

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

KIHEI TIMESHARE OWNERS ASSOCIATION

December 31, 2019

KIHEI TIMESHARE OWNERS ASSOCIATION
AUDITED FINANCIAL STATEMENTS

December 31, 2019

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Roen K. Hirose, CPA, LLC

PO Box 1799 Wailuku Hawaii 96793

Phone: (808) 283-8006

Board of Directors
Kihei Timeshare Owners Association

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of the Kihei Timeshare Owners Association, which is comprised of the statement of assets, liabilities and fund balances - income tax basis as of December 31, 2019 and the related statements of revenues and expenses, changes in fund balances - income tax basis and cash flows - income tax basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the income tax basis of accounting described in Note B; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kihei Timeshare Owners Association as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting the Association uses for income tax purposes as described in Note B.

Board of Directors
Kihei Timeshare Owners Association

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Association uses for income tax purposes which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is unmodified with respect to that matter.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted the supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by this missing information.

 CPA LLC

Wailuku, Hawaii
July 23, 2020

KIHEI TIMESHARE OWNERS ASSOCIATION
 STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - INCOME TAX BASIS

December 31, 2019

	Operating Fund	Capital Reserve	Fund Totals
ASSETS			
CURRENT ASSETS			
Cash	\$ 428,304	\$ 92,920	\$ 521,224
Assessments receivable	58,671	--	58,671
Prepaid maintenance fees	7,130	--	7,130
Prepaid general excise tax	5,286	--	5,286
Prepaid insurance	6,797	--	6,797
TOTAL CURRENT ASSETS	<u>\$ 506,188</u>	<u>\$ 92,920</u>	<u>\$ 599,108</u>
LIABILITIES AND FUND BALANCES			
CURRENT LIABILITIES			
Accounts payable	\$ 3,514	\$ --	\$ 3,514
Prepaid assessments	469,695	--	469,695
Deferred revenue	4,140	--	4,140
TOTAL CURRENT LIABILITIES	<u>477,349</u>	<u>--</u>	<u>477,349</u>
FUND BALANCES	<u>28,839</u>	<u>92,920</u>	<u>121,759</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 506,188</u>	<u>\$ 92,920</u>	<u>\$ 599,108</u>

See notes to financial statements.

KIHEI TIMESHARE OWNERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES - INCOME TAX BASIS

Year ended December 31, 2019

	Operating Fund	Capital Reserve	Fund Totals
REVENUES			
Maintenance fees	\$ 400,395	\$ --	\$ 400,395
Special assessment	--	74,100	74,100
Rental income	24,560	--	24,560
Late fees	735	--	735
Miscellaneous	700	--	700
Interest	--	444	444
TOTAL REVENUES	426,390	74,544	500,934
OPERATING EXPENSES			
Property management	89,999	--	89,999
Maintenance fees	85,837	--	85,837
Custodial	71,860	--	71,860
Real property tax	67,757	--	67,757
General excise tax	21,374	--	21,374
Timeshare occupancy tax	19,486	--	19,486
Electricity	18,930	--	18,930
Bad debts	15,577	--	15,577
Unit maintenance	15,511	--	15,511
Insurances	10,984	--	10,984
Audit and tax preparation	4,453	--	4,453
Computer and software	3,300	--	3,300
Legal fees	2,904	--	2,904
Supplies	2,628	--	2,628
Storage	2,532	--	2,532
Internet and telephone	2,510	--	2,510
Check-in fees	1,650	--	1,650
Administrative	888	--	888
Meetings	877	--	877
Appliance maintenance	836	--	836
Online payment fees	496	--	496
Other professional fees	416	--	416
TOTAL OPERATING EXPENSE	440,805	--	440,805
SPECIAL ASSESSMENT EXPENDITURES		73,297	73,297
RESERVE EXPENDITURES	--	24,373	24,373
TOTAL EXPENSES	440,805	97,670	538,475
REVENUES OVER (UNDER) EXPENSES	(14,415)	(23,126)	(37,541)
FUND BALANCES BEGINNING OF YEAR	43,254	116,046	159,300
FUND BALANCES END OF YEAR	\$ 28,839	\$ 92,920	\$ 121,759

See notes to financial statements.

KIHEI TIMESHARE OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS - INCOME TAX BASIS

Year ended December 31, 2019

	Operating Fund	Capital Reserve	Fund Totals
OPERATING ACTIVITIES			
Revenues over (under) expenses	\$ (14,415)	\$ (23,126)	\$ (37,541)
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:			
Bad debt provision	5,000	--	5,000
Change in operating assets and liabilities:			
(Increase) decrease in:			
Assessments receivable	23,965	--	23,965
Prepaid maintenance fees	275	--	275
Prepaid general excise tax	1,939	--	1,939
Prepaid insurances	155	--	155
Increase (decrease) in:			
Accounts payable	1,016	--	1,016
Prepaid assessments	(3,120)	--	(3,120)
Deferred revenue	3,998	--	3,998
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	18,813	(23,126)	(4,313)
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	409,491	116,046	525,537
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 428,304</u>	<u>\$ 92,920</u>	<u>\$ 521,224</u>
SUPPLEMENTAL DISCLOSURE:			
Interest paid	\$ --	\$ --	\$ --
Income taxes paid	\$ --	\$ --	\$ --

See notes to financial statements.

KIHEI TIMESHARE OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE A - NATURE OF ASSOCIATION

Nature of Association: Kihei Timeshare Owners Association, also known as Kihei Akahi Timeshare Owners Association (the Association), was incorporated on March 11, 1988. The Association was formed for the purpose of providing for the management, maintenance and care of certain condominium units within the Kihei Akahi property. The Association manages a group of eleven condominium units. Individuals owners have the right to use or rent the units for a predetermined number of weeks within the year.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Principles of Accounting: The accompanying financial statements present financial results on the accrual basis of accounting the Association uses for income tax reporting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America (GAAP). The basis differs from GAAP primarily because reserve assessments are recorded as revenue when assessed instead of when reserve expenditures are incurred.

Fund Accounting: To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Capital Reserve - This fund is used to accumulate resources designated for future major repairs and replacements.

Statement of Cash Flows: Cash equivalents, if any, reflected in the Statement of Cash Flows include certificates of deposit and other investments with original maturities of three months or less.

Member Assessments: Association members are subject to regular assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from individual timeshare owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. The Association specifically identifies owner accounts which may become uncollectible and establishes an allowance for doubtful accounts. Any excess assessments at year-end are retained by the Association for use in future years.

Property and Equipment: The Association capitalizes at cost all property and equipment to which it holds title or has other evidence of ownership. The income tax basis of accounting allows for an expense election of certain property and equipment. The Association has elected to expense such property and equipment.

Real property owned in common and property originally contributed to the Association by the developer and related improvements made by the Association to such property are not capitalized in the financial statements. There are no assets capitalized as of December 31, 2019.

KIHEI TIMESHARE OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS-Continued

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Estimates: The preparation of financial statements 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes: The Association qualifies to file its tax returns under Internal Revenue Code Section 528. Under that section the Association is not taxed on income and expenses related to its exempt purpose. The Association is taxed on its nonexempt function income such as interest earnings less related expenses at a federal tax rate of 30% and an effective state tax rate of 4.4%.

Tax positions taken by the Association are required to be evaluated and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has concluded that there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Association is subject to routine audits by taxing jurisdictions; however, there are currently no tax audits in progress. Management believes it is no longer subject to income tax examinations for years prior to December 31, 2016. There were no penalties and interest incurred for the years ended December 31, 2019 and 2018.

NOTE C - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 23, 2020, the date the financial statements were available to be issued.

NOTE D - FUTURE MAJOR REPAIRS AND REPLACEMENTS

Funds are being accumulated in the Capital Reserve fund for repairs and replacements of unit furniture, appliances and major repairs and replacements. Amounts accumulated in the Capital Reserve 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 to increase regular maintenance fees, pass special assessments, or delay expenditures until the funds are available.

NOTE E - SPECIAL ASSESSEMNTS

The Association's board of directors authorized a special assessment in the amount of \$77,500, to assist with the financing of unit renovation projects.

NOTE F - UNINSURED CASH BALANCES

The Association maintains deposits in a financial institution that exceeded amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC) at December 31, 2019 by \$280,822.