

KULEANA CLUB OF INTERVAL OWNERS
FINANCIAL STATEMENTS
DECEMBER 31, 2020

WITH

INDEPENDENT AUDITORS' REPORT
AND SUPPLEMENTARY INFORMATION

KULEANA CLUB OF INTERVAL OWNERS

Table of Contents

Independent Auditors' Report	Pages 3-4
Balance Sheet	Page 5
Statement of Revenues, Expenses and Changes in Fund Balances	Page 6
Statement of Cash Flows	Page 7
Notes to Financial Statements	Pages 8-12
Independent Auditors' Report on Supplementary information	Page 13
Supplementary Information of Actual and Budgeted Revenues and Expenses of the Operating Fund	Page 14

VanDerPol and Company

A Professional Accountancy Corporation

151 Kalmus Drive, #M-3A, Costa Mesa, California 92626

(714) 437-1025, FAX (714) 437-5900

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Owners
Kuleana Club of Interval Owners

Report on the Financial Statements

We have audited the accompanying financial statements of Kuleana Club of Interval Owners, which comprise the balance sheet as of December 31, 2020, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Kuleana Club of Interval Owners as of December 31, 2020, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Other Matters

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. As discussed in Note 7 of the Notes to Financial Statements, the Association has not estimated the remaining lives and replacements of the common area property, thus the required supplementary information has not been presented with these financial statements.

Van Der Pol and Company

VANDERPOL AND COMPANY
A Professional Accountancy Corporation

Costa Mesa, California

June 28, 2021

KULEANA CLUB OF INTERVAL OWNERS
BALANCE SHEET
AS OF DECEMBER 31, 2020

ASSETS

	Operating Fund	Replacement Fund	Combined
Cash and cash equivalents	\$ 687,421	\$ 255,243	\$ 942,664
Investments (Note 10)	449,889	200,000	649,889
Assessments and other receivables	592,754	5,537	598,291
Prepaid expenses and deposits	37,380	-	37,380
Land lease inventory for sale (Note 9)	106,252	-	106,252
Furniture and equipment, at cost (net of \$4,851 accumulated depreciation)	539	-	539
Due from/(to) other funds	16,193	(16,193)	-
	<u>\$ 1,890,428</u>	<u>\$ 444,587</u>	<u>\$ 2,335,015</u>

LIABILITIES AND FUND BALANCES

Accounts payable and accrued expenses	\$ 88,604	\$ -	\$ 88,604
Deferred assessments	1,224,246	9,550	1,233,796
Contract liability: owner assessments (Note 4)	-	425,792	425,792
Total liabilities	<u>1,312,850</u>	<u>435,342</u>	<u>1,748,192</u>
Fund balances	<u>577,578</u>	<u>9,245</u>	<u>586,823</u>
Total liabilities and fund balances	<u>\$ 1,890,428</u>	<u>\$ 444,587</u>	<u>\$ 2,335,015</u>

See independent auditors' report and accompanying notes to financial statements.

KULEANA CLUB OF INTERVAL OWNERS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Operating Fund	Replacement Fund	Combined
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Assessments	\$ 1,037,389	\$ 53,826	\$ 1,091,215
Property tax assessments	250,514	-	250,514
Room revenue and other	41,791	-	41,791
Interest	5,509	5,048	10,557
	<u> </u>	<u> </u>	<u> </u>
Total revenues	1,335,203	58,874	1,394,077
	<u> </u>	<u> </u>	<u> </u>
Expenses:			
Operating expenses	402,236	-	402,236
Administrative and general expenses	465,601	-	465,601
Property taxes	290,354	-	290,354
Income taxes	1,307	1,748	3,055
Bad debts	116,572	7,132	123,704
Unit window treatment	-	45,607	45,607
Unit televisions	-	1,087	1,087
	<u> </u>	<u> </u>	<u> </u>
Total expenses	1,276,070	55,574	1,331,644
	<u> </u>	<u> </u>	<u> </u>
Excess of revenues over expenses before depreciation	59,133	3,300	62,433
Depreciation	1,078	-	1,078
	<u> </u>	<u> </u>	<u> </u>
Excess of revenues over expenses	58,055	3,300	61,355
	<u> </u>	<u> </u>	<u> </u>
Fund balance, beginning of year	519,523	5,945	525,468
Fund balance, end of year	<u>\$ 577,578</u>	<u>\$ 9,245</u>	<u>\$ 586,823</u>

See independent auditors' report and accompanying notes to financial statements.

KULEANA CLUB OF INTERVAL OWNERS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Operating Fund	Replacement Fund	Combined
Cash flows provided/(used) by operating activities			
Excess of revenues over expenses	\$ 58,055	\$ 3,300	\$ 61,355
Adjustments to reconcile above to net cash provided/(used) by operating activities			
Depreciation	(702)	-	(702)
Assessments receivable	54,544	33,719	88,263
Accounts receivable other	66,650	543	67,193
Prepaid expenses	24,264	-	24,264
Accounts payable	15,037	-	15,037
Deferred assessments	52,529	(54,190)	(1,661)
Decrease in contract liability (Note 4)	-	10,253	10,253
Net cash provided/(used) by operating activities	<u>270,377</u>	<u>(6,375)</u>	<u>264,002</u>
Cash flow from investing activities:			
Purchase of equipment	1,780	-	1,780
Acquisition of investments	(959,889)	(200,000)	(1,159,889)
Disposition of investments	805,000	175,000	980,000
Net cash flows from investing activities	<u>(153,109)</u>	<u>(25,000)</u>	<u>(178,109)</u>
Cash flow from financing activities:			
Change in due from/(to) other funds	(6,545)	6,545	-
Net cash flows from financing activities	<u>(6,545)</u>	<u>6,545</u>	<u>-</u>
Net increase/(decrease) in cash	110,723	(24,830)	85,893
Cash at beginning of year	576,698	280,073	856,771
Cash at end of year	<u>\$ 687,421</u>	<u>\$ 255,243</u>	<u>\$ 942,664</u>

See independent auditors' report and accompanying notes to financial statements.

KULEANA CLUB OF INTERVAL OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1. ORGANIZATION

The Kuleana Club of Interval Owners (the Association) was incorporated in March 1981 specifically to operate, maintain, and repair time share condominium units located in Maui, Hawaii. The Association consists of 1,581 intervals in 31 condominium units, all located in the project known as Kuleana Club.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Accounting - The books and records for the Association are maintained on the accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.

(b) Capitalization Policy and Depreciation- In accordance with industry standards, the Association has not capitalized in the financial statements the common area real property acquired at its inception from the developer. Replacements and improvements to the real property which are directly associated with the units are also not capitalized. They are instead charged directly to either operating or replacement funds in the period they are incurred.

Significant capital assets not directly associated with the units, referred to as personal property assets, and certain other expenditures relating to operations, are capitalized and depreciated over their estimated useful life using the straight-line method of depreciation over 5 years. During the year ended December 31, 2020, there were no significant personal property additions.

(c) Fund Accounting-The Association's accompanying financial statements have been prepared using fund accounting. Under this method of accounting, funds are separated into two categories; the operating fund and the replacement fund. Disbursements from the replacement fund generally may be made only for designated repair or replacement of major common area components. Disbursements from the operating fund are at the discretion of the Board of Directors and generally are for on-going repairs, maintenance, and administrative functions.

(d) Investment Income-The Board's policy is to allocate interest earned on replacement fund cash accounts to the replacement fund, and to pay the related income taxes out of the respective fund.

(e) Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(f) Fund Transfers- As operating fund or replacement fund cash is disbursed for Board approved capital expenditures, the assets are capitalized in the "fixed asset fund" and the related fund balances are transferred from the operating fund and the replacement fund, accordingly.

KULEANA CLUB OF INTERVAL OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 3. ASSESSMENTS, ASSESSMENTS RECEIVABLE AND DEFERRED ASSESSMENTS

Association members are subject to paying assessments to fund for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association's governing documents provide for various collection remedies for delinquent assessments, including filing of liens on the owner's unit, foreclosing on the unit owner, or obtaining judgment on other assets of the unit owner.

Under the new revenue recognition standard of ASC 606 [Note 5], the Association (considered an entity) has a performance obligation to the unit/unit owners (customers). The Association's approved annual Operating Fund budget establishes the maintenance, management, and administrative services it is obligated to perform, and such services can be bundled together as a single commercial objective and a single performance obligation. The budget establishes an implied contract price, and because these services are provided for within an annual cycle, the respective Operating Fund assessments are considered revenue for the current period.

Performance obligations related to Replacement Fund assessments are satisfied when these financial resources are expended for their designated purpose. Accordingly, the reported Replacement Fund assessments for a given year will be increased or decreased to match the expenditures for the year.

For 2020, each interval owner was assessed either \$726 or \$817 (depending upon unit phase), inclusive of the replacement fund assessment discussed below. The 2021 annual assessments of either \$726 or \$817 (depending upon unit phase), inclusive of replacement fund assessments, were billed in October 2020 and are included in deferred assessments until earned. Additionally, owners are separately billed annually for their share of property taxes once assessed by the County of Maui.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

It is the Association's policy to write off past due balances at the end of the year for assessments billed in the previous year. Correspondingly, any bad debt recovery is included in this account. During 2020, the Association wrote off \$124,133 of 2020 assessments billed in 2019, and recovered \$429 of assessments previously written-off. Assessments receivable at December 31, 2020 consist principally of advance assessment billings for the year ended December 31, 2020 and an allowance for doubtful accounts has not been established at December 31, 2020.

NOTE 4. CONTRACT LIABILITY

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations which specifically pertains to Replacement Fund assessments. The contract liability balance at the beginning of the year and end of the year was \$415,539 and \$425,792, respectively.

NOTE 5. REVENUE RECOGNITION

The Financial Accounting Standards Board (FASB) issued new guidance in the Accounting Standards Codification (ASC) Topic 606 Revenue from Contracts with Customers. FASB ASC 606 is a new revenue

KULEANA CLUB OF INTERVAL OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5. REVENUE RECOGNITION (continued)

recognition standard that affects businesses that enter into contracts with customers to transfer goods and services, including public, private and non-public entities. The purpose of the standard is to eliminate variations in the way businesses across industries handle accounting for similar transactions. FASB ASC 606 went into effect for annual reporting periods beginning after December 15, 2018. FASB ASC 606 supersedes the revenue recognition requirements of FASB ASC 972-605 and most industry-specific revenue guidance in the FASB ASC, including the accounting guidance that Common Interest Realty Associations (CIRA's) followed in previous years. The Association adopted the new guidance as of January 1, 2019.

NOTE 6. INCOME TAXES

The Association may elect to file its federal income tax return as either a regular corporation [under Internal Revenue Code Section 277] or as a time share equivalent entity [under Internal Revenue Code Section 528]. For the year ended December 31, 2020, the Association elected to file as a time share entity, where generally the Association is taxed only on income unrelated to membership dues and assessments [such as interest income less related expenses] at a rate of 32%. For Hawaii state tax purposes, income is taxed similarly. For 2020, the federal and Hawaii income tax was \$2,667 and \$388, respectively.

The Association utilizes the liability method of accounting for income taxes. Under the liability method deferred income tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse.

The Association has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by the Association. Management believes that all of the positions taken by the Association in its federal income tax returns are more likely than not to be sustained upon examination. The Association's tax returns are subject to examination by the Internal Revenue Service for three years after they are filed.

NOTE 7. REPLACEMENT FUNDING PROGRAM

In accordance with the Association's governing documents, the Association has established certain amounts as reserves for future capital expenditures. Members' assessments relating to the replacement funding program are considered capital contributions from members' dues and as such are restricted in usage. Disbursements are to be made only if specifically approved by the Board of Directors.

Generally, a reserve study is conducted in order to estimate the remaining useful lives and replacement costs of the components of common property. A current reserve study has not been conducted; however the Association allocated \$46,694 of 2020 assessments to the replacement fund during the year. The 2021 budget includes a provision for replacement funding of \$8,864, subject to delinquencies.

Replacement funds are being accumulated based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated amounts and the variations may be material.

KULEANA CLUB OF INTERVAL OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 7. REPLACEMENT FUNDING PROGRAM (continued)

Therefore, amounts accumulated in the replacement funds may not be adequate to meet all future needs for major repairs and replacements.

If additional funds are needed, the Association has the right, subject to the Association's governing documents, to pass special assessments, increase monthly assessments, or delay replacement until funds are available.

NOTE 8. INTERVALS HELD FOR SALE

As of December 31, 2020, the Association owns 87 intervals which are held for sale. A value has not been assigned to these intervals in these financial statements.

NOTE 9. LAND LEASE INVENTORY

The Association holds the fee simple interests in real property associated with certain intervals. The interest related to each interval is available for sale to the interval owner. Land lease inventory is recorded at cost.

In 2017, Multi Resort Ownership Plan, Inc. agreed to purchase 100 land leases (associated with their respective time share interval ownership) for a total of \$200,000. The purchase occurred over a four-year period with payments of \$50,000 per year. Accordingly, the Association released 25 land leases each year to correspond with each payment.

As of December 31, 2020, the Association owns 174 land lease intervals that are available for sale. The total reported value of these intervals is based upon the ability to re-sell the respective intervals over a certain estimated period of time; however, it is possible that it may take longer than estimated to recover the stated value. An adjustment or provision has not been recorded in these financial statements to account for any discounts that would be necessary if the actual recovery period extends beyond the current estimated recovery period.

NOTE 10. INVESTMENTS

The Association's investments represent certificates of deposit (that are considered to be held to maturity and are carried at amortized cost, which approximates the fair value), along with zero coupon United States Treasury Notes. The certificates of deposits have interest rates ranging from .05% to 1.7%, and remaining maturities ranging from 1 month to 14 months. The Treasury notes have remaining maturities ranging from 2 months to 9 months.

NOTE 11. MANAGEMENT AGREEMENT

The Association is operated under a management agreement with a professional property management company, Vacation Resorts International. Compensation for management services is based on the Association's approved operating budget.

KULEANA CLUB OF INTERVAL OWNERS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for income taxes totaled \$3,591 during the year. There were no non-cash investing or financing transactions during the year.

NOTE 13. OFFICE LEASE

The Association leases office space from the Master Association. The lease is currently on a month-to month basis.

NOTE 14. SUBSEQUENT EVENTS AND CONTINGENCIES

Subsequent events have been evaluated through June 28, 2021, which is the date the financial statements were available to be issued.

On January 31, 2020, the U.S. Health and Human Services Secretary declared a public health emergency for the United States due to the coronavirus outbreak (COVID-19), and Hawaii experienced various closures for non-essential businesses in 2020. At this time, it is uncertain how Covid-19 may further affect the Association.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Disclaimer of Opinion on Required Supplementary Information

Our report on our audit of the basic financial statements of for Kuleana Club of Interval Owners for the year ended December 31, 2020 appears on pages 3 and 4. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information of actual and budgeted revenues and expenses of the operating fund on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information 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.

Van Der Pol and Company

VANDERPOL AND COMPANY
A Professional Accountancy Corporation

Costa Mesa, California

June 28, 2021

KULEANA CLUB OF INTERVAL OWNERS
SUPPLEMENTARY INFORMATION OF ACTUAL AND
BUDGETED REVENUES AND EXPENSES OF THE OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2020

Revenue	Actual	Budget	Variance to Budget *
Assessments	** \$ 1,037,389	** \$ 922,905	\$ 114,484
Property tax assessments	250,514	-	250,514
Room revenue and other	41,791	117,101	(75,310)
Interest income	5,509	5,000	509
Total revenue	<u>1,335,203</u>	<u>1,045,006</u>	<u>290,197</u>
Expenses-Operating			
Salary & wages	158,886	145,520	(13,366)
Payroll taxes/benefits	57,716	46,580	(11,136)
Electricity	25,144	45,000	19,856
Water/electricity laundry room	937	-	5,063
Telephone/internet-association	6,719	6,000	11,281
Telephone - units	17,869	18,000	(11,869)
Condo supplies	5,192	10000	7,108
Condo accessories	7,911	6,000	27,209
Linen/uniforms	940	12,300	24,060
Laundry	31,469	35,120	(4,769)
Repairs and maintenance	8,583	25,000	116,417
Window/carpet cleaning	31,021	26,700	(26,021)
Housekeeping service	49,849	125,000	456,371
Hospitality	-	5,000	-
Total operating expenses	<u>402,236</u>	<u>506,220</u>	<u>600,204</u>
Expenses-Administrative and General			
Corporate tax	1,307	3,000	1,693
Insurance	16,992	17,340	348
Property taxes	290,354	34,640	(255,714)
GE tax	39,125	42,440	3,315
Association fees	259,333	265,650	6,317
Audit fees	4,200	4,250	50
Office/miscellaneous	9,567	15,984	6,417
Office rent	1,842	1,842	-
Bank charges	19,121	17,500	(1,621)
Management fee	111,140	111,140	-
Directors/meeting expense	3,358	17,000	13,642
Legal/foreclosure fees	923	8,000	7,077
Bad debt expense	116,572	-	(116,572)
Total A&G expenses	<u>873,834</u>	<u>538,786</u>	<u>(335,048)</u>
Total Expenses	<u>1,276,070</u>	<u>1,045,006</u>	<u>(231,064)</u>
Excess of revenues over expenses before depreciation	<u>\$ 59,133</u>	<u>\$ -</u>	<u>\$ 59,133</u>

* Favorable/(unfavorable)

**Net of bad debt expense