

April 2019

Dear Waikoloa Beach Marriott's Resort Owner,

The audited 2018 Financial Statements report for the WBHR South Tower Units Association is enclosed for your review.

If you have questions, please contact Karl Schwartzlow, Regional Director of Finance, via email at karl.schwartzlow@vacationclub.com or by phone at 808-667-8268.

Sincerely,

John Krause

Secretary/Treasurer
WBHR South Tower Units Association

Enclosure

**WBHR South Tower Units Association
Board of Directors**

Name/Address	Phone/Fax	Office Held	Term
Richard Hayward c/o Waikoloa Beach Marriott Resort 69-275 Waikoloa Beach Drive Waikoloa Beach, HI 96738	Resort Main Phone: 808-886-6789 Resort Main Fax: 808-886-3601	President	2017-2020
Christina Gabriel c/o Waikoloa Beach Marriott Resort 69-275 Waikoloa Beach Drive Waikoloa Beach, HI 96738	Resort Main Phone: 808-886-6789 Resort Main Fax: 808-886-3601	Vice President	2017-2019
John Krause c/o Waikoloa Beach Marriott Resort 69-275 Waikoloa Beach Drive Waikoloa Beach, HI 96738	Resort Main Phone: 808-886-6789 Resort Main Fax: 808-886-3601	Secretary/Treasurer	2017-2019

WBHR South Tower Units Association

Financial Statements

**December 31, 2018 and May 11, 2017 (Inception)
through December 31, 2017**

WBHR South Tower Units Association

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December 31, 2017

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Report of Independent Auditors

The Board of Directors of
WBHR South Tower Units Association

We have audited the accompanying financial statements of WBHR South Tower Units 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, of revenues, expenditures and changes in fund balance - reserve for replacement fund for the year ended December 31, 2018 and the period from May 11, 2017 (Inception) through 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 WBHR South Tower Units Association at December 31, 2018, and the results of its operations for the year ended December 31, 2018 and the period from May 11, 2017 (Inception) through 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.



Other Matter

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 period from May 11, 2017 (Inception) through December 31, 2017 (not presented herein), and in our report dated April 19, 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 period 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 13 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.

A handwritten signature in black ink that reads "Private House Cooper 22P".

Tampa, Florida
April 19, 2019

WBHR South Tower Units Association
Balance Sheets
December 31, 2018 and 2017

	<u>December 31, 2018</u>			December 31, 2017
	Operating Fund	Reserve for Replacement Fund	Total	
Assets				
Cash and cash equivalents	\$ 5,044,538	\$ 204,982	\$ 5,249,520	\$ 10,970,439
Investments	5,496,000	3,482,000	8,978,000	740,000
Accrued interest receivable	9,336	16,635	25,971	566
Prepaid expenses and other assets	413,646	-	413,646	459,833
Due from Marriott Vacations Worldwide Corporation	147	-	147	2,581
Due from Reserve for Replacement Fund	4,038	-	4,038	-
Due to Operating Fund	-	(4,038)	(4,038)	-
Total assets	<u>\$ 10,967,705</u>	<u>\$ 3,699,579</u>	<u>\$ 14,667,284</u>	<u>\$ 12,173,419</u>
Liabilities and Fund Balances				
Liabilities				
Accrued expenses	\$ 24,204	\$ -	\$ 24,204	\$ 35,846
Due to Marriott Hotel Services, Inc.	583,701	-	583,701	534,154
Unearned maintenance fees	9,486,743	1,468,340	10,955,083	10,515,816
General excise tax accrual	4,785	-	4,785	36,400
Income tax payable	29,273	15,023	44,296	11,483
Total liabilities	10,128,706	1,483,363	11,612,069	11,133,699
Fund balances	838,999	2,216,216	3,055,215	1,039,720
Total liabilities and fund balances	<u>\$ 10,967,705</u>	<u>\$ 3,699,579</u>	<u>\$ 14,667,284</u>	<u>\$ 12,173,419</u>

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

WBHR South Tower Units Association
Statements of Revenues, Expenses and Changes in Fund Balance – Operating
Fund
Year Ended December 31, 2018 and Period from May 11, 2017 (Inception) through
December 31, 2017

	2018	2017
Revenues		
Maintenance fees	\$ 9,098,498	\$ 6,459,558
Bank interest	88,705	16,884
Antenna income	35,539	22,082
Special assessment	30,501	-
Total revenues	9,253,243	6,498,524
Expenses		
Accounting	309,397	165,112
Activities	34,824	55,899
Administration	1,128,698	679,935
Association of Unit Owners of Waikoloa Beach Hotel and Resort assessment	1,446,218	730,785
Audit fee	11,350	13,850
Board of Directors expense	2,897	-
Cable television	44,562	28,998
Electricity	472,064	241,329
Front desk	908,329	546,825
Gas	79,004	53,766
General excise tax	485,777	282,722
High-speed internet	20,026	3,676
Housekeeping	1,191,661	763,138
Human resources	11,818	5,250
Income tax expense	40,791	11,271
Insurance	233,337	81,196
Loss prevention / security	210,467	128,670
Maintenance	683,024	355,094
Management fee	1,313,062	823,560
Property taxes	270,912	155,068
Room service	29,725	15,625
Telephone	199,964	170,480
Waikoloa Beach Resort conference assessment	3,354	4,820
Waikoloa Resort association assessment	85,704	61,079
Water and sewer	193,596	124,059
Total expenses	9,410,561	5,502,207
(Deficit) excess of revenues over expenses	(157,318)	996,317
Fund balance		
Beginning of year	996,317	-
End of year	\$ 838,999	\$ 996,317

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

WBHR South Tower Units Association
Statements of Revenues, Expenditures and Changes in Fund Balance – Reserve
for Replacement Fund
Year Ended December 31, 2018 and Period from May 11, 2017 (Inception) through
December 31, 2017

	2018	2017
Revenues		
Reserve for replacement assessment	\$ 1,417,318	\$ 139,104
Special assessment reserves	732,152	-
Bank interest	42,191	607
Total revenues	<u>2,191,661</u>	<u>139,711</u>
Expenditures		
Furniture and fixtures	3,827	86,596
External building maintenance	-	9,500
Income tax expense	15,021	212
Total expenditures	<u>18,848</u>	<u>96,308</u>
Excess of revenues over expenditures	2,172,813	43,403
Fund balance		
Beginning of year	<u>43,403</u>	<u>-</u>
End of year	<u>\$ 2,216,216</u>	<u>\$ 43,403</u>

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

WBHR South Tower Units Association
Statements of Cash Flows
Year Ended December 31, 2018 and Period from May 11, 2017 (Inception) through
December 31, 2017

	2018			2017
	Operating Fund	Reserve for Replacement Fund	Total	
Cash flows from operating activities				
(Deficit) excess of revenues over expenses/expenditures	\$ (157,318)	\$ 2,172,813	\$ 2,015,495	\$ 1,039,720
Adjustments to reconcile (deficit) excess of revenues over expenses/expenditures to net cash provided by operating activities				
Changes in operating assets and liabilities				
Increase in accrued interest receivable	(8,770)	(16,635)	(25,405)	(566)
Decrease (increase) in prepaid expenses and other assets	46,187	-	46,187	(459,833)
Decrease (increase) in due from Marriott Vacations Worldwide Corporation	2,434	-	2,434	(2,581)
(Decrease) increase in accrued expenses	(11,642)	-	(11,642)	35,846
Increase in due to Marriott Hotel Services, Inc.	49,547	-	49,547	534,154
Increase unearned maintenance fees	388,245	51,022	439,267	10,515,816
(Decrease) increase in general excise tax accrual	(31,615)	-	(31,615)	36,400
Increase in income tax payable	18,002	14,811	32,813	11,483
(Decrease) increase in due to/from Operating/ Reserve for Replacement Funds	(4,038)	4,038	-	-
Net cash provided by operating activities	291,032	2,226,049	2,517,081	11,710,439
Cash flows from investing activities				
Purchases of investments	(10,212,000)	(3,482,000)	(13,694,000)	(740,000)
Proceeds from maturities of investments	5,456,000	-	5,456,000	-
Net cash used in investing activities	(4,756,000)	(3,482,000)	(8,238,000)	(740,000)
Net (decrease) increase in cash and cash equivalents	(4,464,968)	(1,255,951)	(5,720,919)	10,970,439
Cash and cash equivalents				
Beginning of year	9,509,506	1,460,933	10,970,439	-
End of year	\$ 5,044,538	\$ 204,982	\$ 5,249,520	\$ 10,970,439
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	\$ 22,789	\$ 210	22,999	\$ -

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

WBHR South Tower Units Association

Notes to Financial Statements

Year Ended December 31, 2018 and Period from May 11, 2017 (Inception) through December 31, 2017

1. Summary of Significant Accounting Policies

WBHR South Tower Units Association (the "Association") was incorporated on May 11, 2017 in the State of Hawaii. The purpose of the Association is to administer and manage the condominium units situated within the South Tower of the Waikoloa Beach Hotel and Resort condominium project located in Waikoloa Beach, Hawaii ("Units"), and the Limited Common Elements appurtenant to such Units. As of December 31, 2018 and December 31, 2017, the Association consisted of 112 units. The Association's declaration provides that each unit owner has an undivided interest in the facilities and, accordingly, the Association assets are not recorded in the financial statements of the Association. Operations of the Association commenced on May 11, 2017. 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 that this information is useful and has included comparative financial information from the financial statements as of and for the period from May 11, 2017 (Inception) through 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 period from May 11, 2017 (Inception) through 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 in the Reserve for Replacement Fund. Accordingly, a funding requirement of \$1,468,341 has been included in the 2019 budget.

WBHR South Tower Units Association

Notes to Financial Statements

Year Ended December 31, 2018 and Period from May 11, 2017 (Inception) through December 31, 2017

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. 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.

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 Association had no investments recorded at fair value on a recurring basis at December 31, 2018 or 2017.

Unearned Maintenance Fees

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

WBHR South Tower Units Association

Notes to Financial Statements

Year Ended December 31, 2018 and Period from May 11, 2017 (Inception) through December 31, 2017

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 return for 2017 is 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

Marriott Hotel Services, Inc. (the "Hotel Manager") allocates to the Association its portion of Shared Costs on a monthly basis, in accordance with the allocation methodology outlined in Exhibit A of the Condominium Unit Integration Agreement (the "Integration Agreement"), between SMG I Hotel Waikoloa, LLC (the "Developer/Hotel Owner"), The Association of Unit Owners of Waikoloa Beach Hotel and Resort (the "Condominium Association"), and MHSI (the "Hotel Manager"). The amount due to Marriott Hotel Services, Inc. was \$583,701 and \$534,154 at December 31, 2018 and 2017, respectively.

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.

WBHR South Tower Units Association
Notes to Financial Statements
Year Ended December 31, 2018 and Period from May 11, 2017 (Inception) through December 31, 2017

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 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 year 2020.

2. Investments

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

	December 31, 2018		December 31, 2017	
	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
Certificates of deposit (held-to-maturity)	\$ 8,978,000	\$ 8,973,873	\$ 740,000	\$ 739,631
	<u>\$ 8,978,000</u>	<u>\$ 8,973,873</u>	<u>\$ 740,000</u>	<u>\$ 739,631</u>

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

	December 31, 2018		December 31, 2017	
	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
Due within one year	\$ 7,014,000	\$ 7,013,932	\$ 740,000	\$ 739,631
Due between one year through five years	1,964,000	1,959,941	-	-
	<u>\$ 8,978,000</u>	<u>\$ 8,973,873</u>	<u>\$ 740,000</u>	<u>\$ 739,631</u>

WBHR South Tower Units Association

Notes to Financial Statements

Year Ended December 31, 2018 and Period from May 11, 2017 (Inception) through December 31, 2017

3. Association of Unit Owners of Waikoloa Beach Hotel and Resort Assessment

The Association is a member of the Association of Unit Owners of Waikoloa Beach Hotel and Resort. The Association recorded an assessment of \$1,446,218 and \$730,785 in the Statement of Revenues, Expenses and Changes in Fund Balance – Operating Fund for the year ended December 31, 2018 and the period from May 11, 2017 (Inception) through December 31, 2017, respectively.

4. Income Taxes

The provision for income taxes consisted of the following for year ended December 31, 2018 and the period from May 11, 2017 (Inception) through December 31, 2017:

	2018			2017		
	Total	Operating Fund	Reserve for Replacement Fund	Total	Operating Fund	Reserve for Replacement Fund
Federal	\$ 47,501	\$ 34,717	\$ 12,784	\$ 10,030	\$ 9,844	\$ 186
State	8,311	6,074	2,237	1,453	1,427	26
	<u>\$ 55,812</u>	<u>\$ 40,791</u>	<u>\$ 15,021</u>	<u>\$ 11,483</u>	<u>\$ 11,271</u>	<u>\$ 212</u>

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

On May 11, 2017, the Association entered into a management agreement with MRHC, for a term of five years with automatic renewal for successive five year periods unless sooner terminated by either party per the terms of the agreement. MRHC is responsible for the management, maintenance and operations of the facilities, in exchange for an annual fee of 15% of the annual budget of the Association, exclusive of the management fee itself and any management or operating fee to be paid to Marriott Hotel Services, Inc. (“MHSI”), its affiliates or subsidiaries, to whom MRHC has delegated or subcontracted certain on-site management services. The Association recorded MHSI operating fees of \$450,425 and \$284,096 within Administration expense in the Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund for the year ended December 31, 2018 and the period from May 11, 2017 (Inception) through December 31, 2017, respectively. The Association recorded management fees of \$1,313,062 and \$823,560 in the Statements of Revenues, Expenses and Changes in Fund Balance – Operating Fund for the year ended December 31, 2018 and the period from May 11, 2017 (Inception) through December 31, 2017, respectively.

WBHR South Tower Units Association

Notes to Financial Statements

Year Ended December 31, 2018 and Period from May 11, 2017 (Inception) through December 31, 2017

6. Related Party Transactions

Certain services, including off-site accounting and administration are provided by MRHC and allocated to the Association based on the number of units, as a percentage of total units 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 amount due from MVWC at December 31, 2018 and December 31, 2017 was \$147 and \$2,581, 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 maintains its investments in a portfolio that the Board 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 objectives are safety of principal, adequate liquidity, and maximization of current income, with an emphasis on minimizing exposure of principal loss.

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 December 31, 2017, the MVC Trust held 112 (100%) and 112 (100%) of the units in the Association, respectively.

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.

WBHR South Tower Units 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 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 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	10	\$ 595,389	\$ 46,393	\$ 48,974
Furniture and fixtures	9	14,284,971	1,184,481	1,721,310
Building painting	7	595,711	68,902	27,190
External building maintenance	8	427,256	35,607	93,151
Common area rehabilitation	9	1,727,125	132,958	325,591
		<u>\$ 17,630,452</u>	<u>\$ 1,468,341</u>	<u>\$ 2,216,216</u>