April 2020

Dear Marriott's Kauai Beach Club Owner,

Enclosed please find the audited 2019 Financial Statements reports for Association of Apartment Owners of Marriott's Kauai Resort and Beach Club and Marriott's Kauai Beach Club Owners Association. These reports are being provided to you as outlined in the Associations' governing documents and Hawaii State Statutes.

If you have any questions, please contact your Board of Directors via email (email addresses provided on the enclosed Board of Directors lists) or by phone at the business office of the Association at 808-246-5019.

Sincerely,

Charles Baron	*Albert Kanahele*
Secretary/Treasurer	Secretary/Treasurer
Association of Apartment Owners of Marriott's Kauai Resort and Beach Club	Marriott's Kauai Beach Club Owners Association

Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club

Financial Statements
December 31, 2019

Myers Brettholtz & COMPANY, PA
CPAs and Consultants

12671 Whitehall Drive · Fort Myers, Florida 33907-3626 · 239.939.5775 · fax 239.939.3032
THE EXCEPTION TO THE RULE mbcopa@mbcopa.com

Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club
Index
December 31, 2019

Page(s)

Myers Brettholtz & COMPANY, PA
CPAs and Consultants

Report of Independent Auditors

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

We have audited the accompanying financial statements of Association of Apartment Owners of Marriott's Kaua'i Resort and 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 and of 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 the 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 the 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 our 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, we consider 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 the Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club as of December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

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The Board of Directors of
Association of Apartment Owners of Marriott's Kaua'i Resort and 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 17 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, Brettholtz & Company, PA

MYERS, BRETTHOLTZ & COMPANY, PA
Fort Myers, Florida
March 26, 2020

Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club
Balance Sheet
December 31, 2019

	Operating Fund	Reserve for Replacement Fund	Total
Assets			
Cash and cash equivalents	$ 3,859,713	$ 3,263,582	$ 7,123,295
Investments	-	8,833,950	8,833,950
Maintenance fees receivable due from MRHC	244,985	62,090	307,075
Accrued interest receivable	-	56,167	56,167
Prepaid expenses and other assets	521,304	-	521,304
Due from Reserve for Replacement Fund	293,208	-	293,208
Due to Operating Fund	-	(293,208)	(293,208)
Total assets	$ 4,919,210	$ 11,922,581	$ 16,841,791
Liabilities and Fund Balances			
Liabilities			
Accrued expenses	$ 36,406	$ -	$ 36,406
Unearned maintenance fees	3,715,953	949,856	4,665,809
Income tax payable	4,631	27,848	32,479
General excise tax payable	769	-	769
Due to Marriott Vacations Worldwide Corporation	16,003	-	16,003
Due to HPTMI Hawaii Inc.	430,541	-	430,541
Contract liability	-	10,944,877	10,944,877
Total liabilities	4,204,303	11,922,581	16,126,884
Fund balances	714,907	-	714,907
Total liabilities and fund balances	$ 4,919,210	$ 11,922,581	$ 16,841,791

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

Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club
Statement of Revenues, Expenses and Changes in Fund Balance - Operating Fund
Year Ended December 31, 2019

Revenues	
Maintenance fees, net	$ 18,099,649
Operating finance charges	16,320
Interest income	48,785
Acquisition revenue	98,947
Total revenues	18,263,701
Expenses	
Accounting and administration	913,606
Audit fees	12,450
Business license and registration	5,421
Credit card fees	132,347
Electricity	3,153,313
Gas	729,908
General excise tax	12,977
Housekeeping	1,488,833
Income tax expense	14,937
Insurance	1,862,728
Management fee	1,329,491
Recreation and activities	1,136,389
Rent	395,663
Repairs and maintenance	3,866,367
Water and sewer	2,525,228
Total expenses	17,579,658
Excess of revenues over expenses	684,043
Fund balance	
Beginning of year after adoption of ASC 606 (Note 9)	30,864
End of year	$ 714,907

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

Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club

Statement of Revenues, Expenditures and Changes in Fund Balance - Reserve for Replacement Fund

Year Ended December 31, 2019

Revenues	
Reserve for replacement assessment, net	$ 5,482,076
Reserve finance charges	3,485
Interest income	196,344
Realized gain on fair value investments	23,443
Unrealized gain on fair value investments	90,000
Total revenues	5,795,348
Expenditures	
External building maintenance	3,051,325
Common area rehabilitation	2,664,157
Income tax expense	79,866
Total expenditures	5,795,348
Deficit of revenues over expenditures	-
Fund balance	
Beginning of year after adoption of ASC 606 (Note 9)	-
End of year	$ -

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

Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club
Statement of Cash Flows
For the Year Ended December 31, 2019

	Operating Fund	Reserve for Replacement Fund	Total
Cash flows from operating activities			
Excess of revenues over expenses/expenditures	$ 684,043	$ -	$ 684,043
Adjustments to reconcile excess of revenues over expenses/expenditures to net cash provided by (used in) operating activities			
Bad debt (benefit) expense	(18,600)	4,484	(14,116)
Realized gain on fair value investments	-	(23,443)	(23,443)
Unrealized gain on fair value investments	-	(90,000)	(90,000)
Changes in operating assets and liabilities			
Decrease in maintenance fees receivable	18,600	6,417	25,017
Decrease in maintenance fees receivable due from MRHC	98,855	19,587	118,442
Increase in accrued interest receivable	-	(43,955)	(43,955)
Increase in prepaid expenses and other assets	(30,586)	-	(30,586)
Decrease in due from Marriott Vacations Worldwide Corporation	1,425	-	1,425
Increase (decrease) in accrued expenses	8,271	(117,077)	(108,806)
Increase in unearned maintenance fees	46,533	73,531	120,064
Increase in income tax payable	1,785	8,117	9,902
Increase in general excise tax payable	122	-	122
Increase in due to Marriott Vacations Worldwide Corporation	16,003	-	16,003
Decrease in due to HPTMI Hawaii Inc.	(468,337)	-	(468,337)
Decrease in contract liability	-	(1,883,647)	(1,883,647)
Decrease (increase) in due from/to Operating/ Reserve for Replacement Funds	41,416	(41,416)	-
Net cash povided by (used in) operating activities	399,530	(2,087,402)	(1,687,872)
Cash flows from investing activities			
Purchases of investments	-	(6,610,000)	(6,610,000)
Proceeds from maturity of investments	-	3,484,743	3,484,743
Net cash used in investing activities	-	(3,125,257)	(3,125,257)
Net increase (decrease) in cash and cash equivalents	399,530	(5,212,659)	(4,813,129)
Cash and cash equivalents			
Beginning of year	3,460,183	8,476,241	11,936,424
End of year	$ 3,859,713	$ 3,263,582	$ 7,123,295
Supplemental disclosure information			
Cash paid during the year for income taxes	$ 13,152	$ 71,749	$ 84,901

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

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"), HPTMI Hawaii Inc. ("Hotel") and Marriott Kaua'i Ownership Resorts, Inc. ("MKORI"). 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). On July 29, 2015, Essex sold its ownership interest in certain real property located in the Kilohana Tower to Marriott Ownership Resorts, Inc. (the "Developer"). The Association is managed under an agreement with 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's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate $10,944,877, 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.

Essex, on behalf of the Association's Board of Directors, 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 Supplementary Information on Future Major Repairs and Replacements (Unaudited) is based on those studies.

The Association is 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 $5,668,193 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.

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 deposits 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 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 observable inputs.
- Level 3 – Unobservable inputs (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 following table summarizes the Association's investments recorded at fair value on a recurring basis at December 31, 2019:

	Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity-linked certificates of deposit	$ -	$ 1,003,950	$ -	$ 1,003,950

Maintenance Fees Receivable
Assessments 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 $33,542. 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 $58,559 and $33,542, 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 $12,828,524 and $10,944,877, 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.

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 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 plans to make 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 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 reserve for 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.

The following is a reconciliation of net revenues as recorded in the accompanying financial statements to the amount of assessments approved by the Board of Directors on the annual budget:

	Operating Fund	Reserve for Replacement Fund
Net revenue recorded per the financial statements	$ 18,099,649	$ 5,482,076
Plus: amounts not deemed collectible	80,632	4,484
Less: amounts recognized from contract liability during the year	-	(1,883,647)
Annual assessments per the Board approved budget	$ 18,180,281	$ 3,602,913

Cost Allocation Methodology
The complex consists of the VOA, the Hotel, MKORI and the Developer. The hotel back office accounting system is used 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.

The allocation methodology was developed by a private consultant in 1994 at the request of the Developer with the assistance of Marriott International. These methodologies were then used by the Developer to register the property as a condominium with a hotel and timeshare operation and as the basis for allocating cost since opening in 1995. The management company (currently Essex) continues to use these methodologies in allocating costs between the owners of the Condominium Association.

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.

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 will adopt ASU 2016-02 commencing in fiscal year 2021.

2. Investments

Investments are classified as follows at December 31, 2019:

	Amortized Cost/Principal	Fair Market Value
Equity-linked certificates of deposit	$ 1,000,000	$ 1,003,950
Certificates of deposit (held-to-maturity)	$ 7,830,000	$ 7,840,582

* 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 at December 31, 2019 are as follows:

	Amortized Cost/Principal	Fair Market Value
Due within one year	$ 5,870,000	$ 5,982,052
Due between one to five years	2,710,000	2,727,755
Due after five years	250,000	234,725
Total	$ 8,830,000	$ 8,944,532

The equity-linked certificates of deposit had unrealized gains of $90,000 for the year ended December 31, 2019, which are included in the Statement of Revenues, Expenditures and Changes in Fund Balance - Reserve for Replacement Fund.

3. Income Taxes

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

	Total	Operating Fund	Reserve for Replacement Fund
Federal	$ 79,207	$ 13,407	$ 65,800
State	15,596	1,530	14,066
	$ 94,803	$ 14,937	$ 79,866

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.

4. Management Agreement

The Association entered into a management agreement with Essex as the management company for a term consisting of 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. For the year ended December 31, 2019, the management fee was $1,329,491, and is recorded in the Statement of Revenues, Expenses and Changes in Fund Balance - Operating Fund. On December 1, 2016, the Association and Essex entered into a first amendment to the original management agreement to reflect a change in the frequency of the payment of the management fee effective January 1, 2017.

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, 2019:

Years Ending December 31,	
2020	$ 273,798
2021	274,349
2022	274,349
2023	274,349
2024	269,979
Thereafter	8,932,443
	$ 10,299,267

Rent expense under the operating leases for the year ended December 31, 2019 was approximately $395,663, and is included in the Statement of Revenues, Expenses, and Changes in Fund Balance - Operating Fund.

6. Related Party Transactions

The Hotel pays certain expenses on behalf of the Association for which the Association will reimburse the Hotel. The amounts due to the Hotel at December 31, 2019 were $430,541.

Certain services, including off-site accounting and administration, and reservations, are provided by Marriott Resorts Hospitality Corporation ("MRHC") and allocated to the Association based on the number of unit weeks, as a percentage of total unit weeks the respective service covers. In addition, Marriott Vacations Worldwide Corporation ("MVWC"), the indirect parent company of MRHC, pays certain expenses on behalf of the Association, subject to reimbursement by the Association. The net amount due to MVWC at December 31, 2019 was $16,003.

MRHC collects annual maintenance fees on behalf of the Association. The amount of maintenance fees receivable due from MRHC at December 31, 2019 was $307,075.

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 it believes limits the amount of market exposure.

In an effort to fulfill its 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 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 March 26, 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.

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

	Operating Fund	Reserve for Replacement Fund
Fund balance, as previously reported, at January 1, 2019	$ 64,765	$ 12,828,524
Adjustment for effects of Topic 606	(33,901)	(12,828,524)
Fund balance, as adjusted, at January 1, 2019	$ 30,864	$ -

The effect of the adoption on the operating fund is a decrease in assessments by $80,632 for uncollectible assessments.

The effect of the adoption on the reserve for replacement fund is an increase in 2019 assessments by $1,879,163 and a recording of a contract liability as of December 31, 2019, of $10,944,877. 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:

	Amounts That Would Have Been Reported	Effects of Applying Topic 606 Guidance	As Reported
Liabilities			
Contract liability	$ -	$ 10,944,877	$ 10,944,877
Fund balance			
Ending fund balance	$ 11,659,784	$ (10,944,877)	$ 714,907

The following are the line items from the statement of revenue, expenses/expenditures, 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:

	Amounts That Would Have Been Reported	Effects of Applying Topic 606 Guidance	As Reported
Operating Fund			
Revenue			
Maintenance fees	$ 18,180,281	$ (80,632)	$ 18,099,649
Acquisition revenue	$ -	$ 98,947	$ 98,947
Excess of revenue over expenses	$ 665,728	$ 18,315	$ 684,043
Cash Flows			
Excess of revenue over expenses	$ 665,728	$ 18,315	$ 684,043
Reserve for Replacement Fund			
Revenue			
Maintenance fees	$ 3,602,913	$ 1,879,163	$ 5,482,076
Deficiency of revenue over expenses	$ (1,883,647)	$ 1,883,647	$ -
Cash Flows			
Deficiency of revenue over expenses	$ (1,883,647)	$ 1,883,647	$ -
Decrease in contract liability	$ -	$ (1,883,647)	$ (1,883,647)

Association of Apartment Owners of Marriott's Kaua'i Resort and Beach Club
Supplementary Information on Future Major Repairs and Replacements (Unaudited)
Year Ended December 31, 2019

On behalf of the Board of Directors, a reserve study was completed during 2019 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	2020 Funding Requirement	Balance at December 31, 2019
Roof replacement	20	$ 4,881,376	$ 208,839	$ 215,859
Building painting	2	2,556,213	538,420	1,310,674
External Building Maintenance	9	32,413,658	2,869,195	6,804,145
Pavement resurfacing	7	1,350,964	147,838	209,256
Common area rehabilitation	9	21,508,598	1,903,901	2,404,943
Total		$ 62,710,809	$ 5,668,193	$ 10,944,877

Marriott's Kaua'i Beach Club Owners Association

Financial Statements
December 31, 2019

Myers Brettholtz & COMPANY, PA
CPAs and Consultants

12671 Whitehall Drive • Fort Myers, Florida 33907-3626 • 239.939.5775 • fax 239.939.3032
THE EXCEPTION TO THE RULE mbcopa@mbcopa.com

Marriott's Kaua'i Beach Club Owners Association
Index
December 31, 2019

Page(s)

Myers Brettholtz & COMPANY, PA
CPAs and Consultants

Report of Independent Auditors

The Board of Directors of
Marriott's Kaua'i Beach Club Owners Association

We have audited the accompanying financial statements of Marriott's Kaua'i Beach Club Owners Association (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 the 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 the 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 our 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 Marriott's Kaua'i Beach Club Owners Association 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.

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THE EXCEPTION TO THE RULE mbcopa@mbcopa.com

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

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 15 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, Brettholtz & Company, PA

MYERS, BRETTHOLTZ & COMPANY, PA
Fort Myers, Florida
March 26, 2020

Marriott's Kaua'i Beach Club Owners Association
Balance Sheet
December 31, 2019

	Operating Fund	Reserve for Replacement Fund	Total
Assets			
Cash and cash equivalents	$ 7,008,535	$ 1,589,934	$ 8,598,469
Maintenance fees receivable due from MRHC	415,329	63,292	478,621
Prepaid expenses and other assets	103,174	-	103,174
Due to Operating Fund	-	(29,440)	(29,440)
Due from Reserve for Replacement Fund	29,440	-	29,440
Total assets	$ 7,556,478	$ 1,623,786	$ 9,180,264
Liabilities and Fund Balances			
Liabilities			
Accrued expenses	$ 32,850	$ -	$ 32,850
Unearned maintenance fees	6,247,926	974,087	7,222,013
Income tax payable	4,425	3,147	7,572
General excise tax payable	47,401	-	47,401
Due to HPTMI Hawaii Inc.	731,355	-	731,355
Due to Mariott Vacation Worldwide Corporation	40,113	-	40,113
Contract liability	-	646,552	646,552
Total liabilities	7,104,070	1,623,786	8,727,856
Fund balances	452,408	-	452,408
Total liabilities and fund balances	$ 7,556,478	$ 1,623,786	$ 9,180,264

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

Marriott's Kaua'i Beach Club Owners Association
Statement of Revenues, Expenses and Changes in Fund Balance – Operating Fund
Year Ended December 31, 2019

Revenues	
Maintenance fees, net	$ 12,033,692
Interest income	123,414
Late fee income and finance charges	149,403
Acquisition revenue	80,435
Miscellaneous income	680
Total revenues	12,387,624
Expenses	
Accounting and administration	1,329,414
Audit fees	11,250
Activities, net	126,731
Billing and collections	114,600
Board of Directors' expense	22,669
Cable television	131,301
Credit card	171,049
Front desk	1,804,079
Gas	59,142
General excise tax	648,708
Housekeeping	2,716,014
Income tax	38,279
Insurance	22,213
Loss prevention	101,746
Maintenance	1,288,569
Management fee	1,020,299
Owner services	538,680
Postage and printing	47,144
Real estate and property taxes	2,064,106
Total expenses	12,255,993
Excess of revenues over expenses	131,631
Fund balance	
Beginning of year after adoption of ASC 606 (Note 7)	320,777
End of year	$ 452,408

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

Marriott's Kaua'i Beach Club Owners Association
Statement of Revenues, Expenditures and Changes in Fund Balance – Reserve for Replacement Fund
Year Ended December 31, 2019

Revenues	
Reserve for replacement assessment, net	$ 2,723,598
Late fee income	3,836
Interest income	24,232
Realized gain on fair value investments	39,645
Total revenues	2,791,311
Expenditures	
Furniture and fixtures	2,768,105
Income tax expense	23,206
Total expenditures	2,791,311
Excess of revenues over expenditures	-
Fund balance	
Beginning of year after adoption of ASC 606 (Note 7)	-
End of year	$ -

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

Marriott's Kaua'i Beach Club Owners Association
Statement of Cash Flows
For the Year Ended December 31, 2019

	Operating Fund	Reserve for Replacement Fund	Total
Cash flows from operating activities			
Excess of revenues over expenses/expenditures	$ 131,631	$ -	$ 131,631
Adjustments to reconcile excess of revenues over expenses/expenditures to net cash provided by (used in) operating activities			
Bad debt (benefit) expense	(36,168)	5,159	(31,009)
Changes in operating assets and liabilities			
Decrease in maintenance fees receivable	36,168	9,987	46,155
Decrease in maintenance fees receivable due from MRHC	162,392	24,288	186,680
Increase in prepaid expenses and other assets	(2,958)	-	(2,958)
Decrease in due from Marriott Vacations Worldwide Corporation	7,621	-	7,621
Decrease in due from Marriott Resorts Hospitality Corporation	21,000	-	21,000
Decrease in accrued expenses	(644)	-	(644)
Increase in unearned maintenance fees	362,724	29,058	391,782
Decrease in income tax payable	(3,443)	(7,171)	(10,614)
Increase in general excise tax payable	4,490	-	4,490
Decrease in due to HPTMI Hawaii Inc.	(18,491)	-	(18,491)
Increase in due to Marriott Vacation Worldwide Corporation	40,113	-	40,113
Decrease in contract liability	-	(790,389)	(790,389)
Increase (decrease) in due from/to Operating/ Reserve for Replacement Funds	139,553	(139,553)	-
Net cash provided by (used in) operating activities	843,988	(868,621)	(24,633)
Cash flows from investing activities			
Proceeds from maturity of investments	-	332,200	332,200
Net increase (decrease) in cash and cash equivalents	843,988	(536,421)	307,567
Cash and cash equivalents			
Beginning of year	6,164,547	2,126,355	8,290,902
End of year	$ 7,008,535	$ 1,589,934	$ 8,598,469
Supplemental disclosure information			
Cash paid during the year for income taxes	$ 41,722	$ 30,377	$ 72,099

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

1. Summary of Significant Accounting Policies

Marriott's Kaua'i Beach Club Owners Association (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 project created and established as Marriott's Kaua'i Beach Club Vacation Ownership Program at Marriott's Kaua'i Resort and Beach Club condominium project (the "Ownership Condominium"). As of December 31, 2019, 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 delegated on-site management of the Association to Essex House Condominium Corporation ("Essex"), 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 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 $646,552, 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. The Association's policy is to retain income earned on such funds in the reserve for replacement fund.

Essex, on behalf of the Association's Board of Directors, 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 Supplementary Information on Future Major Repairs and Replacements (Unaudited) is based on these studies.

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 $2,074,003 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.

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.

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. 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 $48,079. 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 $94,233 and $48,079, respectively, which are allowed for 100%.

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 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 $1,436,941 and $646,552, 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.

Timeshare associations are subject to taxation under Internal Revenue Code Section 528 ("Section 528"), which allows the association to be considered an exempt organization and exempt from tax on its "exempt function income." Exempt function income is defined as any amounts received as membership dues, fees, or assessments from association owners. However, associations that do not meet the income, expenditure, and organizational requirements set forth in Section 528 must file as corporations under the provisions of Internal Revenue Code Section 277 ("Section 277").

In 2019, the Association satisfied the requirements to file as an exempt organization under Section 528 and provided for taxes under the provisions of Section 528. However, in 2016, the Association did not satisfy the requirements to file as an exempt organization under Section 528 and provided for taxes under the provisions of Section 277. As a result, the Association carries deferred tax assets on its books related to taxes provided for under Section 277 in prior years. Refer to Note 2 – Income Taxes for further information.

Under Section 277, the Association is taxed on any excess of "membership income" over "member expenses", and net income from non-membership activities using the corporate tax rate. An Association is also permitted to carryforward net losses from membership activities which may be used to offset net membership income in future years as provided in Rev. Rul. 70-604.

Associations taxed pursuant to Section 528 are not required to report deferred taxes for temporary differences related to exempt function income. Associations not eligible or electing to be taxed as a corporation under Section 277 are required to account for deferred tax assets and liabilities for existing temporary differences, 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. Under this guidance the Association has determined it has 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.

The following is a reconciliation of net revenues as recorded in the accompanying financial statements to the amount of assessments approved by the Board of Directors on the annual budget:

	Operating Fund	Reserve for Replacement Fund
Net revenue recorded per the financial statements	$ 12,033,692	$ 2,723,598
Plus: amounts not deemed collectible	85,974	5,159
Plus: Association of Apartment Owners of Marriott Kaua'i Resort and Beach Club assessment	9,408,125	-
Less: amounts recognized from contract liability during the year	-	(790,389)
Annual assessments per the Board approved budget	$ 21,527,791	$ 1,938,368

Cost Allocation Methodology

The complex is comprised of HPTMI Hawaii Inc. (the "Hotel"), the Association, Marriott Kaua'i Ownership Resorts, Inc. ("MKORI") and Marriott Ownership Resorts, Inc. (the "Developer"). The Hotel's back office accounting system is used 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.

The allocation methodology was developed by a private consultant in 1994 at the request of the Developer with the assistance of Marriott International. These methodologies were then used by the Developer to register the property as a condominium with a hotel and timeshare operation and as the basis for allocating cost since opening in 1995. The management company (currently Essex) continues to use these methodologies in allocating costs between the owners of the Condominium Association.

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.

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. Income Taxes

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

	Total	Operating Fund	Reserve for Replacement Fund
Federal	$ 51,754	$ 32,636	$ 19,118
State	9,731	5,643	4,088
	$ 61,485	$ 38,279	$ 23,206

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

At December 31, 2019, the Association had the following deferred tax asset:

Deferred tax asset	$ 1,679,429
Valuation allowance	(1,679,429)
Net deferred tax asset	$ -

The deferred tax asset is a result of a net operating loss generated in prior years when the Association was taxed pursuant to the provisions of Section 277, and is allowable as a carryforward under Rev. Rule 70-604. A valuation allowance was recorded for this deferred tax asset as it was more likely than not that the related tax benefits would not be realized. This deferred tax asset could be utilized to offset certain taxable income in the event the Association files its income tax return under the provisions of Section 277 in a future year.

3. Management Agreement

On May 30, 1995, the Association entered into a management agreement with MRHC for a term of three years with automatic one-year renewals unless sooner terminated by written notice or applicable law. Marriott Hotel Services, Inc. ("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 $1,020,299 for the year ended December 31, 2019, and is recorded in the Statement of Revenues, Expenses and Changes in Fund Balance - Operating Fund. On February 7, 2017, the Association's Board of Directors approved the first amendment to the original management agreement to reflect a change in the frequency of the payment of the management fee effective January 1, 2017. On October 9, 2019, the Association's Board of Directors approved the second amendment to the original management agreement to reflect a change in the annual fee of 15% of the annual budget of the Association, less certain charges identified in the agreement effective January 1, 2020.

4. Related Party Transactions

Certain services, including off-site 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. There was no amount due from MRHC at December 31, 2019. 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, 2019 was $731,355.

Marriott Vacations Worldwide Corporation ("MVWC"), the indirect parent company of MRHC, pays certain expenses on behalf of the Association, subject to reimbursement by the Association. The net amount due to MVWC at December 31, 2019 was $40,113.

MRHC collects annual maintenance fees on behalf of the Association. The amount of maintenance fees receivable due from MRHC at December 31, 2019 was $478,621.

5. Concentrations of Credit Risk

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash and cash equivalents. The Association maintains its cash and cash equivalents with what the Board of Directors believes to be high credit quality financial institutions.

In an effort to fulfill its 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 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.

The MVC Trust is a Florida land trust established to hold certain real property, including timeshare interests, utilized as part of the Marriott Vacation Club Destinations vacation ownership plan. As of December 31, 2019, the MVC Trust held 2,252 (19%) of the timeshare interests in the Association.

6. Subsequent Events

The Association has performed an evaluation of subsequent events through March 26, 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.

7. 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 our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

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

	Operating Fund	Reserve for Replacement Fund
Fund balance, as previously reported, at January 1, 2019	$ 377,726	$ 1,436,941
Adjustment for effects of Topic 606	(56,949)	(1,436,941)
Fund balance, as adjusted, at January 1, 2019	$ 320,777	$ -

The effect of the adoption on the operating fund is a decrease in 2019 assessments by $85,973 for uncollectible assessments.

The effect of the adoption on the reserve for replacement fund is an increase in 2019 assessments by $699,257 and a recording of a contract liability as of December 31, 2019, of $785,230. 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:

	Amounts That Would Have Been Reported	Effects of Applying Topic 606 Guidance	As Reported
Liabilities			
Contract liability	$ -	$ 646,552	$ 646,552
Fund balance			
Ending fund balance	$ 1,098,960	$ (646,552)	$ 452,408

T
he following are the line items from the statement of revenue, expenses/expenditures, 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:

	Amounts That Would Have Been Reported	Effects of Applying Topic 606 Guidance	As Reported
Operating Fund			
Revenue			
Maintenance fees	$ 12,119,665	$ (85,973)	$ 12,033,692
Acquisition revenue	$ -	$ 80,435	$ 80,435
Excess of revenue over expenses	$ 137,169	$ (5,538)	$ 131,631
Cash Flows			
Excess of revenue over expenses	$ 137,169	$ (5,538)	$ 131,631
Reserve for Replacement Fund			
Revenue			
Maintenance fees	$ 1,938,368	$ 785,230	$ 2,723,598
Deficiency of revenue over expenses	$ (790,389)	$ 790,389	$ -
Cash Flows			
Deficiency of revenue over expenses	$ (790,389)	$ 790,389	$ -
Decrease in contract liability	$ -	$ (790,389)	$ (790,389)

Marriott's Kaua'i Beach Club Owners Association
Supplementary Information on Future Major Repairs and Replacements (Unaudited)
Year Ended December 31, 2019

On behalf of the Board of Directors, a reserve study was completed during 2019 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	2020 Funding Requirement	Balance at December 31, 2019
Furniture and fixtures	7	$ 21,410,721	$ 2,074,003	$ 646,552

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

Name/Address	**Phone/Fax/E-mail**	**Office**	**Term**
Arthur Gillespie c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-246-5019 Fax: 808-245-2993 art.gillespie@verizon.net	President	2019-2022
Jan Yokota c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-246-5019 Fax: 808-245-2993 jyokota@rmrgroup.com	Vice President	2017-2020
Charles Baron c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-246-5019 Fax: 808-245-2993 charles.baron@vacation.club.com	Secretary/Treasurer	2018-2021

Marriott's Kauai Beach Club Owners Association
Board of Directors

Name/Address	Phone/Fax/E-mail	Office	Term
Arthur Gillespie c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-246-5019 Fax: 808-245-2993 art.gillespie@verizon.net	President	2018-2021
George Hammond c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-246-5019 Fax: 808-245-2993 g_hammond@sbcglobal.net	Vice President	2019-2022
Albert Kanahele c/o Marriott's Kauai Beach Club Executive Offices 3610 Rice Street Lihue, Hawaii 96766	Ph: 808-246-5019 Fax: 808-245-2993 kanahele540@gmail.com	Secretary/Treasurer	2017-2020
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