

BANYAN HARBOR TIMESHARE ASSOCIATION

**FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITOR'S REPORT)**

YEAR ENDED DECEMBER 31, 2016

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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 the Banyan Harbor Timeshare Association, which comprise the balance sheet, for the year ended December 31, 2016, and the related statements of income, owners' equity and cash flows, 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 described in Note 2; 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 the Banyan Harbor Timeshare Association for the year ended December 31, 2016, and the results of its operations and cash flows for the year then ended with 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.

Terry S.C. Wong, CPA, Inc.
Honolulu, Hawaii
August 4, 2017

BANYAN HARBOR TIMESHARE ASSOCIATION
Balance Sheet
December 31, 2016

ASSETS

Current Assets:	
Cash - house fund	\$ 1,500
Cash - operating account	68,596
Cash - savings	169,389
Cash - F F & E reserve	<u>21,009</u>
Total cash	260,494
Receivables:	
Owner receivables	29,587
Less: Allowance for doubtful accounts	<u>5,366</u>
Net receivables	34,953
Intercompany - AOA	22,899
Intercompany - Rental	5,679
Prepaid insurance	18,248
Prepaid other	<u>33,279</u>
Total current assets	<u>\$ 375,552</u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities:	
Accounts payable and accrued expenses	50,811
Accrued payroll and related expenses	50,091
Prepaid maintenance fees	380,984
Deferred income	<u>19,035</u>
Total Current Liabilities	500,921
Members' equity	
Special reserve	3,864
Operating	<u>(129,233)</u>
Total members' equity	<u>(125,369)</u>
Total liabilities and members' equity	<u>\$ 375,552</u>

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION
Statement of Revenue, Expenses, and Changes in Members' Equity
For the Year Ended December 31, 2016

	Operating Fund	Special Reserve Fund	Total
Revenues:			
Maintenance assessments	\$ 1,337,949	\$ -	\$ 1,337,949
Special reserve	-	210,600	210,600
Amenities fees	53,977	-	53,977
Unit sale	0	11,398	11,398
Late charges and fines	9,187	-	9,187
Interval transfer fees	2,380	-	2,380
Other income	875	-	875
Interest income	-	48	48
Total revenues	1,404,368	222,046	1,626,414
Expenses:			
Utilities			
Electricity	108,432	-	108,432
Telephone	14,310	-	14,310
Gas	12,554	-	12,554
Wi-Fi	10,696	-	10,696
Repairs and maintenance			
Guest supplies	8,938	-	8,938
Carpet cleaning	8,495	-	8,495
Laundry	5,823	-	5,823
Cleaning supplies	5,737	-	5,737
Miscellaneous repairs and purchases	2,371	-	2,371
Special reserve expenses		269,691	269,691
Payroll and benefits			
Salaries and wages	336,820	-	336,820
Payroll insurance	154,930	-	154,930
Payroll taxes	41,887	-	41,887
Association dues	318,628	-	318,628
Bad debt expense	74,000	-	74,000
Real property tax	64,877	-	64,877
Property management fees	51,192	-	51,192
General excise tax	50,086	-	50,086
Insurance	30,692	-	30,692
Administrative expenses	27,968	-	27,968

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION
Statement of Revenue, Expenses, and Changes in Members' Equity
For the Year Ended December 31, 2016
(Continued)

Professional fees	20,885	-	20,885
Equipment lease	11,589	-	11,589
Directors expense	10,642	-	10,642
Building rent - AOA	6,132	-	6,132
Total expenses	<u>1,377,684</u>	<u>269,691</u>	<u>1,647,375</u>
 Excess of Revenues Over (Under) Expenses	 26,684	 (47,645)	 (20,961)
 Members' equity			
Beginning of year	(133,247)	28,839	(104,408)
Inter-fund transfer	(22,670)	22,670	-
End of year	<u>\$ (129,233)</u>	<u>\$ 3,864</u>	<u>\$ (125,369)</u>

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash flows from operating activities:	
Excess of revenues over (under) expenses	<u>\$ (20,961)</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	(13,063)
Intercompany - AOA	11,464
Intercompany - Rental	30,663
Prepaid insurance	1,208
Prepaid other	(19,042)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(1,821)
Accrued payroll and related expenses	9,079
Deferred maintenance fees	(19,310)
Deferred income	<u>19,035</u>
Total Adjustments	<u>18,213</u>
Net Cash provided by (used in) operating activities	(2,748)
Cash - beginning of year	<u>263,242</u>
Cash - end of year	<u><u>\$ 260,494</u></u>

See accompanying notes to financial statements.

BANYAN HARBOR TIMESHARE ASSOCIATION
Notes to Financial Statements
December 31, 2016

NOTE 1 – NATURE OF ORGANIZATION

The Association is organized under the laws of the State of Hawaii for the purposes of providing for the management, maintenance and care of the apartments participating in the timeshare program at Banyan Harbor, located in Lihue, Kauai, Hawaii.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting – The financial statements are presented on the accrual method of accounting, in which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

Fund Accounting – The Association’s governing documents provide guidelines for managing its financial activities. To ensure compliance with limitations and restrictions on the use of financial resources, the Association uses fund accounting by separating operating funds from funds designated for future major repairs and replacements for accounting and reporting purposes.

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

Reserve Fund – This fund is used to account for the financial resources available for future major repairs and replacements.

Member Assessments – Association members are subject to an assessment to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. The Association’s policy is to retain legal counsel and place liens on properties of owners whose assessments are delinquent. Any excess assessment at year-end are retained by the Association for use in the succeeding year.

Property and Equipment - The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. Property and equipment acquired by the Association are recorded at cost.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the 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.

BANYAN HARBOR TIMESHARE ASSOCIATION
Notes to Financial Statements
December 31, 2016
(Continued)

NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association conducted a replacement reserve study in 2016. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study. Funds are being accumulated for future major repairs and replacements are held in separate accounts and are generally not available for operating purposes. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board of Directors, on behalf of the Association may increase regular assessments, pass special assessments, or delay major repairs or replacements until funds are available. As of December 31, 2016, the balance in the replacement reserves was \$21,009.

NOTE 4 – RESERVE EXPENSES

Reserve expenses consisted of the following at December 31, 2016:

Artwork	\$ 4,947
Bath Fixtures	21,456
Building Repairs	1,490
Carpet	6,202
Drapery	10,411
Fans	3,439
Flatware	7,508
Furniture	43,145
Heaters	62
Housekeeping	2,000
HVAC	11,002
Interior Doors	27,644
Interior Painting	2,160
Kitchen Fixtures	26,077
Legal	19,893
Maintenance Labor	33,075
Reservation System	11,290
Televisions	2,214
Washer and Dryer	35,676
	<u>\$ 269,691</u>

NOTE 5 - INCOME TAXES

For income tax purposes, the Association may elect annually to file either as an exempt association or as an association taxable as a corporation. As an exempt association, the Association's net assessment income would be exempt from income tax, but its interest income would be taxed. Electing to file as a corporation, the Association is taxed on its net income from all sources (to the extent not deferred) at

BANYAN HARBOR TIMESHARE ASSOCIATION
Notes to Financial Statements
December 31, 2016
(Continued)

NOTE 5 - INCOME TAXES (CONTINUED)

normal corporate rates after corporate exemption, subject to the limitation that operating expenses are deductible only to the extent of income from members. The Association's federal and state tax returns for the past three years remain subject to examination by the taxing authorities.

NOTE 6 – COMMITMENTS

The Association has various contract services including property management.

NOTE 7 – SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 4, 2017, the date the financial statements were available to be issued.

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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION**

To the Board of Directors of
Banyan Harbor Timeshare Association

We have audited the accompanying financial statements of the Banyan Harbor Timeshare Association, which comprise the balance sheet, for the year ended December 31, 2016, and the related statements of income, owners' equity and cash flows, and the related notes to the financial statements, and our report thereon dated August 4, 2017, expressed an unqualified opinion on those financial statements.

Accounting principles generally accepted in the United States of America require that supplemental information on future major repairs and replacements be presented to supplement the basic financial statements. Such information, although not 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 to not provide us with sufficient evidence to express an opinion or provide and assurance.

A handwritten signature in black ink, consisting of a stylized, cursive 'T' followed by a horizontal line that extends to the right and then loops back down. To the right of the signature, the text 'CPA, INC.' is written in a simple, sans-serif font.

Terry S.C. Wong, CPA, Inc.
Honolulu, Hawaii
August 4, 2017

BANYAN HARBOR TIMESHARE ASSOCIATION
Supplementary Information on Future Major Repairs and Replacements
December 31, 2016
(Unaudited)

The Association conducted a replacement reserve study in 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The estimated replacement costs presented below do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

Components	Years of Funding	Estimated Cost
FF&E-soft goods - bedroom	1-20	\$ 179,006
FF&E-case goods - bedroom	1-20	173,903
Mattress and box springs	1-20	65,808
Mirrored closet doors	1-20	10,589
Televisions	1-20	29,648
Ceiling fans and lighting	1-20	42,992
Air conditioners	1-20	175,527
Bath tubs/showers	2-20	145,321
Bath countertops and fixtures	1-20	22,652
In-room washer/dryer	1-20	103,968
Ceramic tile (kit.and baths)	2-20	187,000
Unit light fixtures	1-20	31,071
Interior doors/hardware/trim	6-20	20,309
Interior painting	1-20	40,711
Kitchen cabinets	1-20	135,330
Refrigerators	1-20	49,782
Microwaves	1-20	16,435
Stoves	1-20	30,187
Dishwasher	1-20	37,340
Furniture - living/dining rooms	1, & 5-20	472,364
Artwork	1-20	70,853
Drapery	1-20	78,320
Carpet and pad	1-20	330,898
Lanai furniture	1-20	39,800
Water heaters	3-20	17,626
Reservations system/computers	1-20	81,780
Housekeeping electric cart	Various	34,810
Commercial housekeeping dryer	Various	23,750
Commercial housekeeping washer	1-20	62,980
Flatware/silver/utensils/glass	1-20	17,525
Kitchen counter-silestone and fixtures	Various	134,934
Maintenance reserve labor	1-20	897,734
Miscellaneous-legal fee-foreclosure	1-20	250,000
Exterior windows and doors	1-20	28,316
Total		\$ 4,039,270