009. In addition, as per the settlement agreement, the Association is not subject to GET on the AOAO maintenance fee assessments for the tax years 2010 and 2011.

On July 31, 2011, MRHC and the Association entered into a settlement agreement with regards to the 2003 through 2009 tax years. As part of this settlement agreement, the Association received $552,000 from MRHC which satisfied any and all potential claims that relate to the assessments for the years 2003 through 2009. Prior to the settlement agreement, MHRC had reimbursed the Association approximately $117,000 related to the tidy fee settlement with HDOT. The remaining amount of $435,484 is shown in the Statement of Revenues, Expenses, and Changes in Fund Balance – Operating Fund.

The GET expense incurred in the amount of $465,257 and the GET payable of $21,775 as of December 31, 2011 are a result of normal business operations for the year ended December 31, 2011 and are not related to the Hawaii tax audit.

SUPPLEMENTARY INFORMATION

MARRIOTT'S KAUA'I BEACH CLUB
OWNERS ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2011
(UNAUDITED)

On behalf of the Board of Directors, a study was completed during 2009 to estimate the remaining useful lives and the replacement costs of the components of common property.

The following table is based on the study with subsequent review by the Board of Directors and presents significant information about the components of common property:

	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	2012 Funding Requirement	Components of Fund Balance at December 31, 2011
Furniture and fixtures	4	$ 15,214,192	$ 2,385,659	$ 7,237,003

Association of Apartment Owners of Marriott's Kauai Resort and Beach Club
Board of Directors

Name/Address	Phone/Fax/E-mail	Office	Term
Neil Petersen c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-245-5050 Fax: 808-245-2993 Mhrskauaihawaiigms@marriott.com	President	2011-2014
Arthur Gillespie c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-245-5050 Fax: 808-245-2993 Mhrskauaihawaiigms@marriott.com	Vice President	2009-2012
Chris Tatum c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-245-5050 Fax: 808-245-2993 Mhrskauaihawaiigms@marriott.com	Secretary/Treasurer	2009-2012

Marriott's Kauai Beach Club Owners Association
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Arthur Gillespie c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-245-5050 Fax: 808-245-2993 Mhrskauaihawaiigms@marriott.com	President	2009-2012
George Hammond c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-245-5050 Fax: 808-245-2993 Mhrskauaihawaiigms@marriott.com	Vice President	2010-2013
Henry Lum c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-245-5050 Fax: 808-245-2993 Mhrskauaihawaiigms@marriott.com	Secretary/Treasurer	2009-2012
Albert Kanahele c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-245-5050 Fax: 808-245-2993 Mhrskauaihawaiigms@marriott.com	Director	2011-2014
Linda Pond c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-245-5050 Fax: 808-245-2993 Mhrskauaihawaiigms@marriott.com	Director	2010-2013