April 2019

Dear Marriott's Maui Ocean Club Owner,

The audited 2018 Financial Statements reports for Association of Apartment Owners of Maui Ocean Club and Maui Ocean Club Vacation Owners Association and the Owners Participation Rules for Board of Directors Meetings are available for your review. These reports are provided to you as outlined in the Associations' governing documents and Hawaii State Statutes.

If you have any questions, please contact Elton Sambrano, Director of Finance, at 808-667-8230 or via email at elton.sambrano@vacationclub.com.

Sincerely,

John Draeger
Secretary -Treasurer
Association of Apartment Owners of Maui Ocean Club
Maui Ocean Club Vacation Owners Association

Association of Apartment Owners of Maui Ocean Club

Financial Statements
December 31, 2018 and 2017

Association of Apartment Owners of Maui Ocean Club
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December 31, 2018 and 2017

Report of Independent Auditors

The Board of Directors of
Association of Apartment Owners of Maui Ocean Club

We have audited the accompanying financial statements of the Association of Apartment Owners of Maui Ocean Club (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 and of revenues, expenditures and changes in fund balance - reserve for replacement fund for the years ended December 31, 2018 and 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 the Association of Apartment Owners of Maui Ocean Club at December 31, 2018, and the results of its operations for the years ended December 31, 2018 and 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.

pwc

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 and of cash flows for the year then ended (not presented herein), and in our report dated April 17, 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 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 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Tampa, Florida
April 17, 2019

Association of Apartment Owners of Maui Ocean Club
Balance Sheets
December 31, 2018, with Summarized Comparative Totals for December 31, 2017

	2018			
	Operating Fund	**Reserve for Replacement Fund**	**Total**	**2017**
Assets				
Cash and cash equivalents	$ 8,674,591	$ 4,337,296	$ 13,011,887	$ 11,527,234
Investments	-	1,224,150	1,224,150	1,754,283
Maintenance fees receivable, less allowance for doubtful accounts of approximately $89,000 and $213,000 in 2018 and 2017, respectively	133,631	34,500	168,131	276,022
Maintenance fees receivable due from MRHC	826,357	167,231	993,588	1,018,142
Accrued interest receivable	-	16,876	16,876	1,588
Prepaid expenses and other assets	700,871	-	700,871	600,426
Fixed assets, net	113,362	-	113,362	145,527
Due from Marriott Vacations Worldwide Corporation	11,364	-	11,364	-
Due from Maui Ocean Club Vacation Owners Association	-	-	-	1,337
Due to Operating Fund	-	(96,866)	(96,866)	(23,420)
Due from Reserve for Replacement Fund	96,866	-	96,866	23,420
Total assets	$ 10,557,042	$ 5,683,187	$ 16,240,229	$ 15,324,559
Liabilities and Fund Balances				
Liabilities				
Accrued expenses	$ 345,172	$ 291,048	$ 636,220	$ 451,219
Unearned maintenance fees	8,916,574	1,822,995	10,739,569	10,303,938
Income tax payable	8,139	4,609	12,748	11,961
General excise tax payable	6,072	41	6,113	5,517
Due to Marriott Vacations Worldwide Corporation	-	-	-	23,482
Due to Maui Ocean Club Vacation Owners Association	54,715	-	54,715	-
Total liabilities	9,330,672	2,118,693	11,449,365	10,796,117
Fund balances	1,226,370	3,564,494	4,790,864	4,528,442
Total liabilities and fund balances	$ 10,557,042	$ 5,683,187	$ 16,240,229	$ 15,324,559

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

Association of Apartment Owners of Maui Ocean Club
Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Maintenance fees	$ 16,953,667	$ 16,203,263
Operating finance charges	57,459	77,378
Interest income	66,611	54,402
Total revenues	17,077,737	16,335,043
Expenses		
Accounting and administration	412,648	320,406
Association dues	956,925	280,587
Audit fees	19,325	17,050
Bad debt (benefit) expense	(88,788)	49,882
Board of directors' expense	4,664	3,615
Credit card fees	286,583	293,801
Electricity	2,751,833	2,410,381
Gas	424,084	465,545
Housekeeping	1,253,270	1,236,844
Income tax expense	22,912	18,692
Insurance	1,178,042	1,024,731
Landscaping/grounds	1,745,217	1,776,943
Loss prevention	1,530,866	1,454,961
Maintenance	2,621,826	2,487,005
Recreation/activities	1,603,081	1,533,838
Management fee	1,843,406	1,750,240
Parking license expense	158,427	190,811
Pest control	91,450	85,549
Refuse collection	216,018	206,374
Water and sewer	1,070,040	975,183
Total expenses	18,101,829	16,582,438
Deficit of revenues over expenses	(1,024,092)	(247,395)
Fund balance		
Beginning of year	2,250,462	2,497,857
End of year	$ 1,226,370	$ 2,250,462

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

Association of Apartment Owners of Maui Ocean Club
Statements of Revenues, Expenditures and Changes in Fund Balance – Reserve for Replacement Fund
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Reserve for replacement assessment	$ 3,323,814	$ 3,049,371
Late fee income	9,669	11,873
Bank interest income	45,646	12,307
Realized loss on fair value investments	(8,926)	-
Unrealized (loss) gain on fair value investments	(33,975)	30,947
Total revenues	3,336,228	3,104,498
Expenditures		
External building maintenance	37,120	52,806
Common area rehabilitation	1,999,620	2,392,193
Income tax expense	12,974	4,337
Total expenditures	2,049,714	2,449,336
Excess of revenues over expenditures	1,286,514	655,162
Fund balance		
Beginning of year	2,277,980	1,622,818
End of year	$ 3,564,494	$ 2,277,980

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

Association of Apartment Owners of Maui Ocean Club
Statements of Cash Flows
For the Year Ended December 31, 2018, with Summarized Comparative Totals for December 31, 2017

	2018			
	Operating Fund	Reserve for Replacement Fund	Total	2017
Cash flows from operating activities				
(Deficit) excess of revenues over expenses/expenditures	$ (1,024,092)	$ 1,286,514	$ 262,422	$ 407,767
Adjustments to reconcile (deficit) excess of revenues over expenses/expenditures to net cash (used in) provided by operating activities				
Bad debt (benefit) expense	(88,788)	-	(88,788)	49,882
Depreciation expense	50,696	-	50,696	39,821
Realized loss on fair value investments	-	8,926	8,926	-
Unrealized loss (gain) on fair value investments	-	33,975	33,975	(30,947)
Changes in operating assets and liabilities				
Decrease (increase) in maintenance fees receivable	167,569	29,110	196,679	(14,881)
Decrease (increase) in maintenance fees receivable due from MRHC	26,676	(2,122)	24,554	(471,855)
Decrease (increase) in accrued interest receivable	24	(15,312)	(15,288)	277
Increase in prepaid expenses and other assets	(100,445)	-	(100,445)	(24,191)
Decrease in general excise tax receivable	-	-	-	365
Decrease in due from Marriott Resorts Hospitality Corporation	-	-	-	292
(Increase) decrease in due from Marriott Vacations Worldwide Corporation	(11,364)	-	(11,364)	162,887
Decrease (increase) in due from Maui Ocean Club Vacation Owners Association	1,337	-	1,337	(1,337)
(Decrease) increase in accrued expenses	(65,653)	250,654	185,001	191,324
Increase in unearned maintenance fees	312,883	122,748	435,631	1,232,830
Increase in income tax payable	516	271	787	4,629
Increase (decrease) in general excise tax payable	614	(18)	596	1,052
(Decrease) increase in due to Marriott Vacations Worldwide Corporation	(23,482)	-	(23,482)	23,482
Increase (decrease) in due to Maui Ocean Club Vacation Owners Association	54,715	-	54,715	(49,859)
(Decrease) increase in due from/to Operating/ Reserve for Replacement Funds	(73,446)	73,446	-	-
Net cash (used in) provided by operating activities	(772,240)	1,788,192	1,015,952	1,521,538
Cash flows from investing activities				
Purchases of investments	(1,715,000)	(985,000)	(2,700,000)	(6,860,000)
Proceeds from maturity of investments	1,960,000	1,227,232	3,187,232	11,025,000
Additions to fixed assets	(18,531)	-	(18,531)	(88,728)
Net cash provided by investing activities	226,469	242,232	468,701	4,076,272
Net (decrease) increase in cash and cash equivalents	(545,771)	2,030,424	1,484,653	5,597,810
Cash and cash equivalents				
Beginning of year	9,220,362	2,306,872	11,527,234	5,929,424
End of year	$ 8,674,591	$ 4,337,296	$ 13,011,887	$ 11,527,234
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	$ 22,396	$ 12,703	$ 35,099	$ 18,400

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

1. Summary of Significant Accounting Policies

The Association of Apartment Owners of Maui Ocean Club (the "Association") was incorporated on May 6, 1999 in the State of Hawaii, and commenced operations on December 20, 2000. The purpose of the Association is to administer and manage the condominium project created and established as Maui Ocean Club condominium project. The Association is managed under an agreement with Marriott Resorts Hospitality Corporation ("MRHC").

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 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 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.

MRHC, 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 $3,448,457 has been included in the 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.

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, equity-linked certificates of deposit, and treasury inflation-protected securities.

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.

The Association's treasury inflation-protected securities are inflation-indexed securities. The rate of return on such securities is adjusted periodically to compensate for inflation as measured by the U.S. Department of Labor's consumer price index. At maturity, the Association is guaranteed by the U.S. Department of the Treasury to receive the greater of the adjusted principal balance or the original principal.

The equity-linked certificates of deposit and the treasury inflation-protected securities 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:

	2018			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity-linked certificates of deposit	$ -	$ 489,150	$ -	$ 489,150
Treasury inflation-protected securities	$ -	$ -	$ -	$ -

	2017			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity-linked certificate of deposit	$ -	$ 273,125	$ -	$ 273,125
Treasury inflation-protected securities	$ 256,158	$ -	$ -	$ 256,158

Fixed Assets

Fixed assets, net are stated at cost. Upon disposition or retirement, the cost and related accumulated depreciation are eliminated and any resulting gain or loss is reflected in operations. Maintenance and repairs are charged to expense when incurred; expenditures for renewals and betterments are capitalized. Depreciation is provided utilizing the straight-line method using estimated useful lives between 3 and 10 years.

Maintenance Fees Receivable

Maintenance fees receivable represents an amount due from owners.

Effective January 1, 2010, the Association entered into a Foreclosed Inventory Purchase Agreement with Marriott Ownership Resorts, Inc. ("MORI"). Effective December 31, 2017 the original Foreclosed Inventory Purchase Agreement was terminated.

Effective January 1, 2018, the Association entered into a new Foreclosed Inventory Purchase Agreement with MORI. The agreement 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. Should either party terminate the agreement, there could be potential exposure regarding the allowance for doubtful accounts and bad debt expense.

As of April 17, 2019, the new agreement is in full effect and neither party has opted to terminate the agreement.

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.

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 returns were filed.

Cost Allocation Methodology

In the beginning of 2005, the complex was comprised of a hotel, Maui Ocean Club Vacation Owners Association (the "VOA") and the Association. During 2005, the complex underwent a process converting its hotel units to timeshare units. On April 22, 2005, the hotel ceased operating and the property was converted completely to timeshare operations. In 2006, the complex was comprised of the Timeshare Association, the Association, MRHC commercial units and Marriott Ownership Resorts, Inc. ("MORI") Marketing and Sales offices. All expenses are recorded by the Association or the Timeshare Association. At the end of each accounting period, the Association expenses are allocated based on different methodologies to the Timeshare Association, MRHC, and MORI.

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.

Reclassifications

Certain items in the 2017 financial statements have been reclassified to conform to the 2018 presentation. The reclassifications had no effect on the (deficit) excess of revenues over expenses/expenditures or fund balances.

2. Investments

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

	2018		2017	
	Amortized Cost/Principal	**Fair Market Value**	**Amortized Cost/Principal**	**Fair Market Value**
Equity-linked certificates of deposit	$ 500,000	$ 489,150	$ 250,000	$ 273,125
Treasury inflation-protected securities	$ -	$ -	$ 250,007	$ 256,158
Certificates of deposit (held-to-maturity)	$ 735,000	$ 734,214	$ 1,225,000	$ 1,224,015

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

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

	2018		2017	
	Amortized Cost/Principal	**Fair Market Value**	**Amortized Cost/Principal**	**Fair Market Value**
Due within one year	$ 735,000	$ 734,214	$ 1,225,000	$ 1,224,015
Due after one year through five years	250,000	265,250	500,007	529,283
Due after five years	250,000	223,900	-	-
Total	$ 1,235,000	$ 1,223,364	$ 1,725,007	$ 1,753,298

During the year ended December 31, 2018, there was a forced redemption of a treasury inflation-protected security of $250,007 resulting in a total loss of $2,775. In prior years, $6,151 was netted in unrealized gains on fair value investments with $8,926 included in realized loss on fair value investments for the year ended December 31, 2018 in the Statements of Revenues, Expenditures and Changes in Fund Balance – Reserve for Replacement Fund.

The equity-linked certificates of deposit and treasury inflation-protected securities had unrealized (losses) gains of ($33,975) and $30,947 for the years ended December 31, 2018 and 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 at December 31, 2018 and 2017 consist of the following:

	2018	2017
Guest shuttles	$ 27,524	$ 27,524
Electric carts	22,415	20,475
Utility trucks	22,435	22,435
Store sweeper	42,709	42,709
Lawnmower	31,529	31,529
Patrol vehicle	10,937	10,937
Utility carts - grounds	31,037	31,037
Point of Sale	24,929	17,392
Vehicles	69,070	96,594
Accumulated depreciation	(169,223)	(155,105)
	$ 113,362	$ 145,527

Depreciation expense of $50,696 and $39,821 was recorded in the Statements of Revenues, Expenses, and Changes in Fund Balance - Operating Fund for the years ended December 31, 2018 and 2017, respectively.

4. Income Taxes

The expense for income taxes consisted of the following for the years ended December 31, 2018 and 2017:

	2018			2017		
	Total	Operating Fund	Reserve for Replacement Fund	Total	Operating Fund	Reserve for Replacement Fund
Federal	$30,896	$ 19,726	$ 11,170	$ 19,909	$ 16,159	$ 3,750
State	4,990	3,186	1,804	3,120	2,533	587
	$35,886	$ 22,912	$ 12,974	$ 23,029	$ 18,692	$ 4,337

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

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 February 2010, Marriott Hotel Services, Inc. assigned the entire management agreement to MRHC who, at that point, became responsible for the on and off-site management of the Association. For the years ended December 31, 2018 and 2017, MRHC is responsible for the management, maintenance and operations of the facilities, in exchange for an annual fee of 10% of the annual budget of the Association, exclusive of the management fee. For the years ended December 31, 2018 and 2017, the management fee was $1,843,406 and $1,750,240, 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 amount due from (to) MVWC at December 31, 2018 and 2017 was $11,364 and ($23,482), respectively.

The net amount due (to) from Maui Ocean Club Vacation Owners Association at December 31, 2018 and 2017 was ($54,715) and $1,337, 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 $993,588 and $1,018,142, respectively.

7. Association Dues

The Association is a member of the Kaanapali Operators Association (“KOA”) and the Kaanapali Beach Resort Association ("KBRA"). The fees paid to KOA are utilized for the maintenance of the community, security and lighting. The fees paid to KBRA are utilized for the promotion and enhancement of Kaanapali as a resort destination. For the years ended December 31, 2018 and 2017, the Association incurred fees of $956,925 and $280,587, respectively, which are included in the Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

8. Concentrations of Credit Risk

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

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

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

9. Subsequent Events

The Association has performed an evaluation of subsequent events through April 17, 2019 which is the date the financial statements were issued.

Association of Apartment Owners of Maui Ocean Club
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 during 2016 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	2019 Funding Requirement	Components of Fund Balance at December 31, 2018
Roof replacement	13	$ 5,976,462	$ 207,767	$ 205,155
Building painting	1	3,716,982	1,526,063	1,658,712
External building maintenance	9	9,123,899	456,603	452,396
Pavement resurfacing	6	238,652	17,816	17,749
Common area rehabilitation	8	22,058,938	1,240,208	1,230,482
Total		$ 41,114,933	$ 3,448,457	$ 3,564,494

Maui Ocean Club Vacation Owners Association

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Report of Independent Auditors

The Board of Directors of
Maui Ocean Club Vacation Owners Association

We have audited the accompanying financial statements of Maui Ocean Club Vacation Owners Association (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 and of revenues, expenditures and changes in fund balance - reserve for replacement fund for the years ended December 31, 2018 and 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 Maui Ocean Club Vacation Owners Association at December 31, 2018, and the results of its operations for the years ended December 31, 2018 and 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 and of cash flows for the year then ended (not presented herein), and in our report dated April 17, 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 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 17, 2019

Maui Ocean Club Vacation Owners Association

Balance Sheets

December 31, 2018, with Summarized Comparative Totals for December 31, 2017

	2018			
	Operating Fund	Reserve for Replacement Fund	Total	2017
Assets				
Cash and cash equivalents	$ 14,354,508	$ 4,056,161	$ 18,410,669	$ 19,849,263
Investments	-	2,630,284	2,630,284	3,499,948
Maintenance fees receivable, less allowance for doubtful accounts of approximately $155,000 and $403,000 in 2018 and 2017, respectively	221,059	72,420	293,479	521,881
Maintenance fees receivable due from MRHC	1,460,369	355,997	1,816,366	1,726,348
Accrued interest receivable	-	11,959	11,959	11,698
Prepaid expenses and other assets	268,177	-	268,177	402,577
Fixed assets, net	35,418	-	35,418	26,199
Due from Marriott Vacations Worldwide Corporation	122,118	-	122,118	-
Due from Association of Apartment Owners of Maui Ocean Club	54,715	-	54,715	-
Due (to) from Reserve for Replacement Fund	(262,159)	-	(262,159)	37,195
Due from (to) Operating Fund	-	262,159	262,159	(37,195)
Total assets	$ 16,254,205	$ 7,388,980	$ 23,643,185	$ 26,037,914
Liabilities and Fund Balances				
Liabilities				
Accrued expenses	$ 170,829	$ -	$ 170,829	$ 338,511
Unearned maintenance fees	15,824,564	3,882,989	19,707,553	17,825,661
General excise tax payable	31,180	-	31,180	48,082
Income tax payable	23,304	49,199	72,503	20,210
Due to Marriott Vacations Worldwide Corporation	-	-	-	43,897
Due to Association of Apartment Owners of Maui Ocean Club	-	-	-	1,337
Total liabilities	16,049,877	3,932,188	19,982,065	18,277,698
Fund balances	204,328	3,456,792	3,661,120	7,760,216
Total liabilities and fund balances	$ 16,254,205	$ 7,388,980	$ 23,643,185	$ 26,037,914

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

Maui Ocean Club Vacation Owners Association
Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Maintenance fees	$ 47,983,473	$ 46,491,488
Association of Apartment Owners of Maui Ocean Club assessment	(20,270,104)	(19,246,108)
Maintenance fees, net	27,713,369	27,245,380
Late fee income	91,545	93,361
Operating finance charges	88,807	118,716
Bank interest income	190,731	68,175
Miscellaneous income	110,710	240,984
Total revenues	28,195,162	27,766,616
Expenses		
Accounting and administration	2,401,538	2,387,657
Audit fees	18,226	18,085
Bad debt (benefit) expense	(128,099)	255,835
Board of Directors' expense	4,664	8,202
Cable television	123,571	112,123
Credit card fees	496,750	513,881
Front desk	4,184,206	4,026,242
General excise tax expense	1,419,848	1,351,688
High-speed internet	99,730	86,899
Housekeeping, net	7,091,585	7,222,434
Income tax expense	59,706	17,753
Insurance	293,279	354,718
Legal	-	2,597
Maintenance	1,561,882	1,549,385
Management fee	3,168,596	3,026,985
Owner services	1,032,365	973,814
Property taxes	7,092,095	6,689,305
Telephone	129,585	129,595
Total expenses	29,049,527	28,727,198
Deficit of revenues over expenses	(854,365)	(960,582)
Fund balance		
Beginning of year	1,058,693	2,019,275
End of year	$ 204,328	$ 1,058,693

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

Maui Ocean Club Vacation Owners Association
Statements of Revenues, Expenditures and Changes in Fund Balance – Reserve for Replacement Fund
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Reserve for replacement assessment	$ 7,141,868	$ 6,052,462
Bank interest income	138,518	42,527
Late fee income	20,329	24,812
Realized (loss) gain on fair value investments	(1,243)	10,232
Unrealized (loss) gain on fair value investments	(19,375)	92,762
Total revenues	7,280,097	6,222,795
Expenditures		
Furniture and fixtures	10,475,640	2,208,757
Income tax expense	49,188	18,662
Total expenditures	10,524,828	2,227,419
(Deficit) excess of revenues over expenditures	(3,244,731)	3,995,376
Fund balance		
Beginning of year	6,701,523	2,706,147
End of year	$ 3,456,792	$ 6,701,523

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

Maui Ocean Club Vacation Owners Association
Statements of Cash Flows
For the Year Ended December 31, 2018, with Summarized Comparative Totals for the Year Ended December 31, 2017

	2018			
	Operating Fund	Reserve for Replacement Fund	Total	2017
Cash flows from operating activities				
(Deficit) excess of revenue over expenses/expenditures	$ (854,365)	$ (3,244,731)	$ (4,099,096)	$ 3,034,794
Adjustments to reconcile (deficit) excess of revenues over expenses/expenditures to net cash provided by (used in) operating activities				
Bad debt (benefit) expense	(128,099)	-	(128,099)	255,835
Depreciation expense	12,831	-	12,831	4,764
Loss on disposal of fixed assets	1,221	-	1,221	7,934
Realized loss (gain) on fair value investments	-	1,243	1,243	(10,232)
Unrealized loss (gain) on fair value investments	-	19,375	19,375	(92,762)
Changes in operating assets and liabilities				
Decrease (increase) in maintenance fees receivable	288,031	68,470	356,501	(189,837)
Increase in maintenance fees receivable due from MRHC	(88,485)	(1,533)	(90,018)	(764,833)
Increase in accrued interest receivable	-	(261)	(261)	(11,698)
Decrease (increase) in prepaid expenses and other assets	134,400	-	134,400	(126,872)
Decrease in income tax receivable	-	-	-	961
(Increase) decrease in due from Marriott Vacations Worldwide Corporation	(122,118)	-	(122,118)	786,392
Decrease in due from Marriott Resorts Hospitality Corporation	-	-	-	1,588
(Increase) decrease in due from Association of Apartment Owners of Maui Ocean Club	(54,715)	-	(54,715)	49,859
(Decrease) increase in accrued expenses	(159,533)	(8,149)	(167,682)	99,218
Increase in unearned maintenance fees	1,662,674	219,218	1,881,892	2,026,269
(Decrease) increase in general excise tax payable	(16,548)	(354)	(16,902)	26,009
Increase in income tax payable	21,745	30,548	52,293	11,455
(Decrease) increase in due to Marriott Vacations Worldwide Corporation	(43,897)	-	(43,897)	43,897
(Decrease) increase in due to Association of Apartment Owners of Maui Ocean Club	(1,337)	-	(1,337)	1,337
Increase (decrease) in due from/to Operating/Reserve for Replacement Funds	299,354	(299,354)	-	-
Net cash provided by (used in) operating activities	951,159	(3,215,528)	(2,264,369)	5,154,078
Cash flows from investing activities				
Purchases of investments	-	(2,012,709)	(2,012,709)	(2,476,676)
Proceeds from maturities of investments	-	2,861,755	2,861,755	349,685
Additions to fixed assets	(23,271)	-	(23,271)	(30,963)
Net cash (used in) provided by investing activities	(23,271)	849,046	825,775	(2,157,954)
Net increase (decrease) in cash and cash equivalents	927,888	(2,366,482)	(1,438,594)	2,996,124
Cash and cash equivalents				
Beginning of year	13,426,620	6,422,643	19,849,263	16,853,139
End of year	$ 14,354,508	$ 4,056,161	$ 18,410,669	$ 19,849,263
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	$ 37,961	$ 18,640	$ 56,601	$ 23,999

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

1. Summary of Significant Accounting Policies

Maui Ocean Club Vacation Owners Association (the "Association") was incorporated on May 6, 1999 in the State of Hawaii, and commenced operations on December 20, 2000. The purpose of the Association is to administer and manage the vacation ownership program created and established as Maui Ocean Club Vacation Ownership Program at the Marriott's Maui Ocean Club condominium project (the "Ownership Condominium"). As of December 31, 2018 and 2017, the Ownership Condominium consisted of 23,688 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 Association assets are not recorded in the financial statements. The Association is managed under an agreement with Marriott Resorts Hospitality Corporation ("MRHC").

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 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 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.

MRHC, 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 $7,327,485 has been included in the 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.

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, bonds, and equity-linked certificates of deposit.

The Association's certificates of deposit and bonds 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.

The 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:

	2018			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity-linked certificates of deposit	$ -	$ 615,775	$ -	$ 615,775

	2017			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity-linked certificates of deposit	$ -	$ 1,029,375	$ -	$ 1,029,375

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

Effective January 1, 2010, the Association entered into a Foreclosed Inventory Purchase Agreement with Marriott Ownership Resorts, Inc. ("MORI"). Effective December 31, 2017 the original Foreclosed Inventory Purchase Agreement was terminated.

Effective January 1, 2018, the Association entered into a new Foreclosed Inventory Purchase Agreement with MORI. The agreements automatically renew for any number of additional one (1) year terms, unless either party terminates the agreement with a 45 day written notice. The agreements provide that MORI shall purchase the Association's foreclosed inventory subject to the terms of the agreements. Should either party terminate the agreement, there could be potential exposure regarding the allowance for doubtful accounts and bad debt expense.

As of April 17, 2019, the new agreement is in full effect and neither party has opted to terminate the agreement.

Fixed Assets
Fixed assets, net are stated at cost. Upon disposition or retirement, the cost and related accumulated depreciation are eliminated and any resulting gain or loss is reflected in operations. Maintenance and repairs are charged to expense when incurred; expenditures for renewals and betterments are capitalized. Depreciation is provided utilizing the straight-line method using estimated useful lives between 3 and 4 years.

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.

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.

In 2018 and 2017, 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 carried deferred tax assets on its books related to taxes provided for under Section 277 in prior years. Refer to Note 3 – 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 that it has 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 returns were filed.

Cost Allocation Methodology
In 2018 and 2017, the complex was comprised of the Association, the Condominium Association, MRHC commercial units and MORI Marketing and Sales offices. All expenses are recorded by the Association or Condominium Association. At the end of each accounting period, the Condominium Association expenses are allocated based on different methodologies to the Association, MRHC and MORI.

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:

	2018		2017	
	Amortized Cost/Principal	**Fair Market Value**	**Amortized Cost/Principal**	**Fair Market Value**
Equity-linked certificates of deposit	$ 500,000	$ 615,775	$ 750,000	$ 1,029,375
Certificates of deposit (held-to-maturity)	$ 2,014,509	$ 1,995,950	$ 735,000	$ 733,630
Bonds (held-to-maturity)	-	-	1,735,573	1,730,485
	$ 2,014,509	$ 1,995,950	$ 2,470,573	$ 2,464,115

* 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 and bonds.

The contractual maturities of investments held-to-maturity and equity-linked certificates of deposit at December 31, 2018 and 2017 are as follows:

	2018		2017	
	Amortized Cost/Principal	**Fair Market Value**	**Amortized Cost/Principal**	**Fair Market Value**
Due within one year	$ 250,000	$ 332,200	$ 2,720,573	$ 2,858,340
Due between one to five years	2,264,509	2,279,525	500,000	635,150
Total	$ 2,514,509	$ 2,611,725	$ 3,220,573	$ 3,493,490

During the year ended December 31, 2018, an equity-linked certificate of deposit of $250,000 matured and was redeemed for $392,982. This resulted in a gain of $142,982. In prior years, $144,225 was netted in unrealized gains on fair value investments with $1,243 included in realized loss on fair value investments for the year ended December 31, 2018 in the Statements of Revenues, Expenditures and Changes in Fund Balance – Reserve for Replacement Fund.

During the year ended December 31, 2017, an equity-linked certificate of deposit of $250,000 matured and was redeemed for $343,582. This resulted in a gain of $93,582. In prior years, $83,350 was netted in unrealized gains on fair value investments with $10,232 included in realized gain on fair value investments for the year ended December 31, 2017 in the Statements of Revenues, Expenditures and Changes in Fund Balance – Reserve for Replacement Fund.

The equity-linked certificate of deposits had unrealized (losses) gains of ($19,375) and $92,762 for the years ended December 31, 2018 and 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 at December 31, 2018 and 2017 consist of the following:

	2018	2017
Electric carts	$ 46,530	$ 23,260
Computers - business center	29,743	30,963
Accumulated depreciation	(40,855)	(28,024)
	$ 35,418	$ 26,199

Depreciation expense of $12,831 and $4,764 was recorded in the Statements of Revenues, Expenses, and Changes in Fund Balance – Operating Fund for the years ended December 31, 2018 and 2017, respectively.

4. Income Taxes

The provision for income taxes consisted of the following for the years ended December 31, 2018 and 2017:

	2018			2017		
	Total	Operating Fund	Reserve for Replacement Fund	Total	Operating Fund	Reserve for Replacement Fund
Federal	$ 91,733	$ 50,297	$ 41,436	$ 31,342	$ 15,280	$ 16,062
State	17,161	9,409	7,752	5,073	2,473	2,600
	$ 108,894	$ 59,706	$ 49,188	$ 36,415	$ 17,753	$ 18,662

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 related to state income taxes and the exclusion exempt function income.

At December 31, 2018 and 2017, the Association had the following deferred tax assets:

	2018	2017
Deferred tax asset	$ 1,679,429	$ 1,679,429
Total deferred tax asset	1,679,429	1,679,429
Valuation allowance	(1,679,429)	(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.

5. Management Agreement

In February 2010, Marriott Hotel Services, Inc. assigned the entire management agreement to MRHC who, at that point, became responsible for the on and off-site management of the Association. For the years ended December 31, 2018 and 2017, MRHC was responsible for the management, maintenance and operations of the facilities, in exchange for an annual fee of 10% of the annual budget of the Association, exclusive of the management fee. For the years ended December 31, 2018 and 2017, the management fee was $3,168,596 and $3,026,985, respectively, and is recorded in the Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund.

6. 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. 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 $122,118 and ($43,897), respectively.

The net amount due from (to) the Association of Apartment Owners of Maui Ocean Club at December 31, 2018 and 2017 was $54,715 and ($1,337), 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 $1,816,366 and $1,726,348, 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 high credit quality financial institutions. In addition, the Board of Directors maintains its investments in a portfolio that it believes limits the amount of market exposure.

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

Since the Board of Directors has incorporated an analysis that identifies the use of these funds at specific times and the investments are structured with maturity dates to coincide with these anticipated expenditures, notwithstanding emergencies not under the control of the Board of Directors, the Association is able to and prepared to hold 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, 2018 and 2017, the MVC Trust held 4,787 (20%) and 4,340 (18%) of the timeshare interests in the Association, respectively.

8. Subsequent Events

The Association has performed an evaluation of subsequent events through April 17, 2019 which is the date the financial statements were issued.

Maui Ocean Club Vacation Owners Association
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 during 2016 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	2019 Funding Requirement	Components of Fund Balance at December 31, 2018
Furniture and fixtures	0-26	$ 77,589,145	$ 7,327,485	$ 3,456,792

Association of Apartment Owners of Maui Ocean Club
Maui Ocean Club Vacation Owners Association
Board of Directors

Name/Address	Phone/Fax/Email	Office	Term
Larry Wolfe c/o Marriott's Maui Ocean Club Executive Offices 100 Nohea Kai Drive Lahaina, HI 96761	Ph: 808-667-8203 F: 808-667-8141 ownerboard.maui@vacationclub.com	President	2018-2021
Mark Neumann c/o Marriott's Maui Ocean Club Executive Offices 100 Nohea Kai Drive Lahaina, HI 96761	Ph: 808-667-8203 F: 808-667-8141 ownerboard.maui@vacationclub.com	Vice President	2017-2020
John Draeger c/o Marriott's Maui Ocean Club Executive Offices 100 Nohea Kai Drive Lahaina, HI 96761	Ph: 808-667-8203 F: 808-667-8141 ownerboard.maui@vacationclub.com	Secretary- Treasurer	2017-2020
John Albert c/o Marriott's Maui Ocean Club Executive Offices 100 Nohea Kai Drive Lahaina, HI 96761	Ph: 808-667-8203 F: 808-667-8141 ownerboard.maui@vacationclub.com	Director	2016-2019
Nathan Guikema c/o Marriott's Maui Ocean Club Executive Offices 100 Nohea Kai Drive Lahaina, HI 96761	Ph: 808-667-8203 F: 808-667-8141 ownerboard.maui@vacationclub.com	Director	2018-2021

Association of Apartment Owners of Maui Ocean Club
Maui Ocean Club Vacation Owners Association

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 Directors 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.