

## **MAUNA LANI RESORT ASSOCIATION**

### **Report and Certification of the Treasurer**

To the Board of Directors  
Mauna Lani Resort Association

The accompanying balance sheet of Mauna Lani Resort Association as of December 31, 2019 and 2018, and the related statements of revenues and expenses and changes in fund balance, and statement of cash flows for the years ended December 31, 2019 and 2018 have been prepared in accordance with generally accepted accounting principles and submitted pursuant to the by-laws of Mauna Lani Resort Association.

The CPA firm of Carr & Nuti completed an audit of the association's 2019 and 2018 financial records. They certified that the 2019 and 2018 financial statements present fairly, in all material respects, the financial position of Mauna Lani Resort Association as of December 31, 2019 and 2018, and the results of its operations and cash flows for the years then ended are in conformity with accounting principles generally accepted in the United States.

In my capacity as Treasurer of Mauna Lani Resort Association, I certify that the financial statements were prepared from the books and records of the Association with an independent audit and review.

As of December 22, 2020

A handwritten signature in black ink, appearing to read 'David Y. Gross', is written over a horizontal line.

David Y. Gross  
Treasurer

**MAUNA LANI RESORT ASSOCIATION**

Financial Statements and  
Supplementary Information

years ended December 31, 2019 and 2018

**MAUNA LANI RESORT ASSOCIATION**

**Balance Sheets**

December 31, 2019 and 2018

<b>Assets</b>	<b>12/31/19</b>	<b>12/31/18</b>
<b>ASSETS</b>		
Cash in checking	\$ 283,569	\$ 141,180
Restricted cash	634,990	634,990
Savings	1,632,507	3,038,888
Short-term certificates of deposit	699,290	-
Long-term certificates of deposit	501,908	-
Interest receivable	1,551	-
Assessments Receivable	1,154,311	1,131,441
less allowance for doubtful accounts	(1,131,555)	(462,171)
Other Receivables	39,712	29,634
Prepaid Expenses	253,549	282,091
<b>TOTAL ASSETS</b>	<b>\$ 4,069,832</b>	<b>\$ 4,796,053</b>
<b>Liabilities and Fund Balance</b>		
<b>LIABILITIES</b>		
Accounts Payable and accrued liabilities	\$ 54,700	\$ 64,054
Prepaid assessments	5,225	5,440
Deposits	640,990	638,898
<b>TOTAL LIABILITIES</b>	<b>700,915</b>	<b>708,392</b>
<b>FUND BALANCE</b>		
Reserves for future major repairs and replacements		
Fund balance (undesignated)	3,368,917	4,087,661
<b>TOTAL FUND BALANCES</b>	<b>3,368,917</b>	<b>4,087,661</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>\$ 4,069,832</b>	<b>\$ 4,796,053</b>

# MAUNA LANI RESORT ASSOCIATION

## Statement of Revenues & Expenses and Changes in Fund Balance

Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>Budget</u>	<u>2018</u>
REVENUES			
Association Dues	\$ 3,394,278	\$ 3,394,278	\$ 3,394,278
Interest	30,475	72,124	10,781
Rents - easement fees	36,000	36,000	34,000
Green Waste Disposal	33,451	51,254	47,427
Membership & Site fees	24,649	15,600	29,964
Miscellaneous	3,400	-	-
TOTAL REVENUES	<u>3,522,253</u>	<u>3,569,256</u>	<u>3,516,450</u>
EXPENSES			
Major replacements and repairs - schedule	427,010	445,931	198,746
Utilities - shedule	310,772	281,453	277,952
Maintenance and Repair - schedule	1,183,205	1,173,609	1,154,647
Security	876,266	870,118	870,118
Management fees	415,100	414,144	414,174
Other professional fees	207,173	197,417	186,161
Insurance	27,444	27,659	26,928
Administrative	24,641	30,033	28,193
Beach Attendant	98,921	98,663	98,663
Depreciation	-	-	15,426
Bad debt expense	669,465	-	-
Real Property Tax	1,000	1,008	1,000
TOTAL EXPENSES	<u>4,240,997</u>	<u>3,540,035</u>	<u>3,272,008</u>
			-
Revenues in excess (short) of expenses	<u>(718,744)</u>	<u>29,221</u>	<u>244,442</u>
Beginning fund balance	4,087,661	4,053,949	3,823,662
Funds transfer	-	-	19,557
ENDING FUND BALANCE	<u>\$ 3,368,917</u>	<u>\$ 4,083,170</u>	<u>\$ 4,087,661</u>

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**MAUNA LANI RESORT ASSOCIATION**

Schedules of Major Replacements & Repairs and Other Expenses

Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>Budget</u>	<u>2018</u>
			memo only
Major replacements and repairs			198,746
2018 - cabana refurbish	9,400	-	
2018 - historic park rehab	4,979	-	
2018 - BC access card inventory	11,636	-	
FP Camera/Surveillance System	261	12,000	
FP Interpretive & Directional Signage	-	10,000	
LS - Roadway Street Sweeper	18,590	20,000	
LS & Irrigation Extraordinary Replacements	3,530	12,000	
RW Speed sign repair labor/parts	1,246	-	
RW Extraordinary Light Replacements	3,780	6,000	
RW Traffic Calming Measures	41,102	116,300	
RW Guardrail Repainting	2,559	1,800	
RW Common Area LED Light Upgrade	72,238	115,000	
RW BC Circle Concrete Cap Rplcmnt	42,483	45,000	
RW - paint fire hydrants	6,057	-	
RW-Revise Monument signage	2,408	-	
SEC Guard House AC Replacement	-	4,700	
SEC Patrol Vehicle Replacements (2)	54,660	55,000	
SEC - Emergency Call Box Replacement (2)	5,943	6,000	
BC Restaurant Table Replacements	6,994	13,150	
BC Interior/Exterior Electrical & Lighting Upgrades	6,414	16,981	
BC Extraordinary R & M (restaurant)	52,477	6,000	
BC Extraordinary R & M (non-restaurant)	4,948	6,000	
BC gate repair incident	20,719	-	
BC boundary staking mapping	12,195	-	
BC 25 chaise lounges	9,039	-	
BC architectural plan	9,399	-	
2020-BC 60 Lounge Chairs	23,952	-	
	<u>427,010</u>	<u>445,931</u>	<u>198,746</u>
Utilities			
Electricity	43,655	52,372	48,446
Refuse service	13,379	12,731	13,519
Telephone & communications	13,996	15,526	14,448
Water & sewer	239,742	200,824	201,539
	<u>310,772</u>	<u>281,453</u>	<u>277,952</u>
Maintenance and Repair			
Building	16,130	11,609	11,956
Composting	73,197	73,022	73,022
Contingency	408	600	-
Equipment	260	300	-
Gate	1,398	300	-
Grounds	951,456	949,377	945,607
Pest Control	2,558	7,244	6,598
Roadway & signage	391	1,540	482
Supplies	4,258	2,596	2,631
Tree Trimming	133,151	127,021	114,351
	<u>1,183,206</u>	<u>1,173,609</u>	<u>1,154,647</u>

**MAUNA LANI RESORT ASSOCIATION**

**Statement of Cash Flows**

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<i>Cash flows from operating activities:</i>		
Revenues in excess (short) of expenses	\$ (718,744)	\$ 244,442
Adjustments to reconcile revenues in excess of expenses to net cash provided by operating activities		
Depreciation	-	15,426
Bad debts	669,384	-
Net member receivables	(23,085)	(114,877)
Other assets	16,913	(90,725)
Incurring (paying off) liabilities and reserves:		
Accounts payable and accrued liabilities	(9,354)	(85,172)
Other liabilities	2,092	(32,092)
<i>Cash flows from investing activities:</i>		
Long-term certificates of deposit (purchased)	(501,908)	-
Increase in cash and restricted cash	<u>(564,702)</u>	<u>(62,998)</u>
Cash and restricted cash, beginning of year	3,815,058	3,878,056
Cash and restricted cash, end of year	\$ <u><u>3,250,356</u></u>	\$ <u><u>3,815,058</u></u>
no financing activities		

NOTES TO THE FINANCIAL STATEMENTS  
MAUNA LANI RESORT ASSOCIATION  
December 31, 2019 and 2018

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 development is made up of approximately 2,500 units on 3,200 acres on the Kohala Coast, Island of Hawaii. The Association is comprised of homeowner's associations, hotels, shops, recreational facilities and several parcels of land under development.

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 96% 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.

*Allowance for doubtful accounts:* The Association uses the allowance method to record uncollectible member receivables. Management's experience with delinquent accounts and write off practices are the basis for recording the allowance.

*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.

*Investments:* Certificate of deposits with maturities of one year or more are considered to be long-term investments and are being carried at cost and accrued interest posted by bank.

*Security deposits and Restricted Cash:* The association requires construction deposits from developments under construction in the resort. The deposits are refunded to the developers of the projects at the end of construction and on approval by the Community Design Committee's approval. As of December 31, 2019, the Association held security deposits of \$634,990 in three accounts. The

Association is also holding \$6,000 for beach club damage deposits. This amount is included in the undesignated funds of the Association.

*Property:* Effective 2018, The Association changed its capitalizing policy and no longer recognizes any property or equipment to which the Association has title as assets.

*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.

*Income taxes:* The Association qualified under Section 501(c) (4) of the Internal Revenue Code as a tax-exempt organization. The Association files annual information returns and pays federal tax at 15% on its unrelated business income after a specific deduction of \$1,000. The association had no tax liability for the years ended December 31, 2019 and 2018. With few exceptions, the Association is no longer subject to examination by tax authorities for the years before December 31, 2016.

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

### 3. Cash

As of December 31, 2019, the cash balances were as follows:

Cash in checking	\$ 283,569
Savings	1,632,507
Short-term certificates of deposit	<u>699,290</u>
	<u>\$ 2,615,366</u>

### 4. Long-term Certificates of Deposit

As of December 31, 2019, the Association held two 36-month certificates of deposit (CDs). The initial deposits were \$245,000 at each bank at 2.9% and 2.75%, respectively and the CDs mature in February 2022. As of December 31, 2019, the CD account balances were as follows, including interest:

HomeStreet Bank	\$ 251,257
Ohana Pacific Bank	<u>250,651</u>
	<u>\$ 501,908</u>



## 5. Restricted Cash

As of December 31, 2019, the Association held construction deposits of \$634,900. The deposits are categorized as restricted cash and held in the bank as follows:

Cash in checking	\$ 144,937
Savings	<u>490,053</u>
	<u>\$ 634,990</u>

## 6. Member Receivables

As of December 31, 2019, member receivables and allowance for doubtful accounts were as follows:

Community association dues	\$ 690,326
Interest charges	462,171
Green waste disposal & others	<u>1,814</u>
	\$ 1,154,311
Less allowance for doubtful accounts	<u>(1,131,555)</u>
	<u>\$ 22,756</u>

In accordance with management's experience with accounts receivable, the Association determined nearly \$670,000 of receivables as uncollectible in the year ended December 31, 2019 and recognized bad debts for this amount.

## 7. Date of Management Review

In preparing the financial statements, the Association has evaluated subsequent events and transactions for potential recognition or disclosure through November 13, 2020, the date that the financial statements were available to be issued.

## 8. 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 \$377,731 in the past year for future major repairs and replacement and major repairs and replacements in the amount of \$427,010 were completed in the year.

## 9. Commitments

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

## 10. Related Parties, Economic Dependency and Concentration of Credit Risk

At December 31, 2019 the Association owed DHL Mahi Opco, LLC \$2,883 for December, 2019 brackish water usage. As of December 31, 2019, DHL Mahi Associates, LLC, through its two joint venture member entities, DHL Mahi Opco, LLC and DHL Mahi Propco, LLC owned approximately 500 of the developed units of the Association, contributing about 20% of the member assessments.

As of December 31, 2019, the Association invested approximately \$2,450,000 (nearly 45% of total cash balances) in mainland banks through First Foundation Bank. The money is invested in savings deposits which are insured by Federal Deposit Insurance Corporation (FDIC).

## 11. Uninsured Cash Balances

The association's cash is invested in several financial institutions in Honolulu, Hawaii. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances are approximately \$59,000 at December 31, 2019. To date, the Association has not experienced any losses in the account and believes it is not exposed to any significant credit risk related to its cash and cash equivalents.

## 12. 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 \$294,000 through February of 2028.

## 13. Subsequent Events

On March 11, 2020, the World Health Organization declared the outbreak of the Coronavirus (COVID-19) pandemic. As a result of the pandemic, the economy has taken a downward turn that could directly impact the Association's financial position and the results of operations over the next twelve months. Management has evaluated the impact of COVID-19 on the Association's financial position and determined that at this time the impact is not significant.