April 2018

Dear Marriott's Maui Ocean Club Owner,

The 2017 Audit Reports for Association of Apartment Owners of Maui Ocean Club and Maui Ocean Club Vacation Owners Association are enclosed for your review. These reports are provided to you as outlined in the Associations' documents and Hawaii 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

Enclosure

Association of Apartment Owners of Maui Ocean Club

Financial Statements
December 31, 2017 and 2016

Association of Apartment Owners of Maui Ocean Club
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December 31, 2017 and 2016

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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, 2017 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, 2017 and 2016, and of cash flows for the year ended December 31, 2017.

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, 2017, and the results of its operations for the years ended December 31, 2017 and 2016 and its cash flows for the year ended December 31, 2017 in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

We previously audited the balance sheet as of December 31, 2016 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 18, 2017, 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, 2016 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

Certified Public Accountants
Tampa, Florida
April 17, 2018

Association of Apartment Owners of Maui Ocean Club
Balance Sheets
December 31, 2017, with Summarized Comparative Totals for December 31, 2016

	2017			
	Operating Fund	**Reserve for Replacement Fund**	**Total**	**2016**
Assets				
Cash and cash equivalents	$ 9,220,362	$ 2,306,872	$ 11,527,234	$ 5,929,424
Investments	245,000	1,509,283	1,754,283	5,888,336
Maintenance fees receivable, less allowance for doubtful accounts of approximately $213,000 and $384,000 in 2017 and 2016, respectively	212,412	63,610	276,022	311,023
Maintenance fees receivable due from MRHC	853,033	165,109	1,018,142	546,287
Accrued interest receivable	24	1,564	1,588	1,865
Prepaid expenses and other assets	600,426	-	600,426	576,235
General excise tax receivable	-	-	-	365
Fixed assets, net	145,527	-	145,527	96,620
Due from Marriott Resorts Hospitality Corporation	-	-	-	292
Due from Marriott Vacations Worldwide Corporation	-	-	-	162,887
Due from Maui Ocean Club Vacation Owners Association	1,337	-	1,337	-
Due to Operating Fund	-	(23,420)	(23,420)	(108,235)
Due from Reserve for Replacement Fund	23,420	-	23,420	108,235
Total assets	$ 11,301,541	$ 4,023,018	$ 15,324,559	$ 13,513,334
Liabilities and Fund Balances				
Liabilities				
Accrued expenses	$ 410,825	$ 40,394	$ 451,219	$ 259,895
Unearned maintenance fees	8,603,691	1,700,247	10,303,938	9,071,108
Income tax payable	7,623	4,338	11,961	7,332
General excise tax payable	5,458	59	5,517	4,465
Due to Marriott Vacations Worldwide Corporation	23,482	-	23,482	-
Due to Maui Ocean Club Vacation Owners Association	-	-	-	49,859
Total liabilities	9,051,079	1,745,038	10,796,117	9,392,659
Fund balances	2,250,462	2,277,980	4,528,442	4,120,675
Total liabilities and fund balances	$ 11,301,541	$ 4,023,018	$ 15,324,559	$ 13,513,334

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, 2017 and 2016

	2017	2016
Revenues		
Maintenance fees	$ 16,203,263	$ 16,662,520
Operating finance charges	77,378	89,131
Interest income	54,402	31,069
Total revenues	16,335,043	16,782,720
Expenses		
Accounting and administration	320,406	311,580
Association dues	280,587	282,910
Audit fees	17,050	16,479
Bad debt expense	49,882	100,032
Board of directors' expense	3,615	6,705
Credit card fees	293,801	300,006
Electricity	2,410,381	2,318,383
Gas	465,545	446,186
Housekeeping	1,236,844	1,239,577
Income tax expense	18,692	6,958
Insurance	1,024,731	960,701
Landscaping/grounds	1,776,943	1,680,895
Loss prevention	1,454,961	1,354,303
Maintenance	2,778,928	2,760,443
Recreation/activities	1,533,838	1,372,143
Management fee	1,750,240	1,781,328
Parking license expense	190,811	155,223
Water and sewer	975,183	866,466
Total expenses	16,582,438	15,960,318
(Deficit) excess of revenues over expenses	(247,395)	822,402
Fund balance		
Beginning of year	2,497,857	1,675,455
End of year	$ 2,250,462	$ 2,497,857

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, 2017 and 2016

	2017	2016
Revenues		
Reserve for replacement assessment	$ 3,049,371	$ 2,932,087
Late fee income	11,873	12,638
Bank interest income	12,307	1,483
Unrealized gain on fair value investments	30,947	20,256
Total revenues	3,104,498	2,966,464
Expenditures		
Roof replacement	-	39,834
External building maintenance	52,806	136,456
Common area rehabilitation	2,392,193	1,945,060
Income tax expense	4,337	346
Total expenditures	2,449,336	2,121,696
Excess of revenues over expenditures	655,162	844,768
Fund balance		
Beginning of year	1,622,818	778,050
End of year	$ 2,277,980	$ 1,622,818

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, 2017, with Summarized Comparative Totals for December 31, 2016

	2017			
	Operating Fund	Reserve for Replacement Fund	Total	2016
Cash flows from operating activities				
(Defiit) excess of revenues over expenses/expenditures	$ (247,395)	$ 655,162	$ 407,767	$ 1,667,170
Adjustments to reconcile (deficit) excess of revenues over expenses/expenditures to net cash provided by operating activities				
Bad debt expense	49,882	-	49,882	100,032
Depreciation expense	39,821	-	39,821	15,974
Unrealized gain on fair value investments	-	(30,947)	(30,947)	(20,256)
Changes in operating assets and liabilities				
(Increase) decrease in maintenance fees receivable	(31,292)	16,411	(14,881)	(190,023)
(Increase) decrease in maintenance fees receivable due from MRHC	(392,069)	(79,786)	(471,855)	394,029
Decrease (increase) in accrued interest receivable	1,841	(1,564)	277	(452)
(Increase) decrease in prepaid expenses and other assets	(24,191)	-	(24,191)	32,027
Decrease (increase) in general excise tax receivable	-	365	365	(365)
Decrease (increase) in due from Marriott Resorts Hospitality Corporation	292	-	292	(292)
Decrease (increase) in due from Marriott Vacations Worldwide Corporation	162,887	-	162,887	(97,685)
(Increase) decrease in due from Maui Ocean Club Vacation Owners Association	(1,337)	-	(1,337)	82,894
Increase (decrease) in accrued expenses	219,136	(27,812)	191,324	(250,896)
Increase (decrease) in unearned maintenance fees	983,617	249,213	1,232,830	(325,548)
Increase in income tax payable	809	3,820	4,629	2,504
Increase in general excise tax payable	993	59	1,052	34
Increase in due to Marriott Vacations Worldwide Corporation	23,482	-	23,482	-
(Decrease) increase in due to Maui Ocean Club Vacation Owners Association	(49,859)	-	(49,859)	49,859
Increase (decrease) in due from/to Operating/ Reserve for Replacement Funds	84,815	(84,815)	-	-
Net cash provided by operating activities	821,432	700,106	1,521,538	1,459,006
Cash flows from investing activities				
Purchases of investments	(6,125,000)	(735,000)	(6,860,000)	(14,454,000)
Proceeds from maturity of investments	11,025,000	-	11,025,000	11,759,000
Additions to fixed assets	(88,728)	-	(88,728)	(25,688)
Net cash provided by (used in) investing activities	4,811,272	(735,000)	4,076,272	(2,720,688)
Net increase (decrease) in cash and cash equivalents	5,632,704	(34,894)	5,597,810	(1,261,682)
Cash and cash equivalents				
Beginning of year	3,587,658	2,341,766	5,929,424	7,191,106
End of year	$ 9,220,362	$ 2,306,872	$ 11,527,234	$ 5,929,424
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	$ 17,883	$ 517	$ 18,400	$ 4,800

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 that this information is useful and has included comparative financial information from the financial statements as of and for the year ended December 31, 2016. 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, 2016.

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 $3,323,814 has been included in the 2018 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, an equity-linked certificate 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 certificate of deposit is a principal protected structured product. 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 certificate 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, 2017 and 2016:

	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

	2016			
	Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity-linked certificate of deposit	$ -	$ 244,375	$ -	$ 244,375
Treasury inflation-protected securities	$ 253,961	$ -	$ -	$ 253,961

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 15 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 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, 2018, 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 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 2016 and plans on making this election for 2017; accordingly, deferred taxes have not been provided for temporary differences related to exempt function income. Should the Association not elect 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, 2017. The Association's federal income tax returns for 2014, 2015 and 2016 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”), as Amended. ASU 2014-09 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. Although the Association expects to adopt ASU 2014-09, as amended, commencing in fiscal year 2019, the Association continues to evaluate the impact that adoption of this accounting standards update will have on its financial statements and disclosures.

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, with early adoption permitted. Although the Association expects to adopt ASU 2016-02 commencing in fiscal year 2020, the Association continues to evaluate the impact that adoption of this accounting standards update will have on its financial statements and disclosures.

2. Investments

Investments are classified as follows at December 31, 2017 and 2016:

	2017		2016	
	Amortized Cost/Principal	**Fair Market Value**	**Amortized Cost/Principal**	**Fair Market Value**
Equity-linked certificate of deposit	$ 250,000	$ 273,125	$ 250,000	$ 244,375
Treasury inflation-protected securities	$ 250,007	$ 256,158	$ 250,007	$ 253,961
Certificates of deposit (held-to-maturity)	$ 1,225,000	$ 1,224,015	$ 5,390,000	$ 5,386,011

* 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 held-to-maturity at December 31, 2017 and 2016 are as follows:

	2017		2016	
	Amortized Cost/Principal	**Fair Market Value**	**Amortized Cost/Principal**	**Fair Market Value**
Due within one year	$ 1,225,000	$ 1,224,015	$ 5,145,000	$ 5,140,641
Due after one year through five years	500,007	529,283	495,000	489,745
Due after five years	-	-	250,007	253,961
Total	$ 1,725,007	$ 1,753,298	$ 5,890,007	$ 5,884,347

The equity-linked certificate of deposit and treasury inflation-protected securities had unrealized gains of $30,947 and $20,256 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 consist of the following:

	2017	2016
Guest shuttles	$ 27,524	$ 27,524
Electric carts	20,475	19,463
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	17,392	5,470
Vehicles	96,594	20,800
Accumulated depreciation	(155,105)	(115,284)
	$ 145,527	$ 96,620

Depreciation expense of $39,821 and $15,974 was recorded in the Statements of Revenues, Expenses, and Changes in Fund Balance - Operating Fund for the years ended December 31, 2017 and 2016, respectively.

4. Income Taxes

The expense for income taxes consisted of the following for the years ended December 31, 2017 and 2016:

	2017			2016		
	Total	Operating Fund	Reserve for Replacement Fund	Total	Operating Fund	Reserve for Replacement Fund
Federal	$19,909	$ 16,159	$ 3,750	$ 5,931	$ 5,650	$ 281
State	3,120	2,533	587	1,373	1,308	65
	$23,029	$ 18,692	$ 4,337	$ 7,304	$ 6,958	$ 346

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, 2017 and 2016, 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, 2017 and 2016, the management fee was $1,750,240 and $1,781,328, 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. The amount due from MRHC at December 31, 2017 and 2016 was $0 and $292, respectively. 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 (to) from MVWC at December 31, 2017 and 2016 was ($23,482) and $162,887, respectively.

The net amount due from (to) Maui Ocean Club Vacation Owners Association at December 31, 2017 and 2016 was $1,337 and ($49,859), respectively.

MRHC collects annual maintenance fees on behalf of the Association. The amount of maintenance fees receivable due from MRHC at December 31, 2017 and 2016 was $1,018,142 and $546,287, 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, 2017 and 2016, the Association incurred fees of $280,587 and $282,910, 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, 2018 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, 2017

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	2018 Funding Requirement	Components of Fund Balance at December 31, 2017
Roof replacement	13	$ 5,673,366	$ 118,754	$ 602,220
Furniture and fixtures	10	3,531,479	75,328	1,042,536
Building painting	1	2,202,650	360,824	1,020,648
External building maintenance	9	8,662,864	280,793	407,387
Pavement resurfacing	6	231,131	8,347	55,000
Common area rehabilitation	8	18,158,720	2,479,768	(849,811)
Total		$ 38,460,210	$ 3,323,814	$ 2,277,980

Maui Ocean Club Vacation Owners Association

Financial Statements
December 31, 2017 and 2016

Maui Ocean Club Vacation Owners Association
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December 31, 2017 and 2016

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, 2017 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, 2017 and 2016, and of cash flows for the year ended December 31, 2017.

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, 2017, and the results of its operations for the years ended December 31, 2017 and 2016 and its cash flows for the year ended December 31, 2017 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, 2016 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 18, 2017, 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, 2016 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

Certified Public Accountants
Tampa, Florida
April 17, 2018

Maui Ocean Club Vacation Owners Association
Balance Sheets
December 31, 2017, with Summarized Comparative Totals for December 31, 2016

	2017			
	Operating Fund	Reserve for Replacement Fund	Total	2016
Assets				
Cash and cash equivalents	$ 13,426,620	$ 6,422,643	$ 19,849,263	$ 16,853,139
Investments	-	3,499,948	3,499,948	1,269,963
Maintenance fees receivable, less allowance for doubtful accounts of approximately $403,000 and $725,000 in 2017 and 2016, respectively	380,991	140,890	521,881	587,879
Maintenance fees receivable due from MRHC	1,371,884	354,464	1,726,348	961,515
Accrued interest receivable	-	11,698	11,698	-
Prepaid expenses and other assets	402,577	-	402,577	275,705
Income tax receivable	-	-	-	961
Fixed assets, net	26,199	-	26,199	7,934
Due from Marriott Vacations Worldwide Corporation	-	-	-	786,392
Due from Marriott Resorts Hospitality Corporation	-	-	-	1,588
Due from Association of Apartment Owners of Maui Ocean Club	-	-	-	49,859
Due from Reserve for Replacement Fund	37,195	-	37,195	66,148
Due to Operating Fund	-	(37,195)	(37,195)	(66,148)
Total assets	$ 15,645,466	$ 10,392,448	$ 26,037,914	$ 20,794,935
Liabilities and Fund Balances				
Liabilities				
Accrued expenses	$ 330,362	$ 8,149	$ 338,511	$ 239,293
Unearned maintenance fees	14,161,890	3,663,771	17,825,661	15,799,392
General excise tax payable	47,728	354	48,082	22,073
Income tax payable	1,559	18,651	20,210	8,755
Due to Marriott Vacations Worldwide Corporation	43,897	-	43,897	-
Due to Association of Apartment Owners of Maui Ocean Club	1,337	-	1,337	-
Total liabilities	14,586,773	3,690,925	18,277,698	16,069,513
Fund balances	1,058,693	6,701,523	7,760,216	4,725,422
Total liabilities and fund balances	$ 15,645,466	$ 10,392,448	$ 26,037,914	$ 20,794,935

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, 2017 and 2016

	2017	2016
Revenues		
Maintenance fees	$ 46,491,488	$ 45,502,903
Association of Apartment Owners of Maui Ocean Club assessment	(19,246,108)	(19,587,900)
Maintenance fees, net	27,245,380	25,915,003
Late fee income	93,361	102,029
Operating finance charges	118,716	128,737
Bank interest income	68,175	38,289
Miscellaneous income	240,984	139,027
Total revenues	27,766,616	26,323,085
Expenses		
Accounting and administration	2,387,657	2,257,555
Audit fees	18,085	16,674
Bad debt expense	255,835	195,335
Board of Directors' expense	8,202	6,705
Cable television	112,123	132,686
Credit card fees	513,881	480,693
Front desk	4,026,242	3,942,149
General excise tax expense	1,351,688	1,255,633
High-speed internet	86,899	93,606
Housekeeping, net	7,222,434	6,644,767
Income tax expense	17,753	1,257
Insurance	354,718	364,567
Legal	2,597	-
Maintenance	1,549,385	1,603,049
Management fee	3,026,985	2,822,123
Owner services	973,814	918,621
Property taxes	6,689,305	6,300,377
Telephone	129,595	123,438
Total expenses	28,727,198	27,159,235
Deficit of revenues over expenses	(960,582)	(836,150)
Fund balance		
Beginning of year	2,019,275	2,855,425
End of year	$ 1,058,693	$ 2,019,275

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, 2017 and 2016

	2017	2016
Revenues		
Reserve for replacement assessment	$ 6,052,462	$ 5,129,138
Bank interest income	42,527	40,153
Late fee income	24,812	25,801
Realized gain on fair value investments	10,232	-
Unrealized gain on fair value investments	92,762	80,675
Total revenues	6,222,795	5,275,767
Expenditures		
Furniture and fixtures	2,208,757	15,267,265
Income tax expense	18,662	1,515
Total expenditures	2,227,419	15,268,780
Excess (deficit) of revenues over expenditures	3,995,376	(9,993,013)
Fund balance		
Beginning of year	2,706,147	12,699,160
End of year	$ 6,701,523	$ 2,706,147

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, 2017, with Summarized Comparative Totals for the Year Ended December 31, 2016

	2017			
	Operating Fund	Reserve for Replacement Fund	Total	2016
Cash flows from operating activities				
(Deficit) excess of revenue over expenses/expenditures	$ (960,582)	$ 3,995,376	$ 3,034,794	$ (10,829,163)
Adjustments to reconcile (deficit) excess of revenues over expenses/expenditures to net cash provided by (used in) operating activities				
Bad debt expense	255,835	-	255,835	195,335
Depreciation expense	4,764	-	4,764	3,735
Loss on disposal of fixed assets	7,934	-	7,934	1,433
Realized gain on fair value investments	-	(10,232)	(10,232)	-
Unrealized gain on fair value investments	-	(92,762)	(92,762)	(80,675)
Changes in operating assets and liabilities				
(Increase) decrease in maintenance fees receivable	(242,976)	53,139	(189,837)	(357,454)
(Increase) decrease in maintenance fees receivable due from MRHC	(580,950)	(183,883)	(764,833)	533,141
(Increase) decrease in accrued interest receivable	-	(11,698)	(11,698)	3,083
(Increase) decrease in prepaid expenses and other assets	(126,872)	-	(126,872)	845
Decrease in income tax receivable	961	-	961	2,881
Decrease (increase) in due from Marriott Vacations Worldwide Corporation	786,392	-	786,392	(721,801)
Decrease (increase) in due from Marriott Resorts Hospitality Corporation	1,588	-	1,588	(1,588)
Decrease (increase) in due from Association of Apartment Owners of Maui Ocean Club	49,859	-	49,859	(12,723)
Increase (decrease) in accrued expenses	91,459	7,759	99,218	(19,919)
Increase in unearned maintenance fees	1,249,406	776,863	2,026,269	714,506
Increase (decrease) in general excise tax payable	25,795	214	26,009	(14,302)
Increase (decrease) in income tax payable	1,559	9,896	11,455	(4,308)
Increase in due to Marriott Vacations Worldwide Corporation	43,897	-	43,897	-
Increase (decrease) in due to Association of Apartment Owners of Maui Ocean Club	1,337	-	1,337	(120,030)
Increase (decrease) in due from/to Operating/Reserve for Replacement Funds	28,953	(28,953)	-	-
Net cash provided by (used in) operating activities	638,359	4,515,719	5,154,078	(10,707,004)
Cash flows from investing activities				
Purchases of investments	-	(2,476,676)	(2,476,676)	(18,128,000)
Proceeds from maturities of investments	-	349,685	349,685	23,273,000
Additions to fixed assets	(30,963)	-	(30,963)	-
Net cash (used in) provided by investing activities	(30,963)	(2,126,991)	(2,157,954)	5,145,000
Net increase (decrease) in cash and cash equivalents	607,396	2,388,728	2,996,124	(5,562,004)
Cash and cash equivalents				
Beginning of year	12,819,224	4,033,915	16,853,139	22,415,143
End of year	$ 13,426,620	$ 6,422,643	$ 19,849,263	$ 16,853,139
Supplemental disclosure of cash flow information				
Cash paid during the year for income taxes	$ 15,233	$ 8,766	$ 23,999	$ 4,199

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, 2017 and 2016, 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 that this information is useful and has included comparative financial information from the financial statements as of and for the year ended December 31, 2016. 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, 2016.

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 $7,141,868 has been included in the 2018 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, 2017 and 2016:

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

	2016			
	Fair Value Measurements Using			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity-linked certificates of deposit	$ -	$ 1,269,963	$ -	$ 1,269,963

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, 2018, 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 15 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.

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

In 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. In 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.

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, 2017.

The Association's federal income tax returns for 2014, 2015 and 2016 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 2017 and 2016, 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”), as Amended. ASU 2014-09 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. Although the Association expects to adopt ASU 2014-09, as amended, commencing in fiscal year 2019, the Association continues to evaluate the impact that adoption of this accounting standards update will have on its financial statements and disclosures.

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, with early adoption permitted. Although the Association expects to adopt ASU 2016-02 commencing in fiscal year 2020, the Association continues to evaluate the impact that adoption of this accounting standards update will have on its financial statements and disclosures.

2. Investments

Investments are classified as follows at December 31, 2017 and 2016:

	2017		2016	
	Amortized Cost/Principal	**Fair Market Value**	**Amortized Cost/Principal**	**Fair Market Value**
Equity-linked certificates of deposit	$ 750,000	$ 1,029,375	$ 1,000,000	$ 1,269,963
Certificates of deposit (held-to-maturity)	$ 735,000	$ 733,630	$ -	$ -
Bonds (held-to-maturity)	1,735,573	1,730,485	-	-
	$ 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, 2017 and 2016 are as follows:

	2017		2016	
	Amortized Cost/Principal	**Fair Market Value**	**Amortized Cost/Principal**	**Fair Market Value**
Due within one year	$ 2,720,573	$ 2,858,340	$ 250,000	$ 333,350
Due between one to five years	500,000	635,150	750,000	936,613
Total	$ 3,220,573	$ 3,493,490	$ 1,000,000	$ 1,269,963

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 gains of $92,762 and $80,675 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 consist of the following:

	2017	**2016**
Electric carts	$ 23,260	$ 23,260
Computers - business center	30,963	12,377
Accumulated depreciation	(28,024)	(27,703)
	$ 26,199	$ 7,934

Depreciation expense of $4,764 and $3,735 was recorded in the Statements of Revenues, Expenses, and Changes in Fund Balance – Operating Fund for the years ended December 31, 2017 and 2016, respectively.

4. Income Taxes

The provision for income taxes consisted of the following for the years ended December 31, 2017 and 2016:

	2017			2016		
	Total	Operating Fund	Reserve for Replacement Fund	Total	Operating Fund	Reserve for Replacement Fund
Federal	$ 31,342	$ 15,280	$ 16,062	$ 1,329	$ 905	$ 424
State	5,073	2,473	2,600	1,443	352	1,091
	$ 36,415	$ 17,753	$ 18,662	$ 2,772	$ 1,257	$ 1,515

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

At December 31, 2017 and 2016, the Association had the following deferred tax assets:

	2017	2016
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 the prior year 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, 2017 and 2016, 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, 2017 and 2016, the management fee was $3,026,985 and $2,822,123, 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. The net amount due from MRHC at December 31, 2017 and 2016 was $0 and $1,588, respectively. 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 (to) from MVWC at December 31, 2017 and 2016 was ($43,897) and $786,392, respectively.

The net amount due (to) from the Association of Apartment Owners of Maui Ocean Club at December 31, 2017 and 2016 was ($1,337) and $49,859, respectively.

MRHC collects annual maintenance fees on behalf of the Association. The amount of maintenance fees receivable due from MRHC at December 31, 2017 and 2016 was $1,726,348 and $961,515, 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, 2017 and 2016, the MVC Trust held 4,340 (18%) and 3,998 (17%) of the timeshare interests in the Association, respectively.

8. Subsequent Events

The Association has performed an evaluation of subsequent events through April 17, 2018 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, 2017

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	2018 Funding Requirement	Components of Fund Balance at December 31, 2017
Furniture and fixtures	4	$ 76,880,909	$ 7,141,868	$ 6,701,523

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

Name/Address	Phone/Fax/Email	Office	Term
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	President	2017-2020
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	Vice President	2015-2018
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	2015-2018