

KAPALUA BAY VACATION OWNERS ASSOCIATION ("Association")
2012 VACATION OWNERSHIP BUDGET (a)(b)
(744 RESIDENCE INTERESTS)

	<u>Annual Total</u>	<u>Per 2 Bedroom Residence Interest</u>	<u>Per 3 Bedroom Residence Interest</u>
Maintenance Fees	\$ 14,495,319	\$ 3,878,058	\$ 10,617,261
Association of Apartment Owners of Kapalua Bay Condominium ("AOAO") Club Unit Assessment	(2,962,368)	(792,548)	(2,169,820)
TOTAL REVENUE	11,532,951	3,085,510	8,447,441
Accounting	\$ 351,374	\$ 435.21	\$ 487.44
Activities	23,732	29.39	32.92
Administration	613,089	759.38	850.50
Audit Fee	10,525	13.04	14.60
Bad Debt Expense	20,000	24.77	27.74
Billing and Collections	46,039	57.02	63.87
Board of Directors	6,500	8.05	9.02
Cable Television	28,229	34.96	39.16
Concierge	830,066	1,028.12	1,151.50
Credit Card Fee	50,500	62.55	70.06
Electricity	445,164	551.38	617.55
Fees - Community Association ^(c)	151,414	187.54	210.05
Fees - Golf ^(d)	929,994	1,151.90	1,290.12
General Excise Tax	711,527	881.30	987.06
High Speed Internet	5,321	6.59	7.38
Housekeeping	2,001,328	2,478.85	2,776.32
Human Resources	167,198	207.09	231.94
Income Tax	1,778	2.20	2.47
Insurance	34,711	42.99	48.15
Loss Prevention	278,189	344.57	385.91
Maintenance	598,710	741.56	830.55
Management Fee	309,700	383.60	429.63
Member Communication	2,500	3.10	3.47
Member Services	703,385	871.22	975.76
Other Income	(9,627)	(11.92)	(13.35)
Pest Control	5,148	6.38	7.14
Postage & Printing	3,720	4.61	5.16
Recovery of Start-up	92,352	114.39	128.11
Taxes - Property	2,067,924	2,561.34	2,868.70
Water and Sewer	62,461	77.36	86.65
TOTAL OPERATING EXPENSES ^(e)	\$ 10,542,951	\$ 13,058.54	\$ 14,625.58
Reserve for Replacement ^(f)	990,000	1,226.22	1,373.37
TOTAL OPERATING EXPENSES AND RESERVES	\$ 11,532,951	\$ 14,284.76	\$ 15,998.95
Association of Apartment Owners of Kapalua Bay Condominium ("AOAO") Club Unit Assessment	\$ 2,962,368	\$ 3,669.20	\$ 4,109.51
TOTAL ASSOCIATION & AOA MAINTENANCE FEES	\$ 14,495,319	\$ 17,953.96	\$ 20,108.46

(a) This budget has been prepared on an accrual basis.

(b) All capitalized terms used but not otherwise defined in this budget shall have the meanings given to such terms in The Kapalua Bay Vacation Ownership Project Declaration of Covenants, Conditions and Restrictions.

(c) "Fees - Community Association" - These fees are annual dues the Association is collecting on behalf of, and as an accommodation to, the Kapalua Resort Association ("KRA") in connection with each Owner's ownership of a Club Interest.

(d) "Fees - Golf" - these fees are annual dues the Association is collecting on behalf of The Kapalua Club, in accordance with the Association's obligation under Chapter 1.3 of the Kapalua Bay Vacation Ownership Project Declaration, for each Owner of an i

(e) In lieu of its obligation to pay Basic Charges as an Owner, the Developer will subsidize the operation of the Association through December 31, 2012 by paying the difference between the actual costs of the Club and amounts collected from all other Owne

(f) The total cash reserves of the Association as of the date of this budget, October 11, 2011, is \$2,206,793. The total amount of estimated cash reserves at the end of 2011 is \$2,206,988, and the total amount to fund such reserves in 2012 is \$990,000.

**KAPALUA BAY VACATION OWNERS ASSOCIATION
2012 ESTIMATED OPERATING BUDGET NOTES**

1) This budget has been prepared on an accrual basis.

2) Although this site is located in Hawaii, it has been registered in California. California Law requires the association board to disseminate to members an annual report of the provisions relating to methods and procedures for funding reserves pursuant to Section 11240(b)(2)(L) of the California Business Professions Code. Planned replacement reserves are the moneys that the association's Board of Directors has identified to be used to defray the future repair or replacement of, or additions to, those major components, which the association is obligated to maintain.

3) The itemized estimate of the remaining life and estimated replacement of the major components are listed below:

Components	Estimated Useful Life in Yrs.	Estimated Replacement Cost	Estimated Remaining Useful Life in Yrs.	Anticipated Beginning Fund Balance as of 1/1/2012	% of Fund Balance over Replacement Cost	Age in Years as of 1/1/2012
Furniture and Fixtures	10	11,314,362	7	2,200,526	19.45%	3
External Building Maintenance	10	15,000	7	2,917	19.45%	3
Common Area Rehabilitation	10	18,226	7	3,545	19.45%	3
TOTAL		\$11,347,588		\$2,206,988	19.45%	

4) The cash flow method is being used, which is based on a minimum twenty-year projection of the association's future income and expenses to fully fund its replacement reserve requirements each year during that twenty-year period. The cash flow method requires the association to assess and collect from its owners to fully fund 100% of the estimated replacement reserves, in order to establish a full replacement reserve for the association by the end of each budget year.

5) The remaining life of a component can be estimated by subtracting the current age of the component from the useful life of such component. Each year, the association board may adjust the amount of the estimated replacement reserve for an asset based on reasonable projections for inflation and for interest which will be earned during the estimated useful life of the asset.

6) The Board of Directors has determined that no special assessment will be required this year for either the maintenance or repair of any major component of the Resort or the funding of additional reserves other than those included in the budget.

7) Capitalized terms not defined in these footnotes have the meaning given to them in the Kapalua Bay Vacation Owners Association Declaration of Covenants, Conditions and Restrictions.