

## **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, 2020 and 2019, and the related statements of revenues and expenses and changes in fund balance, and statement of cash flows for the year ended December 31, 2020 and 2019 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 is currently completing an audit of the association's 2020 and 2019 financial records. They will certify that the 2020 and 2019 financial statements present fairly, in all material respects, the financial position of Mauna Lani Resort Association as of December 31, 2020 and 2019, and the results of its operations and cash flows for the year 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 without independent audit or review.

June 15, 2021

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David Y. Gross  
Treasurer

**MAUNA LANI RESORT ASSOCIATION**

Financial Statements and  
Supplementary Information

years ended December 31, 2020 and 2019

**MAUNA LANI RESORT ASSOCIATION**

**Balance Sheets**

December 31, 2020 and 2019

<b>Assets</b>	<b>unaudited 12/31/20</b>	<b>3,322,806 audited 12/31/19</b>
<b>ASSETS</b>		
Cash in checking	\$ 307,944	\$ 283,569
Restricted cash	525,490	634,990
Savings	674,269	1,632,507
Short-term certificates of deposit	1,298,890	699,291
Long-term certificates of deposit	516,214	501,908
Interest receivable	4,073	1,551
Assessments Receivable	1,388,334	1,152,497
less allowance for doubtful accounts	(1,190,323)	(1,131,555)
Other Receivables	13,062	41,526
Prepaid Expenses	289,322	253,549
<b>TOTAL ASSETS</b>	<b>\$ 3,827,275</b>	<b>\$ 4,069,832</b>
<b>Liabilities and Fund Balance</b>		
<b>LIABILITIES</b>		
Accounts Payable and accrued expenses	\$ 45,259	\$ 52,201
Prepaid assessments & deferred income	33,912	7,725
Deposits	525,490	640,990
<b>TOTAL LIABILITIES</b>	<b>604,660</b>	<b>700,915</b>
<b>FUND BALANCE</b>		
Reserves for future major repairs and replacements		
Fund balance (undesignated)	3,222,614	3,368,917
<b>TOTAL FUND BALANCES</b>	<b>3,222,614</b>	<b>3,368,917</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b>\$ 3,827,275</b>	<b>\$ 4,069,832</b>

# MAUNA LANI RESORT ASSOCIATION

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

Years ended December 31, 2020 and 2019

	<b>unaudited 2020</b>	<b>Budget</b>	<b>audited 2019</b>
REVENUES			
Association Dues	\$ 3,394,278	\$ 3,394,278	\$ 3,394,278
Interest	32,161	32,637	30,475
Rents - easement fees	36,000	36,000	36,000
Green Waste Disposal	51,494	31,200	33,451
Site fees	9,294	12,000	24,649
Miscellaneous	6,588	-	3,400
TOTAL REVENUES	<u>3,529,814</u>	<u>3,506,115</u>	<u>3,522,253</u>
EXPENSES			
Major replacements and repairs - schedule	496,036	969,036	427,010
Utilities - shedule	310,494	302,433	310,772
Maintenance and Repair - schedule	1,177,355	1,189,139	1,183,206
Security	900,920	900,924	876,266
Management fees	428,163	428,170	415,100
Other professional fees	122,296	223,352	207,174
Insurance	28,589	28,644	27,443
Administrative	16,520	25,484	24,640
Beach & high season parking attendant	135,806	152,156	98,921
Bad debt expense	59,038	58,768	669,465
Real Property Tax	900	1,000	1,000
TOTAL EXPENSES	<u>3,676,117</u>	<u>4,279,106</u>	<u>4,240,997</u>
Revenues in excess (short) of expenses	<u>(146,302)</u>	<u>(772,991)</u>	<u>(718,744)</u>
Beginning fund balance	3,368,917	3,368,917	4,087,661
ENDING FUND BALANCE	<u>\$ 3,222,614</u>	<u>\$ 2,595,926</u>	<u>\$ 3,368,917</u>

**MAUNA LANI RESORT ASSOCIATION**

**Statement of Cash Flows**

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<i>Cash flows from operating activities:</i>		
Revenues in excess (short) of expenses	\$ (146,302)	\$ (718,744)
Adjustments to reconcile revenues in excess of expenses to net cash provided by operating activities		
Accrued interest	(2,522)	(1,551)
Bad debts	58,768	669,384
Net member receivables	(235,837)	(21,056)
Other receivables	28,463	(11,892)
Other assets	(35,773)	28,542
Incurring (paying off) liabilities and reserves:		
Accounts payable and accrued liabilities	(6,942)	(11,853)
Other liabilities	26,187	2,285
Deposits	(115,500)	2,092
Increase in cash and restricted cash	<u>(429,458)</u>	<u>(62,794)</u>
Cash and restricted cash, beginning of year	3,752,264	3,815,058
Cash and restricted cash, end of year	\$ <u><u>3,322,806</u></u>	\$ <u><u>3,752,264</u></u>
no financing or investing activities		

**MAUNA LANI RESORT ASSOCIATION**

Schedules of Major Replacements & Repairs and Other Expenses

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>Budget</u>	<u>2019</u>
			memo only
Major replacements and repairs			427,010
AD - Air duct/quality remediation	7,943	-	
BC - Pedestrian access gate	7,697	7,697	
BC - beach cabana repairs	8,827	-	
BC - 8 LED light upgrades	6,806	-	
BC - Renovation permitting	26,735	15,000	
BC - Roof & gutter system	-	63,000	
BC - Kitchen expansion	-	50,000	
BC - Bar relocation/new outdoor bar	-	153,000	
BC - Walkway relocation & landscape	-	20,000	
BC - Restaurant renovation (other)	-	35,000	
BC - New Public restrooms	-	185,000	
BC - Restripe cart parking area	2,706	3,000	
BC - Chaise lounges (completed 2019)	-	22,000	
BC - Cabana hoods & cushion covers	15,863	-	
BC - 4/7 Gate (damage)/recovery	0	-	
FP - Camera/Surveillance System	-	11,739	
FP - Interpretive & directional signage	8,581	8,000	
FP - Build Gate/Repair Handrail Seawall	1,721	-	
GWF - Dozer rehab	1,522	-	
LS - ML Drive Mauka irrigation line	176,963	241,000	
LS - Irrigation cart	18,141	18,200	
LS - Storage facility	48,319	50,300	
LS - Extraordinary Replacements	-	7,800	
RW - installation LED Light upgrades	31,812	-	
RW - Repair damaged conduit	7,014	-	
RW - Wire & pullbox damage ML drive	1,118	-	
RW - Raised 5 bases install 7 poles	17,685	-	
RW - 4 light poles	8,300	-	
RW - Light pole painting	36,251	32,000	
RW - Traffic calming measures	33,008	17,000	
RW - BC traffic circle island concrete	16,500	17,300	
SEC - Guardhouse AC unit	3,833	-	
SEC - Network video recorder	3,334	2,700	
SEC - Radar Speed sign (new)	4,190	8,700	
SEC - Refrigerator	-	600	
Website	1,170	-	
	<u>496,036</u>	<u>969,036</u>	<u>427,010</u>
Utilities			
Electricity	33,960	45,078	43,655
Refuse service	7,940	8,040	13,379
Telephone & communications	14,709	14,520	13,996
Water & sewer	253,885	234,795	239,743
	<u>310,494</u>	<u>302,433</u>	<u>310,772</u>
Maintenance and Repair			
Building	10,493	24,683	15,885
Composting	73,404	73,416	73,197
Contingency	251	-	408
Equipment	218	300	260
Gate	268	1,200	1,398
Grounds	959,726	954,276	951,456
Pest Control	3,140	3,174	2,558
Roadway & signage	-	1,600	391
Supplies	5,332	3,490	4,502
Tree Trimming	124,522	127,000	133,151
	<u>1,177,355</u>	<u>1,189,139</u>	<u>1,183,206</u>

NOTES TO THE FINANCIAL STATEMENTS  
MAUNA LANI RESORT ASSOCIATION  
December 31, 2020 and 2019

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 homeowners' associations, hotels, shops, recreational facilities and several parcels of land under development. 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 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 Co. Ltd.

*Allowance for doubtful accounts:* The Association used 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:* Certificates of deposit 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 & Restricted Cash:* 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, 2020, the association's cash balances included construction security deposits of \$522,490. The Association is also holding beach club security deposits in the amount of \$3,000.

*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, 2020 and 2019.

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, 2020 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, 2017.

*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, 2020, the cash balances were as follows:

Cash in checking	\$ 307,944
Savings	1,199,758
Short-term certificates of deposit	<u>1,298,890</u>
	<u>\$ 2,806,592</u>

### 4. Long-term Certificates of Deposit

As of December 31, 2020, 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, 2020 the CD account balances were as follows, including interest:

Home Street Bank	\$ 258,563
Ohana Pacific Bank	<u>257,651</u>
	<u>\$ 516,214</u>



#### 5. Restricted Cash

As of December 21, 2020, the Association held construction and damage deposits in the amount of \$525,490. The deposits are categorized as restricted cash.

#### 6. Member Receivables

As of December 31, 2020, member receivables and allowance for doubtful accounts were as follows:

Master association dues	\$ 926,163
Interest charges	<u>462,171</u>
	\$ 1,388,334
Less allowance for doubtful accounts	<u>(1,190,323)</u>
	<u>\$ 198,011</u>

#### 7. Date of Management Review

In preparing the financial statements, the Association has evaluated subsequent events and transactions for potential recognition or disclosure through February 12, 2021, 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 2020 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 \$349,734 in the past year for future major repairs and replacement and major repairs and replacements in the amount of \$496,036 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. 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 \$16,000 at December 31, 2020. 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.

#### 11. 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 \$258,000 through February of 2028.

#### 12. 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.

In 2020 the association recorded additional bad debt expense in the amount of \$59,038.