

MAUNA LANI RESORT ASSOCIATION

**Financial Statements and
Supplementary Information**

years ended December 31, 2021 and 2020

MAUNA LANI RESORT ASSOCIATION

Balance Sheets

December 31, 2021 and 2020

Assets	<u>2021</u>	<u>2020</u>
ASSETS		
Cash in checking	\$ 443,706	\$ 307,944
Restricted cash	387,811	386,388
Savings	1,260,589	813,537
Short-term certificates of deposit	984,589	1,298,723
Long-term certificates of deposit	530,887	516,214
Interest receivable	1,550	4,073
Assessments Receivable	1,308,417	1,390,710
less allowance for doubtful accounts	(1,249,091)	(1,190,323)
Other Receivables	15,622	10,687
Prepaid Expenses	269,260	289,322
Right of use (copier)	12,501	-
TOTAL ASSETS	\$ <u>3,965,841</u>	\$ <u>3,827,275</u>
Liabilities and Fund Balance		
LIABILITIES		
Accounts Payable and accrued expenses	\$ 123,722	\$ 45,258
Prepaid assessments & deferred income	135	33,912
Lease liability	12,501	-
Deposits	598,490	525,490
TOTAL LIABILITIES	<u>734,848</u>	<u>604,660</u>
FUND BALANCE		
Reserves for future major repairs and replacements		
Fund balance (undesignated)	3,230,993	3,222,615
TOTAL FUND BALANCES	<u>3,230,993</u>	<u>3,222,615</u>
TOTAL LIABILITIES & FUND BALANCE	\$ <u>3,965,841</u>	\$ <u>3,827,275</u>

MAUNA LANI RESORT ASSOCIATION

Statement of Revenues & Expenses and Changes in Members' Equity

years ended December 31, 2021 and 2020

	<u>2021</u>	<u>Budget</u>	<u>2020</u>
REVENUES			
Association Dues	\$ 3,394,278	\$ 3,394,278	\$ 3,394,278
Interest	22,353	26,981	32,161
Rents	36,000	36,000	36,000
Beach club rentals	-	-	9,294
Green Waste Disposal	66,723	45,663	51,494
TOTAL REVENUES	<u>3,519,354</u>	<u>3,502,922</u>	<u>3,523,227</u>
EXPENSES			
Major replacements and repairs - schedule	306,131	1,030,840	489,449
Utilities - shedule	291,710	359,375	310,494
Maintenance and Repair - schedule	1,172,461	1,190,297	1,177,355
Security	900,919	900,924	900,919
Management fees			
Construction design committee (net of recoveries)	179,364	184,752	99,566
Fiscal	52,978	52,980	52,978
Property	375,185	375,185	375,185
Other professional fees	20,311	31,700	22,730
Insurance	30,963	30,216	28,589
Administrative	16,399	20,350	16,519
Beach & high season parking attendant	102,584	109,656	135,807
Bad debt expense	58,768	58,764	59,038
Lease expense	2,403	4,320	-
Real Property Tax	800	804	900
TOTAL EXPENSES	<u>3,510,976</u>	<u>4,350,163</u>	<u>3,669,529</u>
Revenues in excess (short) of expenses	8,378	(847,241)	(146,302)
Members' equity, beginning balance	3,222,615	3,222,615	3,368,917
MEMBERS' EQUITY, ENDING BALANCE	<u>\$ 3,230,993</u>	<u>\$ 2,375,374</u>	<u>\$ 3,222,615</u>

MAUNA LANI RESORT ASSOCIATION

Statement of Cash Flows

years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Revenues in excess (short) of expenses	\$ 8,378	\$ (146,302)
Adjustments to reconcile revenues in excess of expenses to net cash provided by operating activities		
Bad debts	58,768	58,768
Net member receivables	48,516	(207,712)
Other assets	17,650	(9,270)
Accounts payable and accrued liabilities	78,464	(9,442)
Other liabilities	73,000	(115,500)
Net cash flows from operating activities	<u>284,776</u>	<u>(429,458)</u>
Cash flows from investing activities:		
Long-term certificates of deposit (purchased)	(14,673)	(14,306)
Net cash flows from investing activities	<u>(14,673)</u>	<u>(14,306)</u>
Net cash flows	270,103	(443,764)
Cash and restricted cash, beginning of year	<u>2,806,592</u>	<u>3,250,356</u>
Cash and restricted cash, end of year	\$ <u>3,076,695</u>	\$ <u>2,806,592</u>
no financing activities		

MAUNA LANI RESORT ASSOCIATION

Schedules of Major Replacements & Repairs and Other Expenses

years ended December 31, 2021 and 2020

	<u>2021</u>	<u>Budget</u>	<u>2020</u>
			memo only
Major replacements and repairs:	\$	\$	\$ 489,449
Beach club:			
Roof & gutter system		63,000	
Kitchen expansion		50,000	
Bar relocation/new outdoor bar		453,000	
Walkway relocation/landscape		20,000	
Restaurant renovation (other)		35,000	
New public restrooms		225,000	
Extraordinary restaurant repairs		9,000	
Extraordinary repairs (non-restaurant)		9,000	
Pedestrian access gate	183		
Gate repair (net of insurance claim)	(934)		
Renovation	12,439		
Restaurant	1,288		
Renovation permitting & planning	44,435		
Others - cabana repairs	166		
Extraordinary repairs administration building	25,151	3,000	
Bulldozer	42,963	47,200	
Security equipment - carryall gas cart	14,475		
Extraordinary repair street lighting	3,564		
Roadway sweeper (net of claim)	3,783		
Surveillance equipment	7,453	5,500	
Traffic calming measures	43,316		
Emergency Sewer lift station repair	4,349		
Interpretive & directional signage	4,759	14,340	
Street light poles	72,774	68,100	
Raise fishpond rockwall	-	16,000	
Extraordinary repairs landscaping equipment	23,175	12,000	
Refrigerator security building	-	700	
Others	2,792		
total	\$ <u>306,131</u>	\$ <u>1,030,840</u>	\$ <u>489,449</u>
Utilities			
Electricity	\$ 26,746	\$ 32,384	\$ 33,960
Refuse	8,239	7,968	7,940
Telephone & communications	15,592	14,484	14,709
Water & sewer	241,133	304,539	253,885
total	\$ <u>291,710</u>	\$ <u>359,375</u>	\$ <u>310,494</u>
Maintenance and Repair			
Building	\$ 7,171	\$ 24,152	\$ 10,494
Composting	73,404	73,404	73,404
Contingency	-	300	2,562
Equipment	2,417	300	558
Gate	812	1,200	268
Grounds	958,463	954,417	959,726
Pest Control	524	3,524	3,140
Roadway & signage	3,878	2,400	-
Supplies	2,965	3,600	2,680
Tree Trimming	122,827	127,000	124,523
total	\$ <u>1,172,461</u>	\$ <u>1,190,297</u>	\$ <u>1,177,355</u>

NOTES TO THE FINANCIAL STATEMENTS
MAUNA LANI RESORT ASSOCIATION
December 31, 2021 and 2020

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.

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.

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 end of construction and on approval by the Community Design Committee. As of December 31, 2021 and 2020, the Association held security deposits of \$522,490 in 2 savings accounts (\$387,811 and \$386,888) and balances of \$208,679 and \$135,602 were part of the checking account. The Association held another deposit of \$2,000 and \$3,000 for beach club damages as of December 31, 2021 and 2020. This amount is included in the undesignated funds of the Association.

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 highly delinquent. Any excess assessments at year-end are retained by the association to fund future replacements. 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.

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' receivable, prepaid expenses, accounts payable, and prepaid maintenance assessments approximate their fair value due to the short-term maturities and nature of these instruments.

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, 2021 and 2020.

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, 2021 and 2020 and for the years then 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, 2018.

General excise tax: Hawaii State Statutes require a homeowners' association to pay general excise tax at 4% on non-exempt function income such as income from interest, late fees, rents and other miscellaneous sources. A County surcharge of 0.5% is due from properties located on the Island of Hawaii. Exempt function income such as member assessments and certain other assessments are not subject to General Excise Tax.

New Accounting Pronouncements: In February 2016, the Financial Accounting Standards Board "(FASB)" issued ASU 2016-02 Leases (Topic 842), which among other things, requires recognition of lease assets and liabilities by lessees, including those classified as operating leases under previous GAAP, along with the disclosure of key information about leasing arrangements. When effective, the ASU will supersede FASB ASC 840, Leases and add Topic 842, Leases to the FASB ASC. The amendment is effective for fiscal years beginning after December 15, 2021.

On March 28, 2014, the FASB and the International Accounting Standards Board issued a converged standard on recognition of revenue from Contracts with Customers. FASB ASC 606, Revenue from Contracts with Customers was issued as a result of this convergence. Basically, the new guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. ASC 606 revenue recognition guidance does not apply to contracts within the scope of other standards such as insurance and lease contracts. This standard was effective December 15, 2020. The Association does not maintain books on fund accounting basis and was unable to identify the replacement fund balance as of December 31, 2021 and 2020 which is the basis for recording contract liabilities (assessments received in advance - replacement fund). The Association expects to comply with the standard in the near future.

3. Cash

As of December 31, 2021, the cash balances were as follows:

	<u>2021</u>	<u>2020</u>
Cash in checking	\$ 443,706	\$ 307,944
Savings	1,648,399	813,537
Short-term certificates of deposit	<u>984,590</u>	<u>1,298,723</u>
	<u>\$ 3,076,695</u>	<u>\$ 2,420,204</u>

4. Restricted Cash

As of December 31, 2021 and 2020, the Association held construction deposits. The deposits are categorized as restricted cash and held in the bank accounts as follows:

	<u>2021</u>	<u>2020</u>
Cash in checking	\$ 208,679	\$ 136,101
Savings	<u>387,811</u>	<u>387,388</u>
	<u>\$ 596,490</u>	<u>\$ 522,490</u>

5. Long-term Certificates of Deposit

As of December 31, 2021 and 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, 2021 and 2020 the CD account balances were as follows, including interest:

5. Long-term Certificates of Deposit (continued)

	<u>2021</u>	<u>2020</u>
HomeStreet Bank	\$ 266,061	\$ 258,563
Ohana Pacific Bank	<u>264,826</u>	<u>257,651</u>
	<u>\$ 530,887</u>	<u>\$ 516,214</u>

6. Member & Other Receivables

As of December 31, 2021 and 2020, member receivables and allowance for doubtful accounts were as follows:

	<u>2021</u>	<u>2020</u>
Master association dues	\$ 844,167	\$ 926,163
Interest charges	462,171	462,171
Green waste disposal & others	<u>17,701</u>	<u>13,063</u>
	1,324,039	1,401,397
Less allowance for doubtful accounts	<u>(1,249,091)</u>	<u>(1,249,091)</u>
Total	<u>\$ 74,948</u>	<u>\$ 211,074</u>

7. Future Major Repairs and Replacements

In June 2018, Akamai Reserves conducted a site inspection of the property and in October 2018 provided a reserve study to estimate the remaining useful lives and replacement costs of the common property components of the Association. The estimates were based on current estimated replacement costs of 2.5% and interest of 0.00% on amounts accumulated for future major repairs and replacements.

The Association is funding for major repairs and replacements using the cash-flow method, based on the study's estimates and considering amounts previously accumulated in the replacement fund.

Accordingly, the Association assessed its members \$183,585 in the past year for future major repairs and replacements, and the study's funding recommendation of \$213,260 has been included in the next fiscal year budget.

8. Commitments

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

9. Related Parties, Economic Dependency and Concentration of Credit Risk

The Brackish Water Agreement between Mauna Lani Resort (Operation), Inc. (MLRO) and Association provided the Association with brackish water to irrigate the common areas. In August 2017, Tokyu Corporation the sole shareholder of MLRO sold all its properties on the Mauna Lani Resort to DHL MAHI Associates, LLC, a joint venture comprised of DHL MAHI OPCO, LLC and DHL MAHI PROPCO, LLC. DHL MAHI OPCO, LLC now owns all the properties that were formerly owned by MLRO. As of August 1, 2017 DHL MAHI OPCO, LLC took over from MLRO to provide brackish water to the Association and as of December 31, 2021 and 2020, the Association owed DHL MAHI OPCO, LLC \$7,434 and \$3,176 for brackish water usage.

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 \$387,000 and \$73,000 at December 31, 2021 and 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. Leases

Effective January 1, 2021 the Association adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, Leases (Topic 842). Accordingly, the Association recognized a copier lease, effective April 1, 2021 as an operating lease. The term of the lease is 60 months and terminates on March 1, 2026. Monthly lease payment is \$267, including general excise tax. Effective April 1, 2021 a lease liability of \$14,485 was recorded, which is the present value of the lease payments of \$16,018 discounted using the Association's incremental borrowing rate of 4.25%. A Right of Use asset valued at \$14,485 was also recognized as of April 1, 2021. The following is a maturity analysis of the annual undiscounted cash flows of the operating lease liabilities as of December 31, 2021.

Year ending December 31,		
2022	\$	3,204
2023		3,204
2024		3,204
2025		3,204
2026		<u>801</u>
Total	\$	<u>13,617</u>

A part of the Declarant's conveyance of common property included 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 \$1,000 a month is due on the first 10 years of the lease and goes up to \$1,500

for the next 10 years. The lease agreements require the lessee to reimburse the Association for utilities and property taxes if applicable. The future minimum lease rent payments to be received are as follows:

Year ending December 31,		
2022	\$	36,000
2023		36,000
2024		36,000
2025		36,000
2026		36,000
2027		36,000
2028		6,000
Total	\$	<u>222,000</u>

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 2021 the association recorded additional bad debt expense in the amount of \$58,768.

13. Date of Management Review

In preparing the financial statements, the Association has evaluated subsequent events and transactions for potential recognition or disclosure through July 21, 2022 the date that the financial statements were available to be issued.