

April 2020

Dear Marriott's Waiohai Beach Club Owner,

The audited 2019 Financial Statements report for Association of Apartment Owners of Waiohai Beach Club are enclosed. This report is being provided to you as outlined in the Association governing documents and Hawaii State Statutes.

If you have questions, please contact Tracey Kupihea, Director of Finance, via email at [tracey.kupihea@vacationclub.com](mailto:tracey.kupihea@vacationclub.com). You may also contact your Board of Directors by phone at the business office of the Association at 808-742-4400 or via email at [waiohaiownerboard@vacationclub.com](mailto:waiohaiownerboard@vacationclub.com).

Sincerely,

*Steven Glen Wischmann*

Secretary/Treasurer

Association of Apartment Owners of Waiohai Beach Club

Enclosure

# **Association of Apartment Owners of Waiohai Beach Club**

**Financial Statements  
December 31, 2019**



# Association of Apartment Owners of Waiohai Beach Club

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December 31, 2019

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## **Report of Independent Auditors**

The Board of Directors of  
Association of Apartment Owners of Waiohai Beach Club

We have audited the accompanying financial statements of Association of Apartment Owners of Waiohai Beach Club (the "Association"), which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses and changes in fund balance - operating fund, revenues, expenditures and changes in fund balance - reserve for replacement fund 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association'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 Association'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 Association of Apartment Owners of Waiohai Beach Club as of December 31, 2019, 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.

The Board of Directors of  
Association of Apartment Owners of Waiohai Beach Club

**Disclaimer of Opinion on Required Supplementary Information**

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



MYERS, BRETT HOLTZ & COMPANY, PA

Fort Myers, Florida

April 2, 2020

**Association of Apartment Owners of Waiohai Beach Club**  
**Balance Sheet**  
**December 31, 2019**

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	<u>Operating Fund</u>	<u>Reserve for Replacement Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,837,596	\$ 1,881,152	\$ 4,718,748
Investments	-	1,357,790	1,357,790
Maintenance fees receivable due from MRHC	134,444	35,424	169,868
Accrued interest receivable	-	7,389	7,389
Prepaid expenses and other assets	299,234	-	299,234
Due from Marriott Vacations Worldwide Corporation	38,340	-	38,340
Fixed assets, net	8,685	-	8,685
Due to Reserve for Replacement Fund	(59,008)	-	(59,008)
Due from Operating Fund	-	59,008	59,008
Total assets	<u>\$ 3,259,291</u>	<u>\$ 3,340,763</u>	<u>\$ 6,600,054</u>
<b>Liabilities and Fund Balances</b>			
Liabilities			
Accrued expenses	\$ 160,595	\$ 146,229	\$ 306,824
Unearned maintenance fees	2,014,866	534,189	2,549,055
State sales tax payable	-	110	110
Income tax payable	9,508	2,439	11,947
Contract liability	-	2,657,796	2,657,796
Total liabilities	<u>2,184,969</u>	<u>3,340,763</u>	<u>5,525,732</u>
Fund balances	<u>1,074,322</u>	<u>-</u>	<u>1,074,322</u>
Total liabilities and fund balances	<u>\$ 3,259,291</u>	<u>\$ 3,340,763</u>	<u>\$ 6,600,054</u>

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

**Association of Apartment Owners of Waiohai Beach Club**  
**Statement of Revenues, Expenses and Changes in Fund Balance – Operating**  
**Fund**  
**Year Ended December 31, 2019**

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<b>Revenues</b>	
Maintenance fees, net	\$ 5,922,416
Interest and late fees	13,333
Bank interest income	32,015
Parking fees	130,730
Acquisition revenue	44,490
Total revenues	<u>6,142,984</u>
<b>Expenses</b>	
Accounting and administration	75,557
Audit fees	12,275
Board of Directors'	15,977
Credit card fees	105,155
Electricity	1,434,483
Gas	211,873
General excise tax	1,482
Housekeeping	404,542
Income tax	57,292
Insurance	672,446
Landscaping/grounds	434,024
Loss prevention	634,434
Maintenance	247,775
Management fee	679,785
Pest control	47,034
Poipu Beach Resort Association dues	5,083
Pool maintenance	163,817
Refuse collection	127,504
Water and sewer	410,692
Total expenses	<u>5,741,230</u>
Excess of revenues over expenses	401,754
<b>Fund balance</b>	
Beginning of year after adoption of ASC 606 (Note 9)	<u>672,568</u>
End of year	<u><u>\$ 1,074,322</u></u>

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

**Association of Apartment Owners of Waiohai Beach Club**  
**Statement of Revenues, Expenditures and Changes in Fund Balance – Reserve**  
**for Replacement Fund**  
**Year Ended December 31, 2019**

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<b>Revenues</b>	
Reserve for replacement assessment, net	\$ 1,669,687
Reserve interest and late fees	3,233
Bank interest income	37,567
Unrealized gain on fair value investments	12,790
Total revenues	<u>1,723,277</u>
<b>Expenditures</b>	
Roof replacement	742,558
Building painting	47,882
External building maintenance	677,268
Pavement resurfacing	22,896
Common area rehabilitation	219,024
Income tax	13,649
Total expenditures	<u>1,723,277</u>
Excess of revenues over expenditures	-
<b>Fund balance</b>	
Beginning of year after adoption of ASC 606 (Note 9)	<u>-</u>
End of year	<u><u>\$ -</u></u>

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



**Association of Apartment Owners of Waiohai Beach Club**  
**Statement of Cash Flows**  
**Year Ended December 31, 2019**

	<u>Operating Fund</u>	<u>Reserve for Replacement Fund</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Excess of revenues over expenses/expenditures	\$ 401,754	\$ -	\$ 401,754
Adjustments to reconcile excess of revenues over expenses/expenditures to net cash provided by operating activities			
Bad debt (benefit) expense	(14,999)	7,017	(7,982)
Depreciation expense	3,860	-	3,860
Unrealized gain on fair value investments	-	(12,790)	(12,790)
Changes in operating assets and liabilities			
Decrease in maintenance fees receivable	14,999	5,340	20,339
Decrease in maintenance fees receivable due from MRHC	852,592	217,962	1,070,554
Increase in accrued interest receivable	-	(4,991)	(4,991)
Increase in prepaid expenses and other assets	(40,436)	-	(40,436)
Increase in due from Marriott Vacations Worldwide Corporation	(24,820)	-	(24,820)
Increase in accrued expenses	23,967	135,195	159,162
Decrease in unearned maintenance fees	(404,662)	(91,697)	(496,359)
Increase state sales tax payable	-	110	110
Increase in income tax payable	591	751	1,342
Decrease in contract liability	-	(152,610)	(152,610)
Increase (decrease) in due from/to Reserve for Replacement/Operating Funds	68,190	(68,190)	-
Net cash provided by operating activities	<u>881,036</u>	<u>36,097</u>	<u>917,133</u>
<b>Cash flows from investing activities</b>			
Purchases of investments	(1,680,000)	(1,100,000)	(2,780,000)
Proceeds from maturities of investments	<u>1,680,000</u>	<u>245,000</u>	<u>1,925,000</u>
Net cash used in investing activities	<u>-</u>	<u>(855,000)</u>	<u>(855,000)</u>
Net increase (decrease) in cash and cash equivalents	881,036	(818,903)	62,133
<b>Cash and cash equivalents</b>			
Beginning of year	<u>1,956,560</u>	<u>2,700,055</u>	<u>4,656,615</u>
End of year	<u>\$ 2,837,596</u>	<u>\$ 1,881,152</u>	<u>\$ 4,718,748</u>
<b>Supplemental disclosure information</b>			
Cash paid during the year for income taxes	<u>\$ 56,701</u>	<u>\$ 12,898</u>	<u>\$ 69,599</u>

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

# Association of Apartment Owners of Waiohai Beach Club

## Notes to Financial Statements

### Year Ended December 31, 2019

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#### 1. Summary of Significant Accounting Policies

Association of Apartment Owners of Waiohai Beach Club (the "Association") was incorporated on March 13, 2001 in the State of Hawaii, and commenced operations on January 3, 2003. The purpose of the Association is to administer and manage the condominium project created and established as Waiohai Beach Club condominium project. This includes maintaining the Common Elements and Limited Common Elements surrounding the 231 Timeshare Units, 7 Hotel Room Units and Commercial Spaces A, B and C. Effective January 2, 2016 and in accordance with the Fifth Amendment to the Declaration of Condominium Property Regime of Waiohai Beach Club, Marriott Ownership Resorts, Inc. (the "Developer") subdivided Commercial Spaces A and B into Commercial Spaces A, B, D, E, F and G. The Association is managed under an agreement with Marriott Resorts Hospitality Corporation ("MRHC").

#### **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 amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenue 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's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$2,657,796, and are presented on the accompanying balance sheet as a contract liability as of December 31, 2019, are held in separate accounts and are generally not available for operating purposes.

MRHC, on behalf of the Association's Board of Directors, engages a third party to perform a study to estimate the remaining useful lives and the replacement costs of the components of common property.

The Association will provide funding for major repairs and replacements over the remaining estimated 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 \$1,572,865 has been included in the 2020 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.

# Association of Apartment Owners of Waiohai Beach Club

## Notes to Financial Statements

### Year Ended December 31, 2019

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#### **Cash and Cash Equivalents**

The Association considers money in checking accounts, money market funds, and certificates of deposit with an original maturity of three months or less, at date of purchase, to be cash equivalents. The Association places its cash and cash equivalents with financial institutions in the United States of America. The Federal Deposit Insurance Corporation (“FDIC”) provides for deposits at FDIC-insured institutions to be insured up to \$250,000.

#### **Investments**

Investments consist of certificates of deposit and equity-linked certificates of deposit.

The Association’s certificates of deposit are carried at amortized cost, as the Association has both the intent and ability to hold them until maturity. Certain certificates of deposit are considered depository accounts and are insured by the FDIC.

The Association’s equity-linked certificates of deposit are principal-protected structured products. At maturity, the Association will receive its principal plus a “supplemental payment” or minimum interest, if any, that is based on the performance of an underlying index or market measure.

Equity-linked certificates of deposit are adjusted to fair value at the end of each period, with unrealized gains or losses shown as a component of revenues (the “Fair Value Option”). The Fair Value Option selected by the Association is considered to provide a more transparent presentation to users of the financial statements. Gains or losses on securities sold are based on the specific identification method.

#### **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.

**Association of Apartment Owners of Waiohai Beach Club**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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The following table summarizes the Association's investments recorded at fair value on a recurring basis at December 31, 2019:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Equity-linked certificates of deposit	\$ -	\$ 412,790	\$ -	\$ 412,790

**Fixed Assets**

Fixed assets, net are stated at cost. Upon disposition or retirement, the cost and related accumulated depreciation are eliminated and any resulting gain or loss is reflected in operations. Maintenance and repairs are charged to expense when incurred; expenditures for renewals and betterments are capitalized. Depreciation is provided utilizing the straight-line method using estimated useful lives of four years.

**Maintenance Fees Receivable**

Maintenance fees receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from members. The Association has a Foreclosed Inventory Purchase Agreement with Marriott Ownership Resorts, Inc. ("MORI") that automatically renews for any number of additional one (1) year terms, 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, shown as acquisition revenue. Accounts receivable are generally considered delinquent when the payment is not received on or before the due date. As of December 31, 2019, the Association had delinquent assessments of \$37,329. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$57,668 and \$37,329, respectively, allowed for 100%.

**Unearned Maintenance Fees**

Maintenance fees for all unit weeks are receivables as of the beginning of each fiscal 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 remainder is considered unearned maintenance fees.

**Contract Liability**

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to the replacement fund assessments. The balance of contract liability as of the beginning and end of the year are \$2,810,406 and \$2,657,796, respectively.

**Income Taxes**

The Association accounts for income taxes in accordance with Accounting Standards Codification ("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.

**Association of Apartment Owners of Waiohai Beach Club**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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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.

The Association plans on making this election for 2019; accordingly, deferred taxes have not been provided for temporary differences related to exempt function income. Should the Association elect not 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 effects of the guidance provided by generally accepted accounting principles related to accounting for uncertainty in income taxes. The Association has determined that it had no uncertain income tax positions that could have a significant effect on the financial statements for the year ended December 31, 2019. The Association's federal income tax returns for 2016, 2017 and 2018 are subject to examination by the Internal Revenue Service, generally for a period of three years after the federal income tax returns were filed.

**Revenue Recognition**

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

	<b>Operating Fund</b>	<b>Reserve for Replacement Fund</b>
	<u>          </u>	<u>          </u>
Net revenue recorded per the financial statements	\$ 5,922,416	\$ 1,669,687
Plus: amounts not deemed collectible	31,123	7,017
Less: amounts recognized from contract liability during the year	<u>          -</u>	<u>      (152,610)</u>
Annual assessments per the Board approved budget	<u><u>\$ 5,953,539</u></u>	<u><u>\$ 1,524,094</u></u>

**Cost Allocation Methodology**

The complex is comprised of a hotel, timeshare operation, condominium operation, and ancillary operations. The back office accounting system is utilized to record all expenses of these four entities. At the end of each accounting period, allocations are made based on different methodologies between the condo and timeshare operations and to each of the other operations.

**Association of Apartment Owners of Waiohai Beach Club**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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These allocations are calculated utilizing methodology developed by MRHC. Examples of allocation bases are: (1) check-ins, (2) owner and guest mix, and (3) common area ownership interest.

**Accounting Pronouncement**

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2016-02 - Leases (Topic 842) (“ASU 2016-02”) to increase transparency and comparability of information regarding an entity’s leasing activities by providing additional information to users of financial statements. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. This update is effective for annual periods beginning after December 15, 2020, based on a one-year deferral of the effective date approved in July 2019 by the FASB. The Association continues to evaluate the impact that adoption of this accounting standard update will have on its financial statements and disclosures. In addition, the Association expects to adopt ASU 2016-02 commencing in fiscal year 2021.

**2. Investments**

Investments are classified as follows at December 31, 2019:

	<u>Amortized Cost/Principal</u>	<u>Fair Market Value</u>
Equity-linked certificates of deposit	<u>\$ 400,000</u>	<u>\$ 412,790</u>
Certificates of deposit (held-to-maturity)	<u>\$ 945,000</u>	<u>\$ 953,794</u>

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

The contractual maturities of investments held-to-maturity at December 31, 2019 are as follows:

	<u>Amortized Cost/Principal</u>	<u>Fair Market Value</u>
Due within one year	\$ 490,000	\$ 491,441
Due between one to five years	<u>855,000</u>	<u>875,143</u>
	<u>\$ 1,345,000</u>	<u>\$ 1,366,584</u>

The equity-linked certificates of deposit had an unrealized gain of \$12,790 for the year ended December 31, 2019, which is included in the Statement of Revenues, Expenditures and Changes in Fund balance - Reserve for Replacement Fund.

**Association of Apartment Owners of Waiohai Beach Club**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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**3. Fixed Assets**

The following table below summarizes the Association's fixed assets, net as of December 31, 2019:

Golf cart	\$ 15,440
Accumulated depreciation	<u>(6,755)</u>
	<u>\$ 8,685</u>

Depreciation expense was \$3,860 for the year ended December 31, 2019. The expense is allocated as a component of various expenses found on the Statement of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

**4. Income Taxes**

The provision for income taxes consisted of the following for the year ended December 31, 2019:

	<u>Total</u>	<u>Operating Fund</u>	<u>Reserve for Replacement Fund</u>
Federal	\$ 59,545	\$ 48,300	\$ 11,245
State	<u>11,396</u>	<u>8,992</u>	<u>2,404</u>
	<u>\$ 70,941</u>	<u>\$ 57,292</u>	<u>\$ 13,649</u>

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

**5. Management Agreement**

In February 2010, Marriott Hotel Services, Inc. assigned the entire management agreement to MRHC who, at that point, became responsible for the on and off-site management of the Association. For the year ended December 31, 2019, MRHC 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, exclusive of the management fee. For the year ended December 31, 2019, the management fee was \$679,785 and is recorded in the Statement of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

**6. Related Party Transactions**

Marriott Vacations Worldwide Corporation ("MVWC"), the current indirect parent company of MRHC, pays all invoices on behalf of the Association, subject to reimbursement by the Association. The net amount due from MVWC at December 31, 2019, was \$38,340.

MRHC collects annual maintenance fees on behalf of the Association. The amount of maintenance fees receivable due from MRHC at December 31, 2019, as \$169,868.

# **Association of Apartment Owners of Waiohai Beach Club**

## **Notes to Financial Statements**

### **Year Ended December 31, 2019**

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#### **7. 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 high credit quality financial institutions. 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 these investments to their stated maturity dates.

#### **8. Subsequent Events**

The Association has performed an evaluation of subsequent events through April 2, 2020, which is the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus surfaced and has spread around the world, resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The effect of this virus on the financial position or operations of the Association is unknown at this time.

#### **9. New Accounting Guidance Implementation**

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the requirements of new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to the accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.



**Association of Apartment Owners of Waiohai Beach Club**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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The adoption of the new revenue recognition guidance resulted in the following change to fund balance as of January 1, 2019:

	<u>Operating Fund</u>	<u>Reserve for Replacement Fund</u>
Fund balance, as previously reported, at January 1, 2019	\$ 696,523	\$ 2,810,406
Adjustment for effects of Topic 606	<u>(23,955)</u>	<u>(2,810,406)</u>
Fund balance, as adjusted, at January 1, 2019	<u>\$ 672,568</u>	<u>\$ -</u>

The effect of the adoption on the operating fund is a decrease in assessments by \$31,123 for uncollectible assessments.

The effect of the adoption on the reserve for replacement fund is an increase in 2019 assessments by \$152,610 and a recording of a contract liability as of December 31, 2019, of \$2,657,796. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires the effect of applying the new guidance on each item included in the 2019 financial statements be disclosed.

Following are the line items from the balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	<u>Amounts That Would Have Been Reported</u>	<u>Effects of Applying Topic 606 Guidance</u>	<u>As Reported</u>
<u>Liabilities</u>			
Contract liability	\$ -	\$ 2,657,796	\$ 2,657,796
<u>Fund balance</u>			
Ending fund balance	\$ 3,732,118	\$ (2,657,796)	\$ 1,074,322

**Association of Apartment Owners of Waiohai Beach Club**  
**Notes to Financial Statements**  
**Year Ended December 31, 2019**

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The following are the line items from the statement of revenue, expenses, and changes in fund balance and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	<b>Amounts That Would Have Been Reported</b>	<b>Effects of Applying Topic 606 Guidance</b>	<b>As Reported</b>
<b>Operating Fund</b>			
<u>Revenue</u>			
Maintenance fees	\$ 5,953,539	\$ (31,123)	\$ 5,922,416
Acquisition revenue	\$ -	\$ 44,490	\$ 44,490
Excess of revenue over expenses	\$ 388,387	\$ 13,367	\$ 401,754
<u>Cash Flows</u>			
Excess of revenue over expenses	\$ 388,387	\$ 13,367	\$ 401,754
<b>Reserve for Replacement Fund</b>			
<u>Revenue</u>			
Maintenance fees	\$ 1,524,094	\$ 145,593	\$ 1,669,687
Deficiency of revenue over expenses	\$ (152,610)	\$ 152,610	\$ -
<u>Cash Flows</u>			
Deficiency of revenue over expenses	\$ (152,610)	\$ 152,610	\$ -
Decrease in contract liability	\$ -	\$ (152,610)	\$ (152,610)

**Association of Apartment Owners of Waiohai Beach Club**  
**Supplementary Information on Future Major Repairs and Replacements**  
**(Unaudited)**  
**Year Ended December 31, 2019**

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On behalf of the Board of Directors, a study was completed during 2017, 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.

	<b>Estimated Remaining Useful Lives (Years)</b>	<b>Estimated Current Replacement Costs</b>	<b>2020 Funding Requirement</b>	<b>Balance at December 31, 2019</b>
Roof replacement	15	\$ 4,469,035	\$ 209,953	\$ 292,039
Building painting	6	1,252,758	52,489	838,065
External building maintenance	10	6,019,039	504,484	431,605
Pavement resurfacing	8	287,251	21,263	67,800
Common area rehabilitation	8	8,636,833	784,676	1,028,287
Total		<u>\$ 20,664,916</u>	<u>\$ 1,572,865</u>	<u>\$ 2,657,796</u>

**Association of Apartment Owners of Waiohai Beach Club  
Board of Directors**

<b>Name/Address</b>	<b>Phone/Fax/Email</b>	<b>Office Held</b>	<b>Term</b>
Timothy J. Miscovich Marriott's Waiohai Beach Club Executive Offices 2249 Poipu Road Koloa, Hawaii 96756	Resort Main Phone: 808-742-4400 Resort Main Fax: 808-742-4410 <a href="mailto:waiohaiownerboard@vacationclub.com">waiohaiownerboard@vacationclub.com</a>	President	2017-2020
David John Chamberlain Marriott's Waiohai Beach Club Executive Offices 2249 Poipu Road Koloa, Hawaii 96756	Resort Main Phone: 808-742-4400 Resort Main Fax: 808-742-4410 <a href="mailto:waiohaiownerboard@vacationclub.com">waiohaiownerboard@vacationclub.com</a>	Vice President	2018-2021
Steven Glen Wischmann Marriott's Waiohai Beach Club Executive Offices 2249 Poipu Road Koloa, Hawaii 96756	Resort Main Phone: 808-742-4400 Resort Main Fax: 808-742-4410 <a href="mailto:waiohaiownerboard@vacationclub.com">waiohaiownerboard@vacationclub.com</a>	Secretary/Treasurer	2018-2021
Katherine A. Kreiter Marriott's Waiohai Beach Club Executive Offices 2249 Poipu Road Koloa, Hawaii 96756	Resort Main Phone: 808-742-4400 Resort Main Fax: 808-742-4410 <a href="mailto:waiohaiownerboard@vacationclub.com">waiohaiownerboard@vacationclub.com</a>	Director	2019-2022
Richard C. Oppman Marriott's Waiohai Beach Club Executive Offices 2249 Poipu Road Koloa, Hawaii 96756	Resort Main Phone: 808-742-4400 Resort Main Fax: 808-742-4410 <a href="mailto:waiohaiownerboard@vacationclub.com">waiohaiownerboard@vacationclub.com</a>	Director	2019-2022