

**MAUNA LANI RESORT ASSOCIATION**

Financial Statements and  
Supplementary Information

years ended December 31, 2018 and 2017

**MAUNA LANI RESORT ASSOCIATION**

**Balance Sheets**

December 31, 2018 and 2017

<b>Assets</b>	<b><u>12/31/18</u></b>	<b><u>12/31/17</u></b>
<b>ASSETS</b>		
Cash	\$ 3,180,068	\$ 3,208,066
Restricted cash	634,990	669,990
Assessments Receivable	1,129,118	1,033,649
less allowance for doubtful accounts	(462,171)	(462,171)
Other Receivables	8,556	10,953
Prepaid Expenses	271,781	210,047
Furniture, fixtures and equipment	267,320	267,320
less accumulated depreciation	(267,320)	(254,711)
Machinery & equipment	89,037	89,037
less accumulated depreciation	(89,037)	(86,220)
	<u>                    </u>	<u>                    </u>
<b>TOTAL ASSETS</b>	<b>\$ <u>4,762,342</u></b>	<b>\$ <u>4,685,960</u></b>
 <b>Liabilities and Fund Balance</b>		
<b>LIABILITIES</b>		
Accounts Payable and accrued liabilities	\$ 64,054	\$ 149,226
Prepaid assessments	5,441	22,525
Deposits	638,898	670,990
	<u>                    </u>	<u>                    </u>
<b>TOTAL LIABILITIES</b>	<b><u>708,393</u></b>	<b><u>842,741</u></b>
<b>FUND BALANCE</b>		
Reserves for future major repairs and replacements		
Fund balance (undesignated)	4,053,949	3,823,662
Reserve for site B landscaping removal	-	19,557
	<u>                    </u>	<u>                    </u>
<b>TOTAL FUND BALANCES</b>	<b><u>4,053,949</u></b>	<b><u>3,843,219</u></b>
	<u>                    </u>	<u>                    </u>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>\$ <u>4,762,342</u></b>	<b>\$ <u>4,685,960</u></b>

**MAUNA LANI RESORT ASSOCIATION**

Statement of Revenues & Expenses and Changes in Fund Balance

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>Budget</u>	<u>2017</u>
REVENUES			
Association Dues	\$ 3,394,278	\$ 3,394,278	\$ 3,880,504
Interest	10,781	10,430	10,164
Interest charges	-	-	462,171
Rents - easement fees	34,000	24,000	24,000
Membership & Site fees	29,964	36,900	39,120
Green Waste Disposal	47,427	64,867	64,565
Miscellaneous	300	-	-
TOTAL REVENUES	<u>3,516,750</u>	<u>3,530,475</u>	<u>4,480,524</u>
EXPENSES			
Major replacements and repairs - schedule	232,757	244,996	260,083
Utilities - schedule	277,952	323,339	318,807
Maintenance and Repair - schedule	1,154,648	1,170,449	1,159,152
Security	870,118	870,118	855,911
Management fees	414,174	414,153	406,031
Other professional fees	186,161	210,515	188,619
Insurance	26,928	27,906	27,119
Administrative	28,193	18,819	27,083
Beach Attendant	98,663	98,663	96,728
Depreciation	15,426	15,426	37,210
Bad debt expense	-	-	467,547
Real Property Tax	1,000	1,009	725
TOTAL EXPENSES	<u>3,306,020</u>	<u>3,395,393</u>	<u>3,845,015</u>
Revenues in excess (short) of expenses	<u>210,730</u>	<u>135,082</u>	<u>635,509</u>
Fund transfer	19,557	19,557	91,886
Beginning fund balance	3,823,662	3,823,662	3,096,267
ENDING FUND BALANCE	<u>\$ 4,053,949</u>	<u>\$ 3,978,301</u>	<u>\$ 3,823,662</u>

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**MAUNA LANI RESORT ASSOCIATION**

**Statement of Cash Flows**

December 31, 2018 and 2017

	<u><b>2018</b></u>	<u><b>2017</b></u>
<i>Cash flows from operating activities:</i>		
Revenues in excess (short) of expenses	\$ 210,730	\$ 635,509
Adjustments to reconcile revenues in excess of expenses to net cash provided by operating activities		
Depreciation	15,426	37,210
Bad debts	-	(462,171)
Reserve funding	19,557	91,886
Net member receivables	(93,072)	(78,264)
Other assets	(61,734)	(814)
Incurring (paying off) liabilities and reserves:		
Accounts payable and accrued liabilities	(85,172)	108,263
Other liabilities	(49,176)	(93,000)
Reserve funding	(19,557)	(91,886)
Increase in cash and restricted cash	<u>(62,998)</u>	<u>146,733</u>
Cash and restricted cash, beginning of year	3,878,056	3,731,323
Cash and restricted cash, end of year	\$ <u><u>3,815,058</u></u>	\$ <u><u>3,878,056</u></u>

**MAUNA LANI RESORT ASSOCIATION**

Schedules of Major Replacements & Repairs and Other Expenses

Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>Budget</u>	<u>2017</u> memo only
Major replacements and repairs			260,083
Admin bldg termite tent treatment	4,740	4,800	
Admin bldg exterior painting	27,031	28,000	
Admin facility security system upgrade	9,554	9,250	
Admin server/backup/sonic wall upgrades	7,421	7,146	
Admin reserve study update	3,088	-	
Admin traffic calming study	782	-	
Beach club gate operator accident repair	23,401	-	
Beach club gate access system	10,310	18,250	
Beach club gate access card inventory	-	18,000	
Beach club gate electrical box	5,661	5,750	
Beach club extraordinary repair - restaurant	59,384	9,600	
Beach club restaurant table tops	9,110	-	
Beach club extraordinary repair - other	-	6,000	
Makaiwa bay vinyl chaise lounges	-	28,000	
Makaiwa bay cabanas & repair	8,967	-	
Fishpond surveillance system	-	12,200	
Green waste facility bulldozer	-	47,000	
Green waste facility brackish water line	13,229	-	
Green waste facility backhoe repair	2,987	-	
Historic park restroom rehab/exterior paint	1,296	3,800	
Landscape & irrigation extraordinary repair	8,702	12,000	
Landscape equipment - laser z (2)	20,383	9,500	
Roadway light pole replacements	-	12,000	
Roadway speed tables - N. Kaniku	-	6,000	
Roadway extraordinary light replacements	2,836	-	
Roadway signage - highway cross traffic	521	-	
Security bldg AC replacement	-	4,700	
Security traffic safety supply upgrades	3,328	3,000	
Security bldg sewer pipe replacement	7,975	-	
Security satellite phone	2,051	-	
	<u>232,757</u>	<u>244,996</u>	<u>260,083</u>
	-		
Utilities			
Electricity	48,446	36,745	37,028
Refuse service	13,519	12,731	11,965
Telephone & communications	14,448	13,115	12,493
Water & sewer	201,539	260,748	257,321
	<u>277,952</u>	<u>323,339</u>	<u>318,807</u>
Maintenance and Repair			
Building	11,716	11,252	14,015
Composting	73,022	73,022	73,022
Contingency	-	600	-
Equipment	-	300	868
Gate	-	300	-
Grounds	945,607	949,377	948,356
Pest Control	6,598	3,280	2,600
Roadway & signage	481	2,520	3,755
Supplies	2,874	2,872	2,125
Tree Trimming	114,350	126,926	114,411
	<u>1,154,648</u>	<u>1,170,449</u>	<u>1,159,152</u>

NOTES TO THE FINANCIAL STATEMENTS  
MAUNA LANI RESORT ASSOCIATION  
December 31, 2018 and 2017

1. Nature of organization

Mauna Lani Resort Association (association) was organized on June 3, 1982 as a non-profit corporation that is responsible for the operation and maintenance of the common area property within the Mauna Lani Resort. The association is comprised of homeowners' associations, hotels, shops, recreational facilities and several parcels of land under development. The development is made up of approximately 2,500 units on 3,200 acres on the Kohala Coast, Island of Hawaii. The affairs of the association are overseen by a board of directors pursuant to the association's bylaws.

2. Summary of significant accounting policies

*Basis of accounting:* The association's financial statements are presented on accrual basis of accounting in accordance with accounting standards generally accepted in the United States. Under the accrual accounting basis, revenues are recognized when earned and expenses are recognized when incurred.

*Member assessments:* Association members are subject to monthly assessments to provide funds for operating expenses, improvements, replacements and major repairs. Revenues from assessments comprise approximately 97% of the total revenue of the association. The association's policy is to retain legal counsel and place liens on the units of members who are delinquent. Any excess assessments at year-end are retained by the association for use in future years. The association's receipts were collected and disbursements made by its agent, Hawaiiana Management.

*Cash and cash equivalents:* For purposes of the statement of cash flows, the association considers all highly liquid debt instruments with maturities of three months or less to be cash equivalents and short term certificates of deposit which are easily convertible to cash and are subject to minimal risk when converted to cash equivalents.

*Property:* The association capitalizes significant property and equipment to which it has title or other evidence of title with the exception of real property that is directly associated with the units. Property not capitalized consists primarily of road, trails, irrigation systems, ponds, light poles, public restrooms, security, beach club and administrative buildings. Capitalized common property is depreciated over its estimated useful lives using straight-line methods of depreciation.

*Security deposits:* The association requires construction deposits from developments under construction in the resort. The deposits are refunded to the developers of the projects after the Community Design Committee's approval at the end of construction. As of December 31, 2018, the association's cash balances included construction security deposits of \$634,990.

*Estimates:* 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 and 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.

*Fair value of financial instruments:* The carrying amounts of financial instruments including cash and cash equivalents, members' receivables, prepaid expenses, accounts payable, and prepaid maintenance assessments approximate their fair value due to the short-term maturities and nature of these instruments.

*Comparative financial statements:* The financial statements fund balances include certain 2017 comparative information. With respect to the comparative financial statements, such prior year information is not presented by fund and is presented in total rather than by functional category. Accordingly, such information should be read in conjunction with the association's financial statements for the year ended December 31, 2017 from which the summarized information was derived.

*Income taxes:* The association is a nonprofit corporation as defined under Internal Revenue Code section 501(c) (4). The association is exempt from federal and state income tax on net income related to the association's exempt purpose. The association had no tax liability for the years ended December 31, 2018 and 2017.

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. The Board of Directors and management has evaluated the association's tax position as of December 31, 2018 and for the year ended, by reviewing its income tax returns and conferring with its tax advisors and determined that it had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. With few exceptions, the association is no longer subject to examination by tax authorities for the years before December 31, 2015.

*General excise tax:* State statute allows tax exempt organizations to obtain a general excise tax exemption on certain activities. Income from association dues, startup fees, investment income, covenant violations, late charges and certain other assessments are not subject to general excise tax.

### 3. Cash

As of December 31, 2018, the cash balances were as follows:

Cash in checking	\$ 283,089
Savings	<u>3,531,969</u>
	<u>\$ 3,815,058</u>

#### 4. Member Receivables

As of December 31, 2018, member receivables and allowance for doubtful accounts were as follows:

Master association dues	\$ 666,947
Interest charges	<u>462,171</u>
	\$ 1,129,118
Less allowance for doubtful accounts	<u>(462,171)</u>
	<u>\$ 666,947</u>

#### 5. Date of Management Review

In preparing the financial statements, the Association has evaluated subsequent events and transactions for potential recognition or disclosure through March 9, 2019, the date that the financial statements were available to be issued.

#### 6. Future Major Repairs and Replacements

In June 2018, the Association had a level 1 (with site visit) study performed by a reserve specialist. The results of this study were included on the 2019 budget.

The association is funding for major repairs and replacements using the component method, based on the study's estimates and considering amounts previously accumulated in the replacement fund. Accordingly, the association assessed its members \$443,487 in the past year for future major repairs and replacement and major repairs and replacements in the amount of \$232,757 were completed in the year.

#### 7. Commitments

The association has various contract services including property and fiscal management, grounds, maintenance, pest control and security.

#### 8. Uninsured Cash Balances

The association's cash is invested in 8 financial institutions in Honolulu, Hawaii. The cash balances do not exceed the federally insured amount. The association does not believe it is exposed to significant credit risk on cash balances.

#### 9. Long-term Leases

The association has two telecommunication-site lease agreements. The term of the leases run from March 1, 2008 through February 28, 2028. For both agreements, lease rent of \$1,500 a month is due



through the remainder of the lease. The lease agreements require the lessee to reimburse the association for utility and property taxes if applicable.

The future minimum lease rent payments to be received under the lease agreements approximates \$330,000 through February of 2028.

#### 10. Allowance for Doubtful Accounts

In 2017 the association became aware of the March 28, 2017 Finding of Facts and Conclusions of Law (the "FOFCOL") in the case of Roaring Lion, LLC et al v. Pauoa Bay Properties, LLC, et al (Civil No. 04-1-0332). While the association is not a party to this legal action, the FOFCOL issued by the Judge in the above-entitled action are significant, as the Judge concluded that eight (8) apartment units owned and operated by Exclusive Resorts PBL1, LLC ("ER") within the Pauoa Beach subdivision are, in fact, "Commercial Apartments" under the MLRA DC&R, and not "Residential" units as previously represented by the developer/owner of these units. As such, ER units should have paid (and currently should pay) assessments at the Commercial Apartment rate of 51.73 Commercial units per month, rather than at the Residential rate of 8 units per month.

In this regard, in September 2017 the association notified ER of MLRA's intent to collect the shortfall in assessments from the period of August 2008 through September 2017 in the amount of \$537,156, along with interest at 12% per annum in the amount of \$462,171 as prescribed in MLRA's governing documents. Additionally, ER shall be assessed at the proper Commercial Apartment rate, effective October 2017. The 2017 results include an Allowance for Doubtful Accounts in the amount of \$462,171 which represents the interest only portion of ER's debt.

The Board's policy is to pursue the collection of all monies owed to the association until every legal avenue of collection has been exhausted. It is also the Board's policy that any Reserve for Doubtful Accounts and/or Bad Debt that has been set aside is a reserve applicable only in the event that amounts due and owing to the association are deemed permanently uncollectible after every possible legal attempt to collect all monies has failed.

The association recorded no additional bad debt expense in 2018.