April 2019

Dear Marriott’s Kauai Lagoons – Kalanipu’u Owner,

Enclosed please find the audited 2018 Financial Statements report for the Association of Owners of Kalanipu’u Condominium and Owner Participation Rules for Board of Directors Meetings. This report is being provided to you as outlined in the Association governing documents and Hawaii State Statutes.

If you have any questions, please contact Tracey Kupihea, Director of Finance, via email at tracey.kupihea@vacationclub.com.

Sincerely,

*Ed Fuller*

Secretary/Treasurer
Association of Owners of Kalanipu’u Condominium

Enclosure

# Association of Owners of Kalanipu'u Condominium

**Financial Statements**
**December 31, 2018 and 2017**

# Association of Owners of Kalanipu'u Condominium
## Index
## December 31, 2018 and 2017

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# Report of Independent Auditors

To the Board of Directors of
Association of Owners of Kalanipu'u Condominium

We have audited the accompanying financial statements of Association of Owners of Kalanipu'u Condominium (the "Association"), which comprise the balance sheet as of December 31, 2018 and the related statements of revenues, expenses and changes in fund balance - operating fund, of revenues, expenditures and changes in fund balance - reserve for replacement fund and of revenues, expenses and changes in fund balance – working capital fund for the year ended December 31, 2018 and the fiscal year ended December 31, 2017, and of cash flows for the year ended December 31, 2018.

**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 Association of Owners of Kalanipu'u Condominium at December 31, 2018, and the results of its operations for the year ended December 31, 2018 and the fiscal year ended December 31, 2017 and its cash flows for the year ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP, 4040 West Boy Scout Boulevard, Suite 1000, Tampa, FL 33607-5745*
*T: (813) 229 0221, F: (813) 229 3646,* www.pwc.com/us

**Other Matters**

We previously audited the balance sheet as of December 31, 2017 and the related statements of revenues, expenses and changes in fund balance – operating fund, of revenues, expenditures and changes in fund balance – reserve for replacement fund, of revenues, expenses and changes in fund balance – working capital fund and of cash flows for the fiscal year then ended (not presented herein), and in our report dated April 20, 2018, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of December 31, 2017 and for the fiscal year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

PricewaterhouseCoopers LLP

Tampa, Florida
April 19, 2019

# Association of Owners of Kalanipu'u Condominium
## Balance Sheets
## December 31, 2018, with Summarized Comparative Totals for December 31, 2017

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Operating Fund | Reserve for Replacement Fund | Working Capital Fund | Total | December 31, 2017 |
| **Assets** | | | | | |
| Cash and cash equivalents | $ 2,248,710 | $ 792,298 | $ 12,472 | $ 3,053,480 | $ 1,733,772 |
| Investments | - | 195,380 | - | 195,380 | 1,568,750 |
| Maintenance fees receivable, less allowance for doubtful accounts of $0 in 2018 and 2017 | 1,174 | 264 | - | 1,438 | 12,315 |
| Maintenance fees receivable due from MRHC | 8,797 | 2,256 | - | 11,053 | 9,224 |
| Accrued interest receivable | - | 3,821 | - | 3,821 | 1,692 |
| Prepaid expenses and other assets | 102,644 | - | - | 102,644 | 87,030 |
| Fixed assets, net | 1,163 | - | - | 1,163 | 15,120 |
| Due from Marriott Vacations Worldwide Corporation | 12,997 | - | - | 12,997 | - |
| Due (to) from Operating Fund | - | (2,338) | 155 | (2,183) | (97,868) |
| Due from Reserve for Replacement Fund | 2,338 | - | - | 2,338 | 97,923 |
| Due to Working Capital Fund | (155) | - | - | (155) | (55) |
| Total assets | $ 2,377,668 | $ 991,681 | $ 12,627 | $ 3,381,976 | $ 3,427,903 |
| **Liabilities and Fund Balances** | | | | | |
| Liabilities | | | | | |
| Accrued expenses | $ 60,717 | $ 6,036 | $ - | $ 66,753 | $ 59,316 |
| Unearned maintenance fees | 1,903,163 | 488,364 | - | 2,391,527 | 2,392,173 |
| Income tax payable | 4,631 | 305 | - | 4,936 | 8,124 |
| Due to Marriott Vacations Worldwide Corporation | - | - | - | - | 10,266 |
| Total liabilities | 1,968,511 | 494,705 | - | 2,463,216 | 2,469,879 |
| Fund balances | 409,157 | 496,976 | 12,627 | 918,760 | 958,024 |
| Total liabilities and fund balances | $ 2,377,668 | $ 991,681 | $ 12,627 | $ 3,381,976 | $ 3,427,903 |

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

# Association of Owners of Kalanipu'u Condominium
## Statements of Revenues, Expenses and Changes in Fund Balance
## Operating Fund
## Year Ended December 31, 2018 and Fiscal Year Ended December 31, 2017

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Revenues** | | |
| Maintenance fees | $ 2,226,011 | $ 2,017,766 |
| Maintenance fee service charges | 225 | 166 |
| Garage revenue | 103,620 | 100,245 |
| Bank interest | 14,325 | 6,051 |
| Miscellaneous income | - | 10 |
| Total revenues | 2,344,181 | 2,124,238 |
| **Expenses** | | |
| Accounting and administration | 57,975 | 57,685 |
| Activities | 55,509 | 57,745 |
| Annual audit | 15,450 | 13,700 |
| Billing and collections | 3,007 | 3,507 |
| Board of Directors' expense | 1,274 | 823 |
| Cable television | 3,675 | 3,675 |
| Electricity | 371,696 | 371,878 |
| Gas | 25,469 | 31,808 |
| General excise tax | 1,224 | 4,461 |
| Housekeeping | 132,168 | 93,464 |
| Income tax expense | 41,294 | 37,100 |
| Insurance | 209,647 | 179,791 |
| Kauai Lagoons Community Association dues | 321,404 | 288,683 |
| Landscaping | 293,494 | 321,352 |
| Loss prevention | 207,425 | 190,455 |
| Management fee | 206,923 | 211,344 |
| Pest control | 4,454 | 2,787 |
| Pool maintenance | 97,155 | 103,428 |
| Postage, printing and handling | 2,737 | 2,045 |
| Refuse collection | 86,331 | 83,605 |
| Repairs and maintenance | 193,783 | 208,799 |
| Telephone | 9,492 | 9,361 |
| Water and sewer | 87,740 | 65,869 |
| Total expenses | 2,429,326 | 2,343,365 |
| Deficit of revenues over expenses | (85,145) | (219,127) |
| **Fund balance** | | |
| Beginning of fiscal year | 494,302 | 713,429 |
| End of fiscal year | $ 409,157 | $ 494,302 |

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

# Association of Owners of Kalanipu'u Condominium
## Statements of Revenues, Expenditures and Changes in Fund Balance
## Reserve for Replacement Fund
## Year Ended December 31, 2018 and Fiscal Year Ended December 31, 2017

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Revenues** | | |
| Reserve for replacement assessments | $ 367,693 | $ 567,693 |
| Interest income | 7,700 | 5,289 |
| Unrealized (loss) gain on fair value investments | (1,370) | 6,250 |
| Total revenues | 374,023 | 579,232 |
| **Expenditures** | | |
| External building maintenance | - | 224,548 |
| Common area rehabilitation | 325,424 | 169,705 |
| Income tax expense | 2,718 | 1,856 |
| Total expenditures | 328,142 | 396,109 |
| Excess of revenues over expenditures | 45,881 | 183,123 |
| **Fund balance** | | |
| Beginning of fiscal year | 451,095 | 267,972 |
| End of fiscal year | $ 496,976 | $ 451,095 |

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

# Association of Owners of Kalanipu'u Condominium
## Statements of Revenues, Expenses and Changes in Fund Balance
## Working Capital Fund
## Year Ended December 31, 2018 and Fiscal Year Ended December 31, 2017

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Revenues** | | |
| Working capital income | $ - | $ - |
| Total revenues | - | - |
| **Expenses** | | |
| Project expenses | - | |
| Total expenses | - | - |
| Excess of revenues over expenditures | - | - |
| **Fund balance** | | |
| Beginning of fiscal year | 12,627 | 12,627 |
| End of fiscal year | $ 12,627 | $ 12,627 |

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

# Association of Owners of Kalanipu'u Condominium
## Statements of Cash Flows
## For the Year Ended December 31, 2018, with Summarized Comparative Totals for the Fiscal Year Ended December 31, 2017

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Operating Fund | Reserve for Replacement Fund | Working Capital Fund | Total | December 31, 2017 |
| **Cash flows from operating activities** | | | | | |
| (Deficit) excess of revenues over expenses/expenditures | $ (85,145) | $ 45,881 | $ - | $ (39,264) | $ (36,004) |
| Adjustments to reconcile (deficit) excess of revenues over expenses/expenditures to net cash (used in) provided by operating activities | | | | | |
| Depreciation expense | 13,957 | - | - | 13,957 | 14,174 |
| Unrealized loss (gain) on fair value investments | - | 1,370 | - | 1,370 | (6,250) |
| Changes in operating assets and liabilities | | | | | |
| Decrease (increase) in maintenance fees receivable | 10,992 | (115) | - | 10,877 | (12,315) |
| Increase in maintenance fees receivable due from MRHC | (900) | (929) | | (1,829) | (3,094) |
| Decrease (increase) in accrued interest receivable | 107 | (2,236) | - | (2,129) | 395 |
| Decrease in income tax receivable | - | - | - | - | 1,145 |
| Increase in prepaid expenses and other assets | (15,614) | - | - | (15,614) | (5,614) |
| (Increase) decrease in due from Marriott Vacations Worldwide Corporation | (12,997) | - | - | (12,997) | 14,534 |
| Increase (decrease) in accrued expenses | 1,419 | 6,018 | - | 7,437 | (19,519) |
| (Decrease) increase in unearned maintenance fees | (144,694) | 144,048 | - | (646) | 8,800 |
| (Decrease) increase in income tax payable | (3,106) | (82) | - | (3,188) | 6,610 |
| (Decrease) increase in due to Marriott Vacations Worldwide Corporation | (10,266) | - | - | (10,266) | 10,266 |
| Increase (decrease) in due to/from Operating/Reserve for Replacement/ Working Capital Funds | 95,685 | (95,585) | (100) | - | - |
| Net cash (used in) provided by operating activities | (150,562) | 98,370 | (100) | (52,292) | (26,872) |
| **Cash flows from investing activities** | | | | | |
| Purchases of investments | - | 249,657 | - | 249,657 | (1,645,000) |
| Proceeds (deficit) from maturities of investments | 1,225,000 | (102,657) | - | 1,122,343 | 1,620,000 |
| Net cash provided by (used in) investing activities | 1,225,000 | 147,000 | - | 1,372,000 | (25,000) |
| Net increase (decrease) in cash and cash equivalents | 1,074,438 | 245,370 | (100) | 1,319,708 | (51,872) |
| **Cash and cash equivalents** | | | | | |
| Beginning of fiscal year | 1,174,272 | 546,928 | 12,572 | 1,733,772 | 1,785,644 |
| End of fiscal year | $ 2,248,710 | $ 792,298 | $ 12,472 | $ 3,053,480 | $ 1,733,772 |
| **Supplemental disclosure** | | | | | |
| Cash paid during the fiscal year for income taxes | $ 44,400 | $ 2,800 | $ - | $ 47,200 | $ 31,201 |

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

## 1. Summary of Significant Accounting Policies

Association of Owners of Kalanipu'u Condominium (the "Association") was incorporated in 2008 in the State of Hawaii. The purpose of the Association is to administer and manage the condominium project created and established as the Kalanipu'u Condominium Project (the "Condominium Project"). Operations of the Association commenced as of January 16, 2009 under the management of Marriott Resorts Hospitality Corporation ("MRHC"). The Kalanipu'u Vacation Owners Association, Inc. ("VOA") and Kauai Lagoons LLC (the "Developer") are members of the Association.

As of December 31, 2018 and 2017, the Association consisted of 78 resort units and 1 front desk unit. Furthermore, for the year ended December 31, 2018 and the fiscal year ended December 31, 2017, of the Association's 78 resort units, 74 were owned by the VOA, 3 were under whole ownership, and 1 was developer-owned. The Association's declaration of interval ownership provides that each resort unit owner has an undivided interest in the facilities and, accordingly, the condominium assets are not recorded on the financial records of the Association.

**Fiscal Year**
Prior to fiscal year 2017, the Association's fiscal year ended on the Friday nearest to December 31. During 2016, the Board of Directors of the Association approved a change in the Association's fiscal year to a calendar year commencing January 1, 2017. The budget for fiscal year 2017 reflects the 2017 calendar year, plus one additional day at the end of December 2016 due to the transition from the 2016 periodic fiscal year to the 2017 calendar-based fiscal year.

**Comparative Information**
While comparative information is not required under accounting principles generally accepted in the United States of America, the Association believes this information is useful and has included comparative financial information from the financial statements as of and for the fiscal year ended December 31, 2017. Within the Balance Sheets and Statements of Cash Flows, prior year balances, by fund, have been condensed for comparative purposes. This summarized information is not intended to be a full presentation in conformity with accounting principles generally accepted in the United States of America, which would require certain additional information. Accordingly, such information should be read in conjunction with the Association's audited financial statements as of and for the fiscal year ended December 31, 2017.

**Use of Estimates**
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

The amount of annual contribution is based on estimates of future needs for repairs and replacements of common property components. MRHC, on behalf of the Board of Directors, utilizes a third party vendor to conduct ongoing studies to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on these studies.

The Association is 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 the Reserve for Replacement Fund. Accordingly, a funding requirement of $528,724 has been included in 2019 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.

**Working Capital Fund**
Upon purchase of a unit, whole owners pay start-up fees that are recognized as working capital income. The funds are restricted to future expenses as approved by the Board of Directors.

**Cash and Cash Equivalents**
The Association considers money in checking accounts, money market funds, and U.S. Treasury bills and notes 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 their 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.

**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.

The following table summarizes the Association's investments recorded at fair value on a recurring basis at December 31, 2018 and 2017:

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | |
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Equity-linked certificates of deposit | $ - | $ 55,380 | $ - | $ 55,380 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | |
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Equity-linked certificates of deposit | $ - | $ 56,750 | $ - | $ 56,750 |

**Maintenance Fees Receivable**
Maintenance fees receivable represents amounts due from owners.

**Fixed Assets**
Fixed assets 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 between 4 and 5 years.

**Unearned Maintenance Fees**
Unearned maintenance fees represent prepayment of the next year's maintenance fees.

**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 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 made this election for 2017 and plans on making this election for 2018; 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, 2018. The Association's federal income tax returns for 2015, 2016 and 2017 are subject to examination by the Internal Revenue Service, generally for a period of three years after the federal income tax return was filed.

**Accounting Pronouncements**
In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), which, as amended, supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, as well as most industry-specific guidance, and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principle-based, comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09, as amended, will be effective for annual reporting periods beginning after December 15, 2018. The new standard may be applied retrospectively or on a modified retrospective basis with the cumulative effect recognized on the date of adoption. The Association will adopt ASU 2014-09, as amended, commencing in fiscal year 2019, on a modified retrospective basis. The Association continues to evaluate the impact that adoption of this accounting standards update will have on its financial statements and disclosures, pending industry clarification on the application to similar entities.

In February 2016, the 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, 2019. 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 2020.

## 2. Investments

Investments are classified as follows at December 31, 2018 and 2017:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Market Value | Amortized Cost | Fair Market Value |
| Equity-linked certificates of deposit | $ 50,000 | $ 55,380 | $ 50,000 | $ 56,750 |
| Certificates of deposit (held-to-maturity) | $ 140,000 | $ 139,546 | $ 1,512,000 | $ 1,512,303 |

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

The contractual maturities of the investments at December 31, 2018 and 2017 are as follows:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Market Value | Amortized Cost | Fair Market Value |
| Due within one year | $ 140,000 | $ 139,546 | $ 1,372,000 | $ 1,372,094 |
| Due between one year through five years | 50,000 | 55,380 | 190,000 | 196,959 |
| Total | $ 190,000 | $ 194,926 | $ 1,562,000 | $ 1,569,053 |

The equity-linked certificates of deposit had unrealized (losses) gains of ($1,370) and $6,250 for the year ended December 31, 2018 and the fiscal year ended December 31, 2017, respectively, which are included in the Statements of Revenues, Expenditures and Changes in Fund Balance – Reserve for Replacement Fund.

### 3. Fixed Assets

Fixed assets, net consisted of the following at December 31, 2018 and 2017:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Office equipment | $ 2,292 | $ 2,292 |
| Vehicle | 56,000 | 56,000 |
| | 58,292 | 58,292 |
| Less: Accumulated depreciation | (57,129) | (43,172) |
| | $ 1,163 | $ 15,120 |

Depreciation expense was $13,957 and $14,174 for the year ended December 31, 2018 and the fiscal year ended December 31, 2017, respectively. The expense is allocated as a component of various expenses found on the Statements 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, 2018 and the fiscal year ended December 31, 2017:

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Total | Operating Fund | Reserve for Replacement Fund | Total | Operating Fund | Reserve for Replacement Fund |
| Federal | $ 37,675 | $ 35,348 | $ 2,327 | $ 33,455 | $ 31,861 | $ 1,594 |
| State | 6,337 | 5,946 | 391 | 5,501 | 5,239 | 262 |
| | $ 44,012 | $ 41,294 | $ 2,718 | $ 38,956 | $ 37,100 | $ 1,856 |

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

### 5. Management Agreement

In 2008, the Association entered into a management agreement with MRHC for a term of five years with automatic five-year renewals, unless sooner terminated by written notice or applicable law. MRHC is required to perform all management, maintenance, and operations of the facilities for which the Association is charged for actual costs incurred. In addition, MRHC is entitled to receive an annual fee of 10% of adjusted operating fees MRHC is required to collect. During the year ended December 31, 2018 and the fiscal year ended December 31, 2017, the management fee was $206,923 and $211,344, respectively, and is recorded in the Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

## 6. Related Party Transactions

Marriott Vacations Worldwide Corporation ("MVWC"), the indirect parent company of MRHC pays all invoices on behalf of the Association, subject to reimbursement by the Association. The net amount due from (to) MVWC at December 31, 2018 and 2017 was $12,997 and ($10,266), respectively.

MRHC collects annual maintenance fees on behalf of the Association. The amount of maintenance fees receivable due from MRHC at December 31, 2018 and 2017 was $11,053 and $9,224, respectively.

## 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 a high credit quality financial institution. In addition, the Board of Directors maintains its investments in a portfolio that the Board of Directors 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 have 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 has incorporated an analysis to identify 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, the Association is able to and has the ability to hold these investments to their stated maturity dates.

## 8. Subsequent Events

The Association has performed an evaluation of subsequent events through April 19, 2019 which is the date the financial statements were issued.

# Association of Owners of Kalanipu'u Condominium
## Supplementary Information on Future Major Repairs and Replacements (Unaudited)
## Year Ended December 31, 2018

On behalf of the Board of Directors, a reserve study was completed in 2017 to estimate the remaining useful lives and the replacement costs of the components of common property.

The following table is based on the studies 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 | 2019 Funding Requirement | Components of Fund Balance at December 31, 2018 |
|---|---|---|---|---|
| Roof replacement | 21 | $ 1,402,775 | $ 12,476 | $ 178,135 |
| Building painting | 1 | 886,100 | 136,626 | 248,006 |
| External building maintenance | 10 | 1,369,030 | 197,946 | (137,525) |
| Pavement resurfacing | 9 | 177,608 | 3,405 | 34,380 |
| Common area rehabilitation | 18 | 8,386,827 | 178,271 | 173,980 |
| | | $ 12,222,340 | $ 528,724 | $ 496,976 |

**Association of Owners of Kalanipu’u Condominium**
**Board of Directors**

| Name/Address | Phone/Fax | Office Held | Term |
|---|---|---|---|
| Charles Baron<br>c/o Marriott’s Kauai Lagoons–Kalanipu’u<br>3325 Holokawelu Way<br>Lihue, HI 96766 | Resort Main Phone: 808-241-2067<br>Resort Main Fax: 808-246-1816 | President and<br>Front Desk Director | 2016-2019 |
| Harry Mayo<br>c/o Marriott’s Kauai Lagoons-Kalanipu’u<br>3325 Holokawelu Way<br>Lihue, HI 96766 | Resort Main Phone: 808-241-2067<br>Resort Main Fax: 808-246-1816 | Vice President | 2018-2021 |
| Ed Fuller<br>c/o Marriott’s Kauai Lagoons-Kalanipu’u<br>3325 Holokawelu Way<br>Lihue, HI 96766 | Resort Main Phone: 808-241-2067<br>Resort Main Fax: 808-246-1816 | Secretary/Treasurer | 2017-2020 |

**Association of Owners of Kalanipu'u Condominium**
**Owner Participation Rules for Board of Directors Meetings**

1) **Attendance**
   a) Attendance at Board of Directors meetings is open to all Owners of the Association, representatives of the management company, and such other persons who have been specifically invited by the Board.
   b) All meeting attendees must sign-in or otherwise announce themselves as being present at the meeting.

2) **Owners Recognized by Chair/Rights to the Floor**
   a) Once each agenda item has been discussed by the Board (and before a vote is taken), the Chair of the meeting will ask if there are any Owners that would like to discuss or deliberate with respect to the agenda item.
   b) Any Owner wishing to speak shall call out "Mr./Ms. Chairperson" and wait to be recognized by the Chair.
   c) Such participating Owner will first identify him/herself by stating his/her name and unit/interest owned before speaking.
   d) If there are multiple calls for the Chair, the Chair will call on Owners present at the meeting location one at a time and then will call on Owners on the phone one at a time.
   e) Before discussion is concluded on a given agenda item, the Chair will call again for any further discussion; if none, the Chair will call the discussion closed.
   f) After the discussion (and vote, where applicable) on all agenda items, the Chair will ask if there are any Owners that would like to discuss or deliberate with respect to any additional items that are not on the agenda.
   g) Any owners wishing to speak on items not on the agenda shall follow the procedures set forth above in Sections 2(b)-(e) above

3) **Owner Deliberation/Discussion**
   a) An Owner who wishes, and is entitled, to speak may not speak until recognized by the Chair.
   b) Once recognized, the Owner may speak for no more than three (3) minutes on a given agenda item or non-agenda item.
   c) An Owner shall not speak a second time on any matter until all Owners who wish to speak a first time on such matter are recognized by the Chair.
   d) No Owner shall speak more than twice on the same matter, or longer than three (3) minutes per speech, without permission of the Chair.

4) **Amendment of Owner Participation Rules for Board of Director Meetings**
   These Owner Participation Rules for Board of Directors Meetings may be amended or otherwise modified at any regular or duly noticed special meeting of the Board, provided that all Owners shall be notified of any changes to these Owner Participation Rules.

5) **Electronic Devices**
   Mobile phones and pagers shall be silenced during all Board Meetings. Video cameras and recording equipment, other than those approved in advance by the Chair, shall not be permitted and no recordings shall be made of the meeting.