

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

KIHEI TIMESHARE OWNERS ASSOCIATION

December 31, 2021 and 2020

KIHEI TIMESHARE OWNERS ASSOCIATION
AUDITED FINANCIAL STATEMENTS

December 31, 2021

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Assets, Liabilities and Fund Balances	4
Statements of Revenues and Expenses and Changes in Fund Balances	5
Statements of Cash Flows	6
Notes to Financial Statements	7

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

Opinion

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 as of December 31, 2021 the related statements of revenues and expenses, changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, and the results of its operations and its cash flows for the year then ended in accordance with the Financial Reporting Framework for Small- and Medium-Sized Entities, described in Note B.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of my report. I am required to be independent of the Kihei Timeshare Owners Association and to meet my ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs) issued by the American Institute of Certified Public Accountants, described in Note B; this includes determining that the Financial Reporting Framework for Small- and Medium-Sized Entities 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Kihei Timeshare Owners Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

Board of Directors
Kihei Timeshare Owners Association

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Basis of Accounting

I draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the Financial Reporting Framework for Small- and Medium-Sized Entities, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

I have previously audited the financial statements of the Kihei Timeshare Owners Association for the year ended December 31, 2020, and I expressed an unmodified opinion on those financial statements in my report dated June 12, 2021. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Board of Directors
Kihei Timeshare Owners Association

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted the supplementary information on future major repairs and replacements that the financial reporting framework for small- and medium-sized entities 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
June 7, 2022

KIHEI TIMESHARE OWNERS ASSOCIATION
 STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES
 (FRF for SMEs Accounting Framework Basis)

	December 31, 2021			2020
	Operating Fund	Capital Reserve	Fund Totals	Fund Totals
ASSETS				
CURRENT ASSETS				
Cash	\$ 439,147	\$ 90,117	\$ 529,264	\$ 596,900
Assessment receivable	7,561	--	7,561	23,295
Bad debt allowance	--	--	--	(3,735)
Due from operating fund	--	39,228	39,228	69,002
Prepaid maintenance fees	7,245	--	7,245	7,245
Prepaid insurance	8,929	--	8,929	6,958
Prepaid general excise tax	8,754	--	8,754	8,933
Prepaid storage rent	2,132	--	2,132	2,210
TOTAL CURRENT ASSETS	<u>\$ 473,768</u>	<u>\$ 129,345</u>	<u>\$ 603,113</u>	<u>\$ 710,808</u>
LIABILITIES AND FUND BALANCES				
CURRENT LIABILITIES				
Accounts payable	\$ 4,891	\$ --	\$ 4,891	\$ 972
Due to capital reserve fund	39,228	--	39,228	69,002
Prepaid assessments	362,320	--	362,320	386,145
TOTAL CURRENT LIABILITIES	<u>406,439</u>	<u>--</u>	<u>406,439</u>	<u>456,119</u>
FUND BALANCES	<u>67,329</u>	<u>129,345</u>	<u>196,674</u>	<u>254,689</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 473,768</u>	<u>\$ 129,345</u>	<u>\$ 603,113</u>	<u>\$ 710,808</u>

See notes to financial statements.

KIHEI TIMESHARE OWNERS ASSOCIATION
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
(FRF for SMEs Accounting Framework Basis)

	Year ended December 31, 2021			2020
	Operating Fund	Capital Reserve	Fund Totals	Fund Totals
REVENUES				
Maintenance fees	\$ 397,310	\$ 6,000	\$ 403,310	\$ 399,195
Special assessment	--	68,250	68,250	70,800
Rental income	12,980	--	12,980	10,816
Late fees	6,325	--	6,325	4,415
Transfer fees	1,350	--	1,350	1,953
Interval disposition net proceeds	600	--	600	700
Other	383	--	383	--
Interest	--	9	9	18
TOTAL REVENUES	418,948	74,259	493,207	487,897
OPERATING EXPENSES				
Property management	89,999	--	89,999	89,999
Maintenance fees	86,946	--	86,946	85,792
Real property tax	78,506	--	78,506	73,910
Custodial	69,670	--	69,670	29,171
Bad debts	23,340	--	23,340	4,800
General excise tax	19,941	--	19,941	19,185
Timeshare occupancy tax	18,619	--	18,619	8,540
Electricity	17,650	--	17,650	8,029
Insurances	11,739	--	11,739	11,145
Unit maintenance	10,482	--	10,482	8,338
Audit and tax preparation	4,635	--	4,635	4,583
Legal fees	4,364	--	4,364	376
Computer and software	3,249	--	3,249	3,372
Utilities/internet	2,659	--	2,659	2,641
Storage	2,288	--	2,288	2,551
Linen replacement	2,192	--	2,192	--
Supplies	869	--	869	2,684
Appliance maintenance	863	--	863	458
Administrative	631	--	631	592
Check-in fees	475	--	475	1,045
Online payment fees	52	--	52	217
Other professional fees	--	--	--	364
Meetings	--	--	--	76
TOTAL OPERATING EXPENSES	449,169	--	449,169	357,868
SPECIAL ASSESSMENT EXPENDITURES	--	96,408	96,408	--
RESERVE EXPENDITURES	--	5,645	5,645	5,549
TOTAL EXPENSES	449,169	102,053	551,222	363,417
REVENUES OVER (UNDER) EXPENSES	(30,221)	(27,794)	(58,015)	124,480
FUND BALANCES BEGINNING OF YEAR	97,550	157,139	254,689	130,209
FUND BALANCES END OF YEAR	\$ 67,329	\$ 129,345	\$ 196,674	\$ 254,689

See notes to financial statements.

KIHEI TIMESHARE OWNERS ASSOCIATION
STATEMENTS OF CASH FLOWS
(FRF for SMEs Accounting Framework Basis)

	Year ended December 31, 2021			2020
	Operating Fund	Capital Reserve	Fund Totals	Fund Totals
OPERATING ACTIVITIES				
Revenues over (under) expenses	\$ (30,221)	\$ (27,794)	\$ (58,015)	\$ 124,480
Adjustments to reconcile revenues over (under) expenses to net cash provided by (used in) operating activities:				
Bad debt provision	4,800	--	4,800	4,800
Change in operating assets and liabilities:				
(Increase) decrease in:				
Assessment receivable	7,199	--	7,199	34,311
Due from operating fund	--	28,724	28,724	(69,002)
Prepaid maintenance fees	--	--	--	(115)
Prepaid general excise tax	179	--	179	(3,647)
Prepaid insurances	(1,971)	--	(1,971)	(161)
Prepaid storage rent	78	--	78	(100)
Increase (decrease) in:				
Accounts payable	3,919	--	3,919	(2,542)
Due to capital reserve fund	(28,724)	--	(28,724)	69,002
Prepaid assessments	(23,825)	--	(23,825)	(77,210)
Deferred revenue	--	--	--	(4,140)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(68,566)	930	(67,636)	75,676
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	507,713	89,187	596,900	521,224
CASH AND EQUIVALENTS AT END OF YEAR	\$ 439,147	\$ 90,117	\$ 529,264	\$ 596,900
SUPPLEMENTAL DISCLOSURE:				
Interest paid	\$ --	\$ --	\$ --	\$ --
Income taxes paid	\$ --	\$ --	\$ --	\$ --

See notes to financial statements.

KIHEI TIMESHARE OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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. Individual owners have the right to use or rent the units for a predetermined number of weeks within the year.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The accompanying financial statements have been prepared in accordance with the Financial Reporting Framework for Small-and Medium-Sized Entities (FRF for SMEs) issued by the American Institute of Certified Public Accountants, which is a special purpose framework and not U.S. generally accepted accounting principles (U.S. GAAP). The accounting principles that compose the framework are appropriate for the preparation and presentation of small-and medium-sized entity financial statements, based on the needs of the financial statement users and cost and benefit considerations. This special purpose framework, unlike U.S. GAAP, does not recognize FASB ASC 606, which recognizes capital reserve assessments when related capital reserve expenditures are incurred and unspent capital reserves as a contract liability. The financial statements reflect capital reserve assessments as revenue when assessed and unspent reserves as fund balance in equity.

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 financial statements 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.

KIHEI TIMESHARE OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS-Continued

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Property and Equipment: The Association capitalizes at cost all property and equipment to which it holds title or has other evidence of ownership. 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, 2021.

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, 2018. There were no penalties and interest incurred for the years ended December 31, 2021 and 2020.

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 June 7, 2022, 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 special assessments for the years ended December 31, 2021 and 2020 in the amounts of \$68,250 and \$70,800, respectively to assist with the financing of unit renovation projects.

KIHEI TIMESHARE OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS-Continued

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, 2021 by \$286,887.