

INDEPENDENT AUDITOR'S REPORT
BANYAN HARBOR TIMESHARE ASSOCIATION
Years Ended December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
BANYAN HARBOR TIMESHARE ASSOCIATION

Report on the Financial Statements

We have audited the accompanying financial statements of BANYAN HARBOR TIMESHARE ASSOCIATION, which comprise the balance sheets as of December 31, 2015 and 2014, 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

Our responsibility is to express an opinion on these 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 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, 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 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 BANYAN HARBOR TIMESHARE ASSOCIATION as of December 31, 2015 and 2014, 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 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. 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.



CPA, INC.

Honolulu, Hawaii
August 5, 2016

BANYAN HARBOR TIMESHARE ASSOCIATION
Balance Sheets
December 31, 2015 and 2014

ASSETS

	<u>2,015</u>	<u>2,014</u>
Current Assets:		
Cash - house fund	\$ 1,500	\$ 1,500
Cash - operating account	174,841	161,998
Cash - savings	69,517	121,647
Cash - F F & E reserve	<u>17,384</u>	<u>3,350</u>
Total cash	263,242	288,495
Receivables:		
Owner receivables	44,887	28,776
Accounts receivables - other	274	394
Less: Allowance for doubtful accounts	<u>(23,271)</u>	<u>(31,719)</u>
Net receivables	21,890	(2,549)
Intercompany - AOA	34,363	7,767
Intercompany - Rental	36,342	56,822
Prepaid insurance	19,456	18,877
Prepaid other	<u>14,237</u>	<u>10,488</u>
Total current assets	\$ <u><u>389,530</u></u>	\$ <u><u>379,900</u></u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:		
Accounts payable and accrued expenses	\$ 52,632	\$ 54,951
Accrued payroll and related expenses	41,012	41,551
Prepaid maintenance fees	<u>400,294</u>	<u>405,412</u>
Total Current Liabilities	493,938	501,914
Members' equity		
Operating	(133,247)	(155,919)
Special reserve	<u>28,839</u>	<u>33,905</u>
Total members' equity	<u>(104,408)</u>	<u>(122,014)</u>
Total liabilities and members' equity	\$ <u><u>389,530</u></u>	\$ <u><u>379,900</u></u>

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION
Statements of Revenue and Expenses
Years Ended December 31, 2015 and 2014

	2015			2014
	Operating Fund	Special Reserve Fund	Total	Total
Revenue:				
Maintenance Fees	\$ 1,297,200	\$	\$ 1,297,200	\$ 1,293,962
F F & E reserve income		192,000	192,000	182,844
Amenity fees	50,219		50,219	49,713
Late fees	9,470		9,470	7,285
Other income	5,929		5,929	3,124
Interval transfer fee	1,700		1,700	2,500
Interest income		54	54	57
Total revenues	<u>1,364,518</u>	<u>192,054</u>	<u>1,556,572</u>	<u>1,539,485</u>
Expenses:				
Association dues	319,200	-	319,200	322,588
Salaries and wages	270,374	-	270,374	270,321
Payroll taxes & benefits	234,262	-	234,262	217,453
Special reserve expenses		197,120	197,120	170,688
Utilities	124,138	-	124,138	136,933
Property taxes	58,193	-	58,193	40,290
Bad debt expenses	57,500	-	57,500	84,600
Management Fees	51,192	-	51,192	51,192
Taxes-income/excise	50,301	-	50,301	48,430
Insurance	36,783	-	36,783	36,461
Accounting fees	16,800	-	16,800	16,800
Telephone	15,385	-	15,385	14,708
Guest supplies	12,241	-	12,241	17,239
Equipment lease & maint.	11,671	-	11,671	12,154
Cleaning contract & supplies	11,281	-	11,281	13,831
Director expense	9,590	-	9,590	10,880
Employee benefits	7,613	-	7,613	7,709
Cable/wi fi	7,148	-	7,148	-
Other maintenance/supplies	6,167	-	6,167	7,989
Building rent	6,132	-	6,132	6,132
Laundry and dry cleaning	5,559	-	5,559	9,143
Office supplies & expenses	5,428	-	5,428	6,783
Postage	5,260	-	5,260	5,682
Travel	4,706	-	4,706	5,102
Data processing	3,907	-	3,907	3,683
Bank charges & commissions	3,754	-	3,754	2,629
Audit & tax preparation	2,600	-	2,600	2,600
Other operating expense	2,330	-	2,330	2,033
Legal fees	1,200	-	1,200	1,200
Building maint. & supplies	1,131	-	1,131	1,609
Total expenses	<u>1,341,846</u>	<u>197,120</u>	<u>1,538,966</u>	<u>1,526,862</u>
Excess of Revenues Over (Under) Expenses	<u>\$ 22,672</u>	<u>\$ (5,066)</u>	<u>\$ 17,606</u>	<u>\$ 12,623</u>

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION
Statements of Members' Equity
Years Ended December 31, 2015 and 2014

	2015			2014
	Operating Fund	Special Reserve Fund	Total	Total
Members' equity Beginning of year	\$ (155,919)	\$ 33,905	\$ (122,014)	\$ (134,637)
Excess of revenues over (under) expenses	<u>22,672</u>	<u>(5,066)</u>	<u>17,606</u>	<u>12,623</u>
Members' equity End of year	\$ <u>(133,247)</u>	\$ <u>28,839</u>	\$ <u>(104,408)</u>	\$ <u>(122,014)</u>

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	<u>2,015</u>	<u>2,014</u>
Cash flows from operating activities:		
Excess of revenues over (under) expenses	\$ <u>17,606</u>	\$ <u>12,623</u>
Adjustments to reconcile excess of revenue over (under) expenses to net cash provided by (used in) operating activities:		
(Increase) decrease in current assets:		
Owners receivables	(24,439)	10,444
Intercompany - AOA	(26,596)	6,416
Intercompany - rental	20,480	(20,473)
Prepaid insurance	(579)	(10,560)
Prepaid other	(3,749)	6,930
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	(2,319)	(6,006)
Accrued payroll and related expenses	(539)	8,535
Deferred maintenance fees	<u>(5,118)</u>	<u>9,276</u>
 Total Adjustments	 <u>(42,859)</u>	 <u>4,562</u>
 Net Cash provided by (used in) operating activities	 (25,253)	 17,185
 Cash - beginning of year	 <u>288,495</u>	 <u>271,310</u>
 Cash - end of year	 <u>\$ <u>263,242</u></u>	 <u>\$ <u>288,495</u></u>

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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.

(Continued)

BANYAN HARBOR TIMESHARE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's accumulated reserve funds, which aggregate \$86,901 at December 31, 2015, are held in separate accounts and are generally not available for operating purposes.

The Association conducted a study in 2015 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
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)**

December 31, 2015 and 2014

The following information is based on the 2015 reserve study and presents significant information about the components of the common property.

Components	Years of Funding	Estimated Cost
FF&E-soft goods - bedroom	1-20	\$ 150,794
FF&E-case goods - bedroom	1-20	158,343
Mattress and box springs	1-20	54,318
Mirrored closet doors	1-20	8,877
Televisions	1-20	25,550
Ceiling fans and lighting	1-20	36,576
Air conditioners	1-20	155,644
Bath tubs/showers	1-20	145,200
Bath countertops and fixtures	1-20	21,162
In-room washer/dryer	1-20	88,853
Ceramic tile (kit.and baths)	1-20	188,200
Unit light fixtures	1-20	21,918
Interior doors/hardware/trim	Varies	46,274
Interior painting	1-20	36,089
Kitchen cabinets	1-20	129,006
Refrigerators	1-20	42,937
Microwaves	1-20	14,538
Stoves	1-20	28,999
Dishwasher	1-20	35,292
Furniture - living/dining rooms	1-20	404,683
Artwork	1-20	65,035
Drapery	1-20	75,200
Carpet and pad	1-20	251,460
Lanai furniture	1-20	41,100
Water heaters	Varies	14,784
Reservations system/computers	1-20	27,866
Housekeeping electric cart	Varies	34,895
Commercial housekeeping dryer	Varies	22,000
Commercial housekeeping washer	Varies	40,962
Flatware/silver/utensils/glass	1-20	15,000
Kitchen counter-silestone and fixtures	Varies	129,791
Maintenance reserve labor	1-20	917,487
Miscellaneous-legal fee-foreclosure	1-20	245,000
Exterior windows and doors	1-20	26,485
Total		<u>\$ 3,700,319</u>