

**THE SHEARWATER INTERVAL OWNERS ASSOCIATION AND
ASSOCIATION OF APARTMENT OWNERS OF THE SHEARWATER
REGULAR BOARD OF DIRECTORS MEETING
Wednesday, May 07, 2025
10:00 A.M.(HST)**

Minutes

A Regular Meeting of the Board of Directors of the Shearwater Interval Owners Association and Association of Apartment Owners of the Shearwater was jointly held on Wednesday, May 07, 2025 at 10:00 A.M.(HST). Those present at the meeting were:

Board Members:

Lorren Beneke, President (Via Zoom)
Richard Marlis, Vice President
Judy Wagner, Treasurer
Allan Tuchman, Director

Excused:

Danielle Ramos, Secretary

Management Company:

Sean Cannard, Director of Resort Operations of Kauai & Maui
Kanani Ragasa, General Manager
Kate Solovyan, Assistant General Manager
Ginger Daligdig, Administrative Assistant / Recording Secretary
Monica Pasco, Manager, Association Governance – Hawaii (via Zoom)

Owner's Present: Jeff Lemay & Jean Ferguson

Call to Order/Certification of Quorum

Vice President Marlis established quorum with four Board members present and called the meeting to order at 10:01 A.M. (HST)

Proof of Notice

Vice President Marlis noted for the record that Notice for this meeting was posted and sent to all Directors pursuant to the Bylaws.

Approval of Agenda

Treasurer Wagner moved to approve the Agenda as presented. The motion was seconded by President Beneke and carried unanimously.

Appointment of Secretary Pro Tem

Treasurer Wagner moved to appoint Director Tuchman as Secretary Pro Tem for this meeting. The motion was seconded by President Beneke and carried unanimously.

Approval of Prior Minutes

Director Tuchman moved to approve the October 22, 2024 Study Session, October 22, 2024 Joint Committee Meeting, and October 23, 2024 Regular Board Meeting minutes as written. The motion was seconded by Treasurer Wagner and carried unanimously.

Ratification of Prior Actions

- a. **Propane Renewal Agreement – IOA:** President Beneke moved approve Vice President Marlis’ action in approving the LPG Purchase Agreement with The Gas Company, LLC dba Hawaii Gas, for an amount of \$3.95 per gallon for a 24-month period commencing on 1/1/2025 and ending on 12/31/2026. The motion was seconded by Director Tuchman and carried unanimously.

REPORTS

President’s Report

President Beneke dispensed with the reading of the President’s Report. The President’s Report was included in the Board packet.

Treasurer’s Report

Treasurer Wagner dispensed with the reading of the Treasurer’s Report. The Treasurer’s Report was included in the Board packet.

Financial Report

The financial reports for month end March 2025 were included in the Board packet. Reports included the Balance Sheets, Income Statements, Variance Reports, Consolidated Cash Position Reports, Maintenance Fee Recap and Foreclosure Status Update.

Resort Operations Report

The Resort Operations Reports were included in the Board packet. Reports included the Resort Update, FinCEN Update, Action Item List, Satisfaction Report, RCI Standard Comment Card and Occupancy Report.

New Business

- a. **Appointment of Secretary Pro Tem:** Already addressed at the beginning of the meeting.
- b. **2024 Annual Audits**
 - i. **AOAO of The Shearwater:** Treasurer Wagner moved to accept the 2024 Association of Apartment Owners of The Shearwater Annual Audit as presented by Myers Brettholtz and Company. The motion was seconded by Director Tuchman and carried unanimously.
 - ii. **The Shearwater IOA:** President Beneke moved to accept the 2024 Shearwater Interval Owners Association Annual Audit as presented by Myers Brettholtz and Company. The motion was seconded by Treasurer Wagner and carried unanimously.

“The 2024 AOAO & IOA Annual Audits are attached hereto as Exhibit “A”.

- c. **2025 Reserve Expenditures**

- i. **AOAO of The Shearwater:** Treasurer Wagner moved to approve the 2025 Reserve Expenditures for AOAO of The Shearwater as further detailed in the expenditures list for a total amount not to exceed \$20,000 to be paid out of the Association’s Reserve Fund. The motion was seconded by President Beneke and carried unanimously.

“The 2025 AOAO Reserve Expenditures are attached hereto as Exhibit “B”.

New Action Item List Review: General Manager Ragasa reviewed the new action items. All new action items will be added to the current list and provided to all Board members with the distribution of the draft minutes.

Future Meeting Dates

The 2025-2026 Board Meeting schedules were approved as presented.

“The approved future meeting dates are attached hereto as Exhibit “C”.

Adjournment

There being no further business requiring a motion, **Treasurer Wagner moved to adjourn. The motion was seconded by Director Tuchman and carried unanimously.** The meeting was adjourned at 10:16 A.M. (HST).

*Prepared by Ginger-lani Daligdig, Recording Secretary
Respectfully Submitted by Allan Tuchman, Secretary Pro Tem
Approved by the Board of Directors on October 22, 2025.*

EXHIBIT "A"



INDEPENDENT ACCOUNTANT'S REPORT

The Board of Directors
The Shearwater Association of Apartment Owners
520 Aleka Loop
Kapaa, HI 96746

In accordance with Hawaii Statute 514B-150, we have performed an annual unannounced verification of the cash balance of The Shearwater Association of Apartment Owners.

We examined the bank reconciliations, bank statements, general ledger and internal financial statements for April 2024. All documents examined supported the cash balance reported on the Association's internal financial statements as of April 30, 2024.

This report was prepared solely for the information and use of management, the board of directors, and others within the Association, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Myers, Brettholtz & Company, PA". The signature is written in a cursive, flowing style.

MYERS, BRETT HOLTZ & COMPANY, PA
November 20, 2024

The Shearwater Interval Owners Association &
Association of Apartment Owners of The Shearwater
Board of Directors Meeting – May 07, 2025

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024

Myers
Brettholtz
& COMPANY, PA
CPAs and Consultants

12671 Whitehall Drive - Fort Myers, Florida 33907-3626 - 239.939.5775 - fax 239.939.3032
THE EXCEPTION TO THE RULE mbcopa@mbcopa.com

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of The Shearwater Association of Apartment Owners

Opinion

We have audited the accompanying financial statements of The Shearwater Association of Apartment Owners, which comprise the balance sheet as of December 31, 2024, and the related statements of revenue, expenses and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Shearwater Association of Apartment Owners as of December 31, 2024, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Shearwater Association of Apartment Owners and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Shearwater Association of Apartment Owners's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

To the Board of Directors
of The Shearwater Association of Apartment Owners

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on investments is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of The Shearwater Association of Apartment Owners's management. The information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

The schedule of operating fund revenue and expenses - budget to actual is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of The Shearwater Association of Apartment Owners's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



MYERS, BRETT HOLTZ & COMPANY, PA
Fort Myers, Florida
April 7, 2025

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
 BALANCE SHEET
 DECEMBER 31, 2024

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 84,459	\$ 258,191	\$ 342,650
Certificates of deposit	-	343,000	343,000
Investments (non-fair-value)	-	642,399	642,399
Due from Management Company	1,514	-	1,514
Prepaid expenses	116,877	-	116,877
Total assets	\$ 202,850	\$ 1,243,590	\$ 1,446,440
Liabilities and Fund Balance			
Liabilities			
Accounts payable and accrued expenses	\$ 25,512	\$ 16,430	\$ 41,942
Total liabilities	25,512	16,430	41,942
Fund balance	177,338	1,227,160	1,404,498
Total liabilities and fund balance	\$ 202,850	\$ 1,243,590	\$ 1,446,440

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
 STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED DECEMBER 31, 2024

	Operating Fund	Replacement Fund	Total
Revenue			
Member assessments	\$ 1,242,592	\$ 357,471	\$ 1,600,063
Interest	-	47,349	47,349
Amortization	-	10,931	10,931
Total revenue	1,242,592	415,751	1,658,343
Expenses	1,206,314	212,682	1,418,996
Excess of revenue over expenses	36,278	203,069	239,347
Fund balance, beginning of year	141,060	1,024,091	1,165,151
Fund balance, end of year	<u>\$ 177,338</u>	<u>\$ 1,227,160</u>	<u>\$ 1,404,498</u>

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2024

	Operating Fund	Replacement Fund	Total
Cash Flows From Operating Activities			
Excess of revenue over expenses	\$ 36,278	\$ 203,069	\$ 239,347
Adjustments to reconcile to net cash flows from operating activities:			
Amortization on investments	-	(10,931)	(10,931)
Changes in:			
Due from Management Company	(1,514)	-	(1,514)
Prepaid expenses	(12,154)	-	(12,154)
Accounts payable and accrued expenses	(1,597)	7,319	5,722
Due to Management Company	(871)	-	(871)
Net cash flows from operating activities	<u>20,142</u>	<u>199,457</u>	<u>219,599</u>
Cash Flows From Investing Activities			
Proceeds from maturity of investments	-	300,000	300,000
Purchases of investments	-	(489,631)	(489,631)
Net cash flows from investing activities	<u>-</u>	<u>(189,631)</u>	<u>(189,631)</u>
Net increase	20,142	9,826	29,968
Cash and Cash Equivalents			
Beginning of year	<u>64,317</u>	<u>248,365</u>	<u>312,682</u>
End of year	<u>\$ 84,459</u>	<u>\$ 258,191</u>	<u>\$ 342,650</u>
Supplemental Information			
Income taxes paid	<u>\$ 8,860</u>	<u>\$ -</u>	<u>\$ 8,860</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 1 - ORGANIZATION AND PURPOSE

The Shearwater Association of Apartment Owners (the "Association") was formed to operate and manage The Shearwater (the "Condominium"), a horizontal property regime recorded on August 1, 1993, under the laws of Hawaii. The Condominium consists of 32 interval ownership units and a clubhouse, located in Princeville, Kauai, Hawaii. The owners of all weeks in the Condominium and the clubhouse are the only members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Association's governing documents provide guidelines for governing its financial activities. To ensure observance of limitations 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 according to their nature and purpose.

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

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

Cash and Cash Equivalents

The Association considers all highly liquid investment instruments purchased with an original maturity of three months or less, at the date of purchase, to be cash equivalents.

Certificates of Deposit

The Association invests in federally insured certificates of deposit which are considered held-to-maturity. As a result, certificates of deposit are carried at cost plus accrued interest. Subsequent write ups or write downs to fair value to recognize unrealized gains or losses are not recorded.

Investments

The Association classifies its debt securities as held-to-maturity. Debt securities are classified as held-to-maturity when the Association has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded at amortized cost, net of allowance for credit losses.

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. Member assessments revenue is recognized monthly in the amount of the membership assessment allocation specified for current period operations based on the annual budget adopted by the Board of Directors (the "Board"). A proportionate share of the assessments is billed for each week based on unit type. Any amounts received in advance of the due date are deferred until due. The Financial Accounting Standards Board issued Accounting Standards Code 606 requiring deferral of the recognition of income until the services are rendered. The Association has determined ASC 606 does not apply to the Association as no customer relationship exists as it is defined by the Code. The Association does not defer the recognition of any portion of revenue as a contract liability.

Member assessments for the weeks that have been sold are billed and collected through The Shearwater Interval Owners Association ("TSWIOA"). The fees are then transferred to the Association on a monthly basis. During the year ended December 31, 2024, member assessments that were billed through TSWIOA totaled \$1,524,796.

Property and Equipment

The Association follows prevalent industry practice, as contained in ASC Subtopic 972-360, "Real Estate - Common Interest Realty Associations - Property, Plant and Equipment" in accounting for the common property of the Association, which it is responsible to preserve and maintain. Property is capitalized only if the Association has title or other evidence of ownership of the property, and either the Association can dispose of the property or the property is used by the Association to generate significant cash flow from members on the basis of usage or from nonmembers.

Common property is not capitalized as these items do not meet the capitalization criteria, since ownership of the commonly owned assets is vested in the members, those assets are not titled in the Association's name and disposition of those assets by the Board is restricted. Additions and improvements to common property are accounted for as major repair and replacement expenditures in the replacement fund.

Leases

The Association determines if an arrangement is or contains a lease at inception. Leases may contain lease and non-lease components which are not separated by the Association. The Association does not report right-of-use assets or lease liabilities for their short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense when incurred, as further described in Note 7.

Income Taxes

The Association can elect to file its income tax return as a Homeowners' Association, in accordance with Internal Revenue Code Section 528. Under that section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. The effect of the election is to tax the Association only on its "non-exempt function" income, reduced by a specific \$100 deduction at a flat 32% rate. If such election is not made, the Association's net income is subject to tax at statutory corporate rates.

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2024

Management has analyzed its various federal and state filing positions and believes that the Association’s income tax filing positions and deductions are well documented, supported and contain no uncertain tax positions. Additionally, management believes that no accruals for tax liabilities, interest or penalties are required. Therefore, no reserves for uncertain income tax positions have been recorded. Further, no interest or penalties have been included since no reserves were recorded. When applicable, such interest and penalties will be reported as income tax expense. The Association’s federal and state income tax returns remain subject to examination by the Internal Revenue Service and the State of Hawaii, respectively, for three years from the date of filing.

The Association has elected to be taxed as a Homeowners’ Association. Income tax expense was \$16,423 for the year ended December 31, 2024.

Fair Value Measurements

The Association measures certain assets at fair value in accordance with current accounting standards on fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). The Association has determined that there were no material differences between the cost and carrying values of its financial assets and liabilities as of December 31, 2024.

NOTE 3 - CONCENTRATIONS

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash. The Association maintains cash balances at various financial institutions. Accounts at each commercial banking institution are insured by the Federal Deposit Insurance Corporation (the “FDIC”) up to \$250,000. As of December 31, 2024, these balances were fully insured based on the bank statement balances, less the FDIC insurance.

NOTE 4 - INVESTMENTS

The amortized cost basis, allowance for credit losses and net carrying amount for debt securities, summarized by major security type, as of December 31, 2024, consisted of:

Debt Securities	Amortized Cost Basis	Allowance For Credit Losses	Net Carrying Amount
U.S. Treasury securities	\$ 642,399	\$ -	\$ 642,399

Future maturities of debt securities held as of December 31, 2024, consisted of:

Maturities	Amortized Cost Basis
Within one year	\$ 149,475
After 1-5 years	492,924
	<u>\$ 642,399</u>

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 5 - RELATED PARTY TRANSACTIONS

A Board member is an employee of PAHIO Resorts, Inc. (the “Management Company”), an affiliate of Wyndham Vacation Resorts, Inc. (“WVR”).

In the normal course of business, the Association conducts certain transactions with the Management Company. The following amounts related to these transactions are included in the accompanying statement of revenue, expenses and changes in fund balances as follows:

Payroll and benefits	\$ 131,003
Accounting and data processing	14,599
Management fees	112,963
	<u>\$ 258,565</u>

As of December 31, 2024, \$1,514 was due from the Management Company related to overpayment of the above expenses.

NOTE 6 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association’s replacement fund is utilized to accumulate funds for future major repairs and replacements, by an allocation of the member assessment charged to each owner and specifically designated for the fund in the annual budget. Deductions from the fund are recorded as costs, as incurred, which are determined by the Board, to meet the objective for which the fund was established. The Association’s policy is to retain the interest earned on such funds in the replacement fund.

The 2024 funding requirement was computed over the estimated useful life of the components, based on an independent appraiser’s estimates of current replacement costs, updated by management.

The 2025 proposed budgeted funding is \$357,770, as shown in the unaudited supplementary information. The components’ actual replacement costs, useful life, and interest income may vary from estimated amounts and the variation may be material. Therefore, the Association’s replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board, on behalf of the Association, has the power to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 7 - COMMITMENTS

The Association has a management agreement with the Management Company through December 31, 2025. The agreement automatically renews for successive three-year terms until terminated, under the laws of the State of Hawaii. The Management Company provides management, maintenance, administrative and accounting services. The management agreement provides that the Management Company may subcontract its rights, duties and obligations.

The Association has a one-year lease with the Management Company, to rent a portion of the clubhouse, renewable annually. The lease calls for a base rent in an amount equal to the actual costs and expenses relating to or arising from the use, maintenance, operation, repair, replacement and management of the leased premises, plus a pro-rata share of all utilities, master association assessments, condominium or vacation assessments, annual depreciation, and property taxes. Clubhouse expense for the year ended December 31, 2024, was \$14,447, included in recreation and amenities.

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

The Association contracts with vendors for various services to maintain the common property related to certain administration and building operations and maintenance expenses. These contracts are approved, as necessary, by the Board and have varying expiration dates and renewal terms.

NOTE 8 - SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 7, 2025, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
 SUPPLEMENTARY INFORMATION ON
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2024
 (Unaudited)

An independent appraiser conducted a study during 2023 to estimate the remaining useful life and the replacement costs of the components of common property. The following table, which has been updated by management, is based on the study and presents significant information about the components of common property. Amounts are based on normal operation and without the effect of potential catastrophic occurrences.

Components	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Costs	2025 Proposed Budgeted Funding
Building exterior renovation	-	\$ 22,510	
Doors	8.00	445,668	
Electrical	1.00	33,765	
Equipment	6.70	140,531	
Exterior building renovation	9.00	920,056	
Fire safety	10.50	38,245	
Fixtures	15.00	7,879	
Grounds	5.67	80,952	
Interior finishes	8.88	196,567	
Lighting	-	38,100	
Painting	1.00	551,654	
Pavement	8.50	275,400	
Pool and spa	3.40	113,595	
Recreation	6.67	33,202	
Roofing	1.00	1,092,696	
Signage	9.00	29,972	
		<u>\$ 4,020,792</u>	<u>\$ 357,770</u>

Estimated current replacement costs are based on the assumption that the rate of interest income earned on replacement funds will be 2% and the rate of inflation 3%.

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
 SUPPLEMENTARY INFORMATION ON INVESTMENTS
 DECEMBER 31, 2024
 (Unaudited)

Description	Acquired Date	Maturity Date	Cost Basis
CD Morgan Stanley	9/20/2023	3/27/2025	\$ 50,000
CD USAA Federal Savings	10/3/2023	3/28/2025	243,000
CD Wells Fargo Bank NA	10/3/2023	4/11/2025	50,000
U.S. Treasury Note	7/25/2023	1/15/2025	99,846
U.S. Treasury Note	6/23/2023	6/15/2025	49,629
U.S. Treasury Note	5/13/2024	5/15/2026	492,924
			<u>\$ 985,399</u>

THE SHEARWATER ASSOCIATION OF APARTMENT OWNERS
 SCHEDULE OF OPERATING FUND REVENUE AND EXPENSES -
 BUDGET TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2024

	Budget (Unaudited)	Actual	Variance
Revenue			
Member assessments	\$ 1,242,592	\$ 1,242,592	\$ -
Expenses			
Accounting and audit	20,924	20,924	-
Federal and state income and other taxes	912	1,367	(455)
General and administrative	46,902	46,215	687
Common area / grounds	229,042	221,028	8,014
Insurance	213,522	181,556	31,966
Management fees	112,963	112,963	-
Master association dues	22,183	22,725	(542)
Real estate and property taxes	463,758	473,475	(9,717)
Recreation and amenities	12,480	14,447	(1,967)
Security service	22,606	14,850	7,756
Utilities	97,300	96,764	536
Total operating fund expenses	<u>1,242,592</u>	<u>1,206,314</u>	<u>36,278</u>
Excess of revenue over expenses	<u>\$ -</u>	<u>\$ 36,278</u>	<u>\$ 36,278</u>



April 7, 2025

To the Board of Directors and
Wyndham Vacation Ownership, Inc.
The Shearwater Association of Apartment Owners
520 Aleka Loop
Kapaa, HI 96746

We have audited the financial statements of The Shearwater Association of Apartment Owners for the year ended December 31, 2024, and we will issue our report thereon dated April 7, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 20, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Shearwater Association of Apartment Owners are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2024. Management has determined that Topic 606, *Revenue from Contracts with Customers*, does not apply to associations and continues to recognize revenue from assessments in the period in which they are due, regardless of when they are collected or expended. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements were:

Management's estimates of the remaining useful lives and replacement costs of the components to be repaired and replaced as well as assumptions regarding interest and inflation rates are based on a study performed by an independent appraiser and updated by management. The estimates used in the study were selected from industry standards and cost estimating guidelines. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The financial statement disclosures are neutral, consistent, and clear.

The Shearwater Interval Owners Association &
Association of Apartment Owners of The Shearwater
Board of Directors Meeting – May 07, 2025

SHEARWATER INTERVAL OWNERS ASSOCIATION
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2024



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THE EXCEPTION TO THE RULE mbcopa@mbcopa.com

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Shearwater Interval Owners Association

Opinion

We have audited the accompanying financial statements of Shearwater Interval Owners Association, which comprise the balance sheet as of December 31, 2024, and the related statements of revenue, expenses and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shearwater Interval Owners Association as of December 31, 2024, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Shearwater Interval Owners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Shearwater Interval 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.

To the Board of Directors
of Shearwater Interval Owners Association

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are 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 auditors' report that includes our opinion. 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 are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment 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 Shearwater Interval Owners 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 our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Shearwater Interval Owners Association's ability to continue as a going concern for a reasonable period of time.

We are 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 15 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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.

To the Board of Directors
of Shearwater Interval Owners Association

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating fund revenue and expenses - budget to actual, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of Shearwater Interval Owners Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the portion marked "unaudited," has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



MYERS, BRETT HOLTZ & COMPANY, PA
Fort Myers, Florida
April 7, 2025

The Shearwater Interval Owners Association &
 Association of Apartment Owners of The Shearwater
 Board of Directors Meeting – May 07, 2025

SHEARWATER INTERVAL OWNERS ASSOCIATION
 BALANCE SHEET
 DECEMBER 31, 2024

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 2,274,299	\$ 280,240	\$ 2,554,539
Certificates of deposit	-	50,000	50,000
Investments (non-fair-value)	687,318	2,972,553	3,659,871
Assessments receivable, net	8,010	-	8,010
Due from CWP	2,419	-	2,419
Due from WVR	172,900	-	172,900
Due from Management Company	6,386	-	6,386
Prepaid insurance	6,961	-	6,961
Due from (to) funds	(150)	150	-
Total assets	\$ 3,158,143	\$ 3,302,943	\$ 6,461,086
Liabilities and Fund Balance			
Liabilities			
Accounts payable and accrued expenses	\$ 115,445	\$ 43,115	\$ 158,560
Assessments received in advance	1,748,127	-	1,748,127
Total liabilities	1,863,572	43,115	1,906,687
Fund balance	1,294,571	3,259,828	4,554,399
Total liabilities and fund balance	\$ 3,158,143	\$ 3,302,943	\$ 6,461,086

The Shearwater Interval Owners Association &
 Association of Apartment Owners of The Shearwater
 Board of Directors Meeting – May 07, 2025

SHEARWATER INTERVAL OWNERS ASSOCIATION
 STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED DECEMBER 31, 2024

	Operating Fund	Replacement Fund	Total
Revenue			
Member assessments	\$ 2,810,983	\$ 450,707	\$ 3,261,690
Late fees	2,385	-	2,385
Interest	66,843	82,963	149,806
Amortization	40,846	60,755	101,601
Rental	126,234	-	126,234
Sales of Association owned inventory	172,900	-	172,900
Housekeeping reimbursement	71,543	-	71,543
Other	5,514	-	5,514
	<hr/>	<hr/>	<hr/>
Total revenue	3,297,248	594,425	3,891,673
Expenses	<hr/> 3,228,123	<hr/> 43,115	<hr/> 3,271,238
	<hr/>	<hr/>	<hr/>
Excess of revenue over expenses	69,125	551,310	620,435
Fund balance, beginning of year	<hr/> 1,225,446	<hr/> 2,708,518	<hr/> 3,933,964
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 1,294,571</u>	<u>\$ 3,259,828</u>	<u>\$ 4,554,399</u>

The Shearwater Interval Owners Association &
Association of Apartment Owners of The Shearwater
Board of Directors Meeting – May 07, 2025

SHEARWATER INTERVAL OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024

	Operating Fund	Replacement Fund	Total
Cash Flows From Operating Activities			
Excess of revenue over expenses	\$ 69,125	\$ 551,310	\$ 620,435
Adjustments to reconcile to net cash flows from operating activities:			
Recovery of credit losses	(214,106)	-	(214,106)
Amortization on investments	(40,846)	(60,755)	(101,601)
Changes in:			
Assessments receivable	207,550	-	207,550
Due from CWP	4,078	-	4,078
Due from WVR	(172,900)	-	(172,900)
Due from Management Company	(2,781)	-	(2,781)
Prepaid insurance	103	-	103
Due from (to) funds	300	(300)	-
Accounts payable and accrued expenses	11,476	13,560	25,036
Assessments received in advance	125,638	-	125,638
Net cash flows from operating activities	<u>(12,363)</u>	<u>503,815</u>	<u>491,452</u>
Cash Flows From Investing Activities			
Proceeds from maturity of investments	2,550,000	180,000	2,730,000
Purchases of investments	<u>(2,401,065)</u>	<u>(870,345)</u>	<u>(3,271,410)</u>
Net cash flows from investing activities	<u>148,935</u>	<u>(690,345)</u>	<u>(541,410)</u>
Net increase (decrease)	136,572	(186,530)	(49,958)
Cash and Cash Equivalents			
Beginning of year	<u>2,137,727</u>	<u>466,770</u>	<u>2,604,497</u>
End of year	<u>\$ 2,274,299</u>	<u>\$ 280,240</u>	<u>\$ 2,554,539</u>
Supplemental Information			
Income taxes paid	<u>\$ 59,226</u>	<u>\$ -</u>	<u>\$ 59,226</u>
Interest and penalties paid	<u>\$ 19</u>	<u>\$ -</u>	<u>\$ 19</u>

SHEARWATER INTERVAL OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 1 - ORGANIZATION AND PURPOSE

Shearwater Interval Owners Association (the "Association") was incorporated on November 30, 1993, under the laws of Hawaii as a nonprofit corporation, to operate and manage The Shearwater (the "Condominium"). The Association consists of 32 interval ownership units, located in Princeville, Kauai, Hawaii. The owners of all weeks in the Association are the only members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Association's governing documents provide guidelines for governing its financial activities. To ensure observance of limitations 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 according to their nature and purpose.

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

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

Cash and Cash Equivalents

The Association considers all highly liquid investment instruments purchased with an original maturity of three months or less, at the date of purchase, to be cash equivalents.

Certificates of Deposit

The Association invests in federally insured certificates of deposit which are considered held-to-maturity. As a result, certificates of deposit are carried at cost plus accrued interest. Subsequent write ups or write downs to fair value to recognize unrealized gains or losses are not recorded.

Investments

The Association classifies its debt securities as held-to-maturity. Debt securities are classified as held-to-maturity when the Association has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded at amortized cost, net of allowance for credit losses.

SHEARWATER INTERVAL OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

Member Assessments and Allowance for Credit Losses

Association members are subject to assessments to provide funds for the Association’s operating expenses and major repairs and replacements. Member assessments revenue is recognized monthly in the amount of the membership assessment allocation specified for current period operations based on the annual budget adopted by the Board of Directors (the “Board”). A proportionate share of the assessments is billed for each unit-week based on unit type. Any amounts received in advance of the due date are deferred until due. The Financial Accounting Standards Board issued Accounting Standards Code 606 requiring deferral of the recognition of income until the services are rendered. The Association has determined ASC 606 does not apply to the Association as no customer relationship exists as it is defined by the Code. The Association does not defer the recognition of any portion of revenue as a contract liability. For the year ended December 31, 2024, provision for credit losses was \$114,580.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from members. The Association exercises its right to foreclose upon any owner whose week is not otherwise subject to a mortgage and who becomes more than 151 days delinquent in payment of their assessments due to the Association. The balances of assessments receivable as of the beginning and end of the year are \$415,423 and \$207,873, respectively. All assessments receivable are presented in the operating fund.

The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include closely monitoring outstanding assessment balances by management, member payment history of outstanding assessments balances and susceptibility to factors outside the Association’s control.

The allowance for credit losses for assessments receivable by portfolio segment and the related activity for the year ended December 31, 2024, are as follows:

	<u>Assessments</u>
Beginning balance	\$ 413,969
Provision for credit losses	114,580
Write-offs	(326,694)
Recoveries	(1,992)
Ending balance	<u>\$ 199,863</u>

Late fees are recognized when collected.

Member assessments for the Association include master association dues for The Shearwater Association of Apartment Owners (“TSWAOAO”). The association dues are transferred to TSWAOAO on a monthly basis. During the year ended December 31, 2024, master association dues for TSWAOAO that were assessed through the Association totaled \$1,524,796. As of December 31, 2024, no amount was due to TSWAOAO.

Property and Equipment

The Association follows prevalent industry practice, as contained in ASC Subtopic 972-360, “Real Estate - Common Interest Realty Associations - Property, Plant and Equipment” in accounting for the common property of the Association, which it is responsible to preserve and maintain. Property is capitalized only if the Association has title or other evidence of ownership of the property, and either the Association can dispose of the property or the property is used by the Association to generate significant cash flow from members on the basis of usage or from nonmembers.

SHEARWATER INTERVAL OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

Common property is not capitalized as these items do not meet the capitalization criteria, since ownership of the commonly owned assets is vested in the members, those assets are not titled in the Association's name and disposition of those assets by the Board is restricted. Additions and improvements to common property are accounted for as major repair and replacement expenditures in the replacement fund.

Leases

The Association determines if an arrangement is or contains a lease at inception. Leases may contain lease and non-lease components, which are not separated by the Association. The Association does not report right-of-use assets or lease liabilities for their short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense when incurred, as further described in Note 8.

Income Taxes

The Association can elect to file its income tax return as a Homeowners' Association, in accordance with Internal Revenue Code Section 528. Under that section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. The effect of the election is to tax the Association only on its "non-exempt function" income, reduced by a specific \$100 deduction at a flat 32% rate. If such election is not made, the Association's net income is subject to tax at statutory corporate rates.

Management has analyzed its various federal and state filing positions and believes that the Association's income tax filing positions and deductions are well documented, supported and contain no uncertain tax positions. Additionally, management believes that no accruals for tax liabilities, interest or penalties are required. Therefore, no reserves for uncertain income tax positions have been recorded. Further, no interest or penalties have been included since no reserves were recorded. When applicable, such interest and penalties will be reported as income tax expense. The Association's federal and state income tax returns remain subject to examination by the Internal Revenue Service and the State of Hawaii, respectively, for three years from the date of filing.

The Association has elected to be taxed as a Homeowners' Association. Income tax expense was \$75,423 for the year ended December 31, 2024.

Fair Value Measurements

The Association measures certain assets at fair value in accordance with current accounting standards on fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). The Association has determined that there were no material differences between the cost and carrying value of its financial assets and liabilities as of December 31, 2024.

NOTE 3 - CONCENTRATIONS

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of cash. The Association maintains cash balances at several financial institutions. Accounts at each commercial banking institution are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to \$250,000. As of December 31, 2024, the uninsured balance was \$545,371, based on the bank statement balances, less the FDIC insurance.

SHEARWATER INTERVAL OWNERS ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2024

Concentrations

As of December 31, 2024, WVR owned 492 weeks, or approximately 30% of the available weeks.

The Association derived approximately 27% of its total revenue from WVR during the year ended December 31, 2024.

NOTE 4 - INVESTMENTS

The amortized cost basis, allowance for credit losses and net carrying amount for debt securities, summarized by major security type, as of December 31, 2024, consisted of:

Debt Securities	Amortized Cost Basis	Allowance For Credit Losses	Net Carrying Amount
U.S. Treasury securities	\$ 3,659,871	\$ -	\$ 3,659,871

Future maturities of debt securities held as of December 31, 2024, consisted of:

Maturities	Amortized Cost Basis
Within one year	\$ 3,004,201
After 1-5 years	655,670
	<u>\$ 3,659,871</u>

NOTE 5 - ASSESSMENTS RECEIVED IN ADVANCE

Assessments received in advance consisted of future year member assessments received by the Association prior to the due date.

NOTE 6 - RELATED PARTY TRANSACTIONS

Employees of WVR serve as minority members of the board of directors of the Fairshare Vacation Owners Association, Inc. ("FVOA"). The Association has an agreement with FVOA, to allow members to participate in the program CLUB WYNDHAM Plus ("CWP"). The agreement expires concurrent with the date of expiration of the Trust agreement (currently December 31, 2025). CWP reimburses the Association for housekeeping fees incurred for split-week stays. The amount of reimbursement for the year ended December 31, 2024, was \$71,543. As of December 31, 2024, \$2,419 of that amount was due from CWP.

During the year ended December 31, 2024, WVR was billed assessments on inventory it owned. The total amount received or accrued was \$886,428 for the year ended December 31, 2024 and is included in member assessments. As of December 31, 2024, \$7,985 was due from WVR for assessments, included in assessments receivable.

SHEARWATER INTERVAL OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

The Association has an agreement with WVR that has resulted in recoveries of provision for credit losses and the sale of Association owned weeks. During the year ended December 31, 2024, the Association received a recovery of provision for credit losses expense in the amount of \$1,992 and revenue for the sale of Association owned weeks in the amount of \$172,900 related to this agreement. As of December 31, 2024, \$172,900 was due from WVR related to this agreement.

A Board member is an employee of PAHIO Resorts, Inc. (the "Management Company"), an affiliate of WVR.

In the normal course of business, the Association conducts certain transactions with the Management Company. The following amounts related to these transactions are included in the accompanying statement of revenue, expenses and changes in fund balances as follows:

Payroll and benefits	\$ 836,511
Accounting and data processing	21,505
Resort operations service fee	46,062
Management fees	155,097
	<u>\$ 1,059,175</u>

As of December 31, 2024, \$6,386 was due from the Management Company for overpayment of the above expenses.

The Association has an agreement with Wyndham Extra Holidays ("EH"), an affiliate of WVR, to provide rental services. Per the agreement, the Association receives a commission from EH related to these rental services. The agreement automatically renews on May 13 each year. For the year ended December 31, 2024, \$126,234 was received or accrued from EH for rental commissions. As of December 31, 2024, there was no amount due from EH related to these rental commissions.

NOTE 7 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's replacement fund is utilized to accumulate funds for future major repairs and replacements, by an allocation of the maintenance fees assessment charged to each member and specifically designated for the fund in the annual budget. Deductions from the fund are recorded as costs, as incurred, which are determined by the Board, to meet the objective for which the fund was established. The Association's policy is to retain the investment income earned on such funds in the replacement fund.

The 2024 funding requirement was computed over the estimated useful life of the components, based on an independent appraiser's estimates of current replacement costs, updated by management.

The 2025 proposed budgeted funding is \$502,538, as shown in the unaudited supplementary information. The components' actual replacement costs, useful life, and interest income may vary from estimated amounts and the variation may be material. Therefore, the Association's replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board, on behalf of the Association, has the power to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

SHEARWATER INTERVAL OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 8 - COMMITMENTS

The Association has a three-year management agreement with the Management Company ending December 31, 2027. The agreement renews for successive three-year periods until terminated, under the laws of the State of Hawaii. The Management Company provides management, maintenance, administrative and accounting services. The management agreement provides that the Management Company may subcontract its rights, duties and obligations.

The Association has a one-year lease agreement with the Management Company to rent a portion of the clubhouse, expiring on January 31, 2025. The lease is renewable for additional one-year terms. The lease calls for monthly base rent payments in an amount equal to the actual costs and expenses relating to or arising from the use, maintenance, operation, repair, insurance, labor and contract services, restoration, alteration, relocation, substitution or replacement, and management of the leased premises, including a pro-rata share of all utilities, master association assessments, condominium or vacation plan assessments, annual depreciation costs, and property taxes. For the year ended December 31, 2024, clubhouse expense was \$65,243, shown as recreation and amenities.

The Association contracts with vendors for various services to maintain the common property related to certain administration and building operations and maintenance expenses. These contracts are approved, as necessary, by the Board and have varying expiration dates and renewal terms.

NOTE 9 - SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 7, 2025, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

SHEARWATER INTERVAL OWNERS ASSOCIATION
 SUPPLEMENTARY INFORMATION ON
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2024
 (Unaudited)

An independent appraiser conducted a study during 2023, to estimate the remaining life and the replacement costs of the components of common property. The following table, which has been updated by management, is based on the study and presents significant information about the components of common property. Amounts are based on normal operation and without the effect of potential catastrophic occurrences.

Components	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Costs	2025 Proposed Budgeted Funding
Accessories	8.00	\$ 63,299	
Appliances	1.00	118,437	
Attic stock	1.00	9,500	
Cabinets and counters	1.00	688,831	
Case goods	4.92	396,204	
Doors	-	87,550	
Doors and windows	4.00	183,492	
Electronics	2.75	73,359	
Equipment	5.00	71,000	
Fixtures	1.00	195,290	
Flooring	3.33	297,921	
Interior finishes	1.00	501,157	
Lighting	3.63	86,415	
Presidential	3.40	1,752,133	
Soft goods	1.00	365,007	
		<u>\$ 4,889,595</u>	<u>\$ 502,538</u>

Estimated current replacement costs are based on the assumption that the rate of investment income earned on replacement funds will be 2% and the rate of inflation 3%.

The Shearwater Interval Owners Association &
 Association of Apartment Owners of The Shearwater
 Board of Directors Meeting – May 07, 2025

SHEARWATER INTERVAL OWNERS ASSOCIATION
 SCHEDULE OF OPERATING FUND REVENUE AND EXPENSES -
 BUDGET TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2024

	Budget <i>(Unaudited)</i>	Actual	Variance
Revenue			
Member assessments	\$ 2,810,983	\$ 2,810,983	\$ -
Late fees	2,788	2,385	(403)
Interest	27,038	66,843	39,805
Amortization	-	40,846	40,846
Rental	160,288	126,234	(34,054)
Sales of Association owned inventory	50,004	172,900	122,896
Housekeeping reimbursement	72,532	71,543	(989)
Other	4,236	5,514	1,278
Total operating fund revenue	3,127,869	3,297,248	169,379
Expenses			
Accounting and audit	28,205	28,205	-
Provision for credit losses	108,107	112,588	(4,481)
Collection fees	17,082	17,082	-
Federal and state income and other taxes	86,978	122,637	(35,659)
General and administrative	164,102	148,628	15,474
Common area / grounds	-	(1,153)	1,153
Guest services	176,329	186,732	(10,403)
Housekeeping	452,094	409,196	42,898
Laundry	119,439	134,515	(15,076)
Management fees	155,097	155,097	-
Master association dues	1,524,796	1,524,796	-
Membership, dues and fees	-	900	(900)
Recreation and amenities	57,418	65,243	(7,825)
Repair and maintenance	192,238	183,165	9,073
Reservation and inventory management	27,603	22,824	4,779
Utilities	121,381	117,668	3,713
Total operating fund expenses	3,230,869	3,228,123	2,746
(Deficiency) excess of revenue over expenses	\$ (103,000)	\$ 69,125	\$ 172,125



April 7, 2025

To the Board of Directors and
Wyndham Vacation Ownership, Inc.
Shearwater Interval Owners Association
520 Aleka Loop
Kapaa, HI 96746

We have audited the financial statements of Shearwater Interval Owners Association for the year ended December 31, 2024, and we will issue our report thereon dated April 7, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 20, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Shearwater Interval Owners Association are described in Note 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2024. Management has determined that Topic 606, *Revenue from Contracts with Customers*, does not apply to associations and continues to recognize revenue from assessments in the period in which they are due, regardless of when they are collected or expended. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements were:

Management's estimate of the allowance for credit losses is based on historical loss levels and an analysis of the collectability of individual accounts. We evaluated the method and significant assumptions used to develop the allowance and performed procedures to test management's estimate of the allowance for credit losses in determining that it is reasonable in relation to the financial statements taken as a whole and the disclosures are in accordance with GAAP.

Management's estimate of the income tax liability is based on Internal Revenue Code Section 528 with allocation of expenses under Internal Revenue Code Section 277. We evaluated the key factors and assumptions used to develop the income tax liability in determining that it is reasonable in relation to the financial statements taken as a whole

EXHIBIT “B”

REPLACEMENT FUND EXPENDITURES FOR 2025							
AOAO of the Shearwater							
<i>To be approved at BOD Meeting on 05/07/2025</i>							
#	COMPONENT	DESCRIPTION	LO/MED/HIGH	PROJECTED DATE	EXPENDITURE BUDGET	EXPENDITURE ESTIMATE	VARIANCE
1	Pole Repairs - BLDG 3	Preplacement of pole	High	Q1	\$0	\$20,000	\$20,000
					\$0	\$20,000	\$20,000

EXHIBIT “C”

**The Shearwater Interval Owners Association
& Association of Apartment Owners of The Shearwater**

3730 Kamehameha Road
Princeville, HI 96722
Scheduled Meeting Dates 2025 - 2026

<u>Type of Meeting</u>	<u>Date</u>	<u>Time</u>
Committee Meeting	Tuesday, October 21, 2025	9:00 A.M. (HST)
Board Meeting	Wednesday, October 22, 2025	9:00 A.M. (HST)
Committee Meeting	Tuesday, April 28, 2026	9:00 A.M. (HST)
Board Meeting	Wednesday, April 29, 2026	10:00 A.M. (HST)
Annual Meeting	Wednesday, April 29, 2026	1:00 P.M. (HST)
Organizational Meeting	Wednesday, April 29, 2026	2:00 P.M. (HST)
Committee Meeting	Tuesday, October 20, 2026	9:00 A.M. (HST)
Board Meeting	Wednesday, October 21, 2026	9:00 A.M. (HST)