

**INDEPENDENT AUDITOR'S REPORT**  
**BANYAN HARBOR TIMESHARE ASSOCIATION**  
**Years Ended December 31, 2014 and 2013**

**TERRY S.C. WONG, CPA, INC.**

1188 Bishop Street, Suite 808  
Honolulu, Hawaii 96813

Tel: (808) 521-1522

Fax: (888) 928-3781

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
BANYAN HARBOR TIMESHARE ASSOCIATION

Report on the Financial Statements

I have audited the accompanying financial statements of BANYAN HARBOR TIMESHARE ASSOCIATION, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues and expenses, changes in members' equity, and cash flows for the years 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 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.

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 that the financial statements are free of 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 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 BANYAN HARBOR TIMESHARE ASSOCIATION as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 7 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 Standard 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Honolulu, Hawaii  
August 5, 2015

BANYAN HARBOR TIMESHARE ASSOCIATION  
BALANCE SHEETS  
December 31, 2014 and 2013

ASSETS		
	2014	2013
<b>CURRENT ASSETS</b>		
Cash - house fund	\$ 1,500	\$ 1,500
Cash - operating fund	161,998	147,564
Cash - savings	121,647	96,775
Cash - FF&E reserve	3,350	25,471
Total cash	288,495	271,310
Owner receivables	28,776	13,318
Accounts receivable - other	394	-
Less: allowance for doubtful accounts	(31,719)	(5,423)
Net receivables	(2,549)	7,895
Intercompany - AOA	7,767	14,183
Intercompany - Rental	56,822	36,349
Prepaid insurance	18,877	8,317
Prepaid other	10,488	17,418
	93,954	76,267
Total assets	\$379,900	\$355,472
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable & accrued expenses	\$ 54,951	\$ 60,957
Accrued wages and vacation pay	41,551	33,016
Prepaid maintenance fees	405,412	396,136
Total current liabilities	501,914	490,109
<b>MEMBERS' EQUITY</b>		
Operating	(155,919)	(136,665)
Special reserve	33,905	2,028
Total members' equity	(122,014)	(134,637)
Total liabilities and members' equity	\$ 379,900	\$355,472

See accompanying notes to financial statements.

**BANYAN HARBOR TIMESHARE ASSOCIATION**  
**STATEMENTS OF REVENUES AND EXPENSES**  
Years Ended December 31, 2014 and 2013

	2014			2013
	Operating Fund	Special Reserve	Total	Total
<b>Revenues:</b>				
Maintenance fees	\$1,293,962	\$ -	\$1,293,962	\$1,375,405
Reserve fees	-	182,844	182,844	162,000
Amenities fees	49,713	-	49,713	55,916
Late fees	7,285	-	7,285	9,230
Other revenues	3,124	-	3,124	1,075
Interval transfer fees	2,500	-	2,500	2,600
Interest income	-	57	57	55
Total revenues	<u>1,356,584</u>	<u>182,901</u>	<u>1,539,485</u>	<u>1,606,281</u>
<b>Expenses:</b>				
Association dues	322,588		322,588	326,524
Salaries and wages	270,321		270,321	280,842
Payroll taxes & benefits	217,453		217,453	229,713
Special reserve expenses	-	170,688	170,688	169,320
Electricity & utilities	136,933		136,933	143,255
Bad debt expense	84,600		84,600	139,279
Management fees	51,192		51,192	51,291
Taxes-income/excise	48,430		48,430	51,468
Property taxes	40,290		40,290	28,683
Insurance	36,461		36,461	37,778
Guest supplies & relocat.	17,239		17,239	11,876
Accounting fees	16,800		16,800	16,800
Telephone	14,708		14,708	14,313
Cleaning contract/supplies	13,831		13,831	12,365
Equipment lease/maint.	12,154		12,154	12,252
Directors expense	10,880		10,880	9,219
Laundry and dry cleaning	9,143		9,143	7,622
Other repairs/maintenance	7,989		7,989	2,295
Employee benefits	7,709		7,709	8,133
Office supplies and exp.	6,783		6,783	7,484
Building rent	6,132		6,132	6,132
Postage	5,682		5,682	5,182
Travel	5,102		5,102	3,602
Data processing	3,683		3,683	3,402
Bank charges & commissions	2,629		2,629	7,562
Audit and tax preparation	2,600		2,600	2,600
Other operating expenses	2,033		2,033	2,597
Building maint. & supplies	1,609		1,609	1,192
Legal fees	1,200		1,200	1,100
Total expenses	<u>1,356,174</u>	<u>170,688</u>	<u>1,526,862</u>	<u>1,593,881</u>
<b>Excess of revenues over (under) expenses</b>	<u>\$ 410</u>	<u>\$ 12,213</u>	<u>\$ 12,623</u>	<u>\$ 12,400</u>

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION

STATEMENTS OF MEMBERS' EQUITY

Years Ended December 31, 2014 and 2013

	2014			2013
	Operating Fund	Special Reserve	Total	Total
Members' Equity, Beginning of year	\$ (136,665)	\$ 2,028	\$ (134,637)	\$ (147,037)
Inter-fund transfer	(19,664)	19,664	-	-
Excess of revenues over (under) expenses	410	12,213	12,623	12,400
Members' Equity, End of year	\$ <u>(155,919)</u>	\$ <u>33,905</u>	\$ <u>(122,014)</u>	\$ <u>(134,637)</u>

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2014 and 2013

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Excess of revenues over (under) expenses	\$ 12,623	\$ 12,400
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by operating activities:		
(Increase) decrease in current assets:		
Net owners receivable	10,444	15,345
Intercompany - AOA	6,416	33,219
Intercompany - Rental	(20,473)	(16,572)
Prepaid insurance	(10,560)	28,317
Prepaid other	6,930	(13,505)
Increase (decrease) in current liabilities:		
Accounts payable/accrued expenses	(6,006)	16,653
Accrued wages	8,535	8,692
Deferred maintenance fees	9,276	(12,571)
Total adjustments	<u>4,562</u>	<u>59,578</u>
Cash provided by operating activities	17,185	71,978
Cash balances:		
Beginning of year	<u>271,310</u>	<u>199,332</u>
End of year	<u>\$288,495</u>	<u>\$271,310</u>

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION  
Notes to Financial Statements  
December 31, 2014 and 2013

NOTE 1 - GENERAL OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

General Operations

The BANYAN HARBOR TIMESHARE ASSOCIATION is an organization incorporated in 1980 and formed for the purpose of providing for the management, maintenance and care of the apartments participating in the timeshare program at Banyan Harbor, located in Lihue, Kauai, Hawaii.

Principles of Accounting

The financial statements of the Association are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when the obligations are incurred.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

Member Assessments

Association members are subject to semi-annual assessment to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The assessments also include the dues for the Association of Apartment Owners of Banyan Harbor of which each apartment is a member. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. Any excess assessment at year-end are retained by the Association for use in future years.

NOTE 2 - INCOME TAXES

Under current tax law, a timeshare association may annually elect to file its income tax returns as a homeowners association or as a corporation. The Association intends to elect the filing option that is most beneficial to file.

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's accumulated reserve funds, which aggregate \$124,997 at December 31, 2014, are held in separate accounts and are generally not available for operating purposes.

The Association conducted a study in 2014 to estimate the remaining useful lives and the replacement costs of the common property components. The Association plans to fund for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously designated for future repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Association may increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

BANYAN HARBOR TIMESHARE ASSOCIATION  
Supplementary Information on Future Major Repairs  
And Replacements (Unaudited)  
December 31, 2014 and 2013

<u>Project</u>	<u>Years of Funding</u>	<u>Estimated Costs</u>
FF&E - soft goods - bedroom	1-19	\$ 188,360
FF&E - case goods - bedroom	1-19	192,222
Mattress & boxsprings	1-19	60,773
Mirrored closet doors	1-19	18,311
Televisions	1-19	55,364
Ceiling fans & lighting	1-19	26,770
Air conditioners	1-19	194,983
Bath tubs/showers	1-19	135,733
Bath countertops & fixtures	1-19	28,225
In-room washer/dryer	1-19	109,096
Ceramic tile (Kit. & baths)	1-19	125,880
Unit light fixtures	1-19	26,429
Interior doors/hardware/trim	1-19	40,496
Interior painting	1-19	42,870
Kitchen cabinets	1-19	72,118
Refrigerators	1-19	44,235
Microwaves	1-19	11,369
Stoves	1-19	31,237
Dishwasher	1-19	33,477
Furniture - lighting/dining rooms	1-19	227,938
Artwork	1-19	23,685
Drapery	1-19	90,740
Carpet & pad	1-19	329,633
Lanai furniture	1-19	44,892
Water heaters	5-19	16,844
Reservations system/computers	1-19	27,866
Housekeeping electric cart	3-19	34,895
Commercial housekeeping dryer	1-19	22,000
Commercial housekeeping washer	1-15	30,900
Flatware/silver/utensils/glass	1-19	19,260
Kitchen counter-silestone & fixtures	1-11	172,336
Maintenance reserve labor	1-19	894,039
Miscellaneous-legal fee-foreclosure	2-19	47,500
<u>Exterior windows &amp; doors</u>	<u>2-19</u>	<u>30,815</u>
		<u>\$3,451,291</u>