

**ASSOCIATION OF APARTMENT OWNERS OF
WAILEA FAIRWAY VILLAS**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2014 and 2013

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Shaun Thayer, CPA

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Association of Apartment Owners of Wailea Fairway Villas

Report on the Financial Statements

We have audited the accompanying financial statements of the Association of Apartment Owners of Wailea Fairway Villas, which comprise the balance sheet as of December 31, 2014, and the related statements of revenue and expenses, changes in fund balance, 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 these 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 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 of America. 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 auditor's judgment, including the assessment of the 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 the Association of Apartment Owners of Wailea Fairway Villas as of December 31, 2014, 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 of America.

Prior Period Financial Statements

The financial statements of the Association of Apartment Owners of Wailea Fairway Villas as of December 31, 2013 were audited by other auditors whose report dated February 11, 2014 expressed an unmodified opinion on those statements.

Emphasis of Matter

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note F are adequate to meet such future costs because that

determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements on page 13 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 for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wailuku, Hawaii
February 22, 2015

Shaun Thayer, CPA

Association of Apartment Owners of Wailea Fairway Villas

Balance Sheet

December 31, 2014 and 2013

	2014			2013
	Operating Fund	Reserve Fund	Total	Total (For Comparative Purposes Only)
ASSETS				
Assets				
Cash and cash equivalents	\$ 380,936	\$ 505,368	\$ 886,304	\$ 593,056
Certificates of deposit	-	392,683	392,683	391,980
Owner receivables, net of allowance for doubtful accounts of \$71,520 in 2014 and 2013	35,080	-	35,080	19,200
Prepaid expenses	22,251	-	22,251	23,314
Other assets	1,000	-	1,000	-
Total assets	<u>\$ 439,267</u>	<u>\$ 898,051</u>	<u>\$ 1,337,318</u>	<u>\$ 1,027,550</u>
LIABILITIES & FUND BALANCES				
Liabilities				
Accounts payable	\$ 43,956	\$ -	\$ 43,956	\$ 28,967
Income taxes payable	-	-	-	2,136
Prepayments by owners	52,760	-	52,760	40,816
Other liabilities	361	-	361	350
Total liabilities	97,077	-	97,077	72,269
FUND BALANCES	342,190	898,051	1,240,241	955,281
Total liabilities & fund balances	<u>\$ 439,267</u>	<u>\$ 898,051</u>	<u>\$ 1,337,318</u>	<u>\$ 1,027,550</u>

See accompanying notes to financial statements

Association of Apartment Owners of Wailea Fairway Villas
Statement of Revenue and Expenses
For the Years Ended December 31, 2014 and 2013

	2014			2013
	Operating Fund	Reserve Fund	Total	Total (For Comparative Purposes Only)
REVENUE:				
Owner assessments	\$ 853,585	\$ 197,303	\$ 1,050,888	\$ 1,033,276
Rental income	22,600	-	22,600	21,300
Late fees and late interest	11,456	-	11,456	7,752
Interest income	1,164	1,350	2,514	2,006
Other income	2,215	-	2,215	850
Total revenue	891,020	198,653	1,089,673	1,065,184
EXPENSES:				
Utilities (Exhibit I)	247,807	-	247,807	253,667
Grounds contract	201,600	-	201,600	201,600
Payroll and related costs (Exhibit I)	141,375	-	141,375	138,051
Insurance	62,165	-	62,165	68,620
Repairs and maintenance (Exhibit I)	55,489	-	55,489	112,013
Management fee	45,864	-	45,864	44,616
Rental expenses	13,817	-	13,817	6,484
Office and administrative	9,979	-	9,979	9,197
Professional fees	9,763	-	9,763	6,374
Security	8,537	-	8,537	8,125
Major repairs and replacements	-	2,990	2,990	10,572
Income taxes	2,802	-	2,802	3,902
Meetings	1,875	-	1,875	2,227
General excise taxes	650	-	650	734
Bad debt	-	-	-	(19,644)
Other expenses	-	-	-	3,025
Total expenses	801,723	2,990	804,713	849,563
EXCESS OF REVENUE OVER (UNDER) EXPENSES	\$ 89,297	\$ 195,663	\$ 284,960	\$ 215,621

See accompanying notes to financial statements

Association of Apartment Owners of Wailea Fairway Villas
Statement of Changes in Fund Balance
For the Years Ended December 31, 2014 and 2013

	2014			2013
	Operating Fund	Reserve Fund	Total	Total (For Comparative Purposes Only)
BEGINNING FUND BALANCE	\$ 252,893	\$ 702,388	\$ 955,281	\$ 739,660
EXCESS OF REVENUE OVER (UNDER) EXPENSES	<u>89,297</u>	<u>195,663</u>	<u>284,960</u>	<u>215,621</u>
ENDING FUND BALANCE	<u>\$ 342,190</u>	<u>\$ 898,051</u>	<u>\$ 1,240,241</u>	<u>\$ 955,281</u>

Association of Apartment Owners of Wailea Fairway Villas
Statement of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014			2013
	Operating Fund	Reserve Fund	Total	Total (For Comparative Purposes Only)
CASH FLOW FROM OPERATING ACTIVITIES:				
Excess of revenue over (under) expenses	\$ 89,297	\$ 195,663	\$ 284,960	\$ 215,621
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for bad debt	-	-	-	(30,381)
(Increase) decrease in owner receivables	(15,880)	-	(15,880)	15,074
(Increase) decrease in prepaid expenses	1,063	-	1,063	444
(Increase) decrease in other assets	(1,000)	-	(1,000)	-
Increase (decrease) in accounts payable	14,989	-	14,989	(9,559)
Increase (decrease) in income taxes payable	(2,136)	-	(2,136)	1,286
Increase (decrease) in prepayments by owners	11,944	-	11,944	2,370
Increase (decrease) in other liabilities	11	-	11	(46)
Net cash provided (used) by operating activities	98,288	195,663	293,951	194,809
CASH FLOW FROM INVESTING ACTIVITIES:				
Net change in certificates of deposit	-	(703)	(703)	49,711
CASH FLOW FROM FINANCING ACTIVITIES				
No activities	-	-	-	-
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	98,288	194,960	293,248	244,520
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	282,648	310,408	593,056	348,536
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 380,936	\$ 505,368	\$ 886,304	\$ 593,056
Supplemental disclosure of cash flow information:				
Cash paid during the year for income taxes	\$ 5,824	\$ -	\$ 5,824	\$ 1,225
Cash paid during the year for interest	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements

ASSOCIATION OF APARTMENT OWNERS OF WAILEA FAIRWAY VILLAS

NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

NOTE A - NATURE OF ORGANIZATION

The Association of Apartment Owners of Wailea Fairway Villas, an unincorporated association, is an organization of owners of 118 condominium units formed in 1998 to provide for the management, maintenance and care of the common areas. The Association was formed as required by Section 514B of the Hawaii Revised Statutes and the Declaration of Condominium Property Regime filed with the State of Hawaii. The condominium is located in Wailea, Maui, Hawaii.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES PRINCIPLES OF ACCOUNTING

It is the policy of the Association to prepare its financial statements and tax returns using the accrual method of accounting. Accordingly, revenue is recognized when earned and expenses are recognized when obligations are incurred.

ACCOUNTS RECEIVABLE

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Receivables from members at the balance sheet date represent fees due from unit owners for maintenance fees and other assessments. The Association's policy is to retain legal counsel and place liens on the units of owners whose assessments are delinquent. As of December 31, 2014 and 2013, member receivables greater than 90 days outstanding were approximately \$96,400 and \$81,500, respectively. Any excess assessments at year-end are retained by the Association for use in the following year.

INCOME TAXES

For the years ended December 31, 2014 and 2013, the Association elected to be taxed as a "homeowners association". Under this election, maintenance fees received from owners are exempt from taxation and the Association pays tax only on non-maintenance fee income, primarily rent and interest, less attributable expense, at a flat rate of 30% for Federal taxes and regular corporate rates for State of Hawaii taxes. Reserve Fund activity is treated as capital contributions/expenditures. In evaluating the tax positions and related income tax contingencies as of December 31, 2014 and 2013, the Association believes it has no uncertain tax positions that would require disclosure or adjustment. The Association's Federal and Hawaii income tax returns for 2011 through 2014 are open tax years under the normal three year statute of limitations and are therefore potentially subject to examination.

ASSOCIATION OF APARTMENT OWNERS OF WAILEA FAIRWAY VILLAS

NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued) FAIR VALUE

The carrying amounts reflected in the balance sheet for cash and cash equivalents, receivables, and payables approximate their respective fair values due to the short maturities of those instruments.

FUND ACCOUNTING

The accounts of the Association are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose.

Operating Fund - The Operating Fund is used to account for financial resources available for the general operations and maintenance of the Association.

Future Repairs and Replacements Fund - The Future Repairs and Replacements Fund (Reserve Fund) accounts for funds accumulated and spent on capital improvements, repairs and replacements related to the common areas of the Association.

PROPERTY AND EQUIPMENT

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

The Association will capitalize the cost of assets to which it holds title in its name or has other evidence of ownership. Property and equipment will be stated at cost. Depreciation will be provided using the straight-line method over the estimated useful lives of the assets. Repairs and maintenance costs are expensed as incurred.

MANAGEMENT'S 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 reporting period. Actual results could differ from those estimates.

**ASSOCIATION OF APARTMENT OWNERS OF
WAILEA FAIRWAY VILLAS**

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE C - CASH AND CASH EQUIVALENT BALANCES

At December 31, 2014 and 2013, cash and cash equivalent accounts consisted of the following. Cash equivalents reflected in the financial statements include certificates of deposit and other investments with original maturity of three months or less. Deposit accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

	<u>2014</u>	<u>2013</u>
Mutual of Omaha – ICS sweep, Reserve	\$405,629	230,157
HomeStreet Bank – money market, Operating	231,774	230,736
Mutual of Omaha - checking, Operating	121,916	24,705
Mutual of Omaha – money market, Reserve	99,739	80,251
Mutual of Omaha – money market, Operating	26,246	26,207
Petty cash, Operating	<u>1,000</u>	<u>1,000</u>
Total cash and cash equivalents	<u>\$886,304</u>	<u>\$593,056</u>

NOTE D - CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from owners are for maintenance and reserve assessments for the upkeep of the condominium and other fees.

NOTE E – RECLASSIFICATIONS

Certain reclassifications of 2013 amounts were made to conform to 2014 presentations. Such reclassifications had no impact on 2013 net income.

NOTE F - FUTURE MAJOR REPAIRS AND REPLACEMENTS

Hawaii State law mandates all condominium Board of Directors to establish and fund reserve accounts for repairs and replacement of major components of condominium property. Associations shall assess their members to either fund a minimum of fifty percent of the estimated replacement reserves (percent funded plan) or fund one hundred percent of the estimated annual replacement expenditures (cash flow plan). As of December 31, 2014 and 2013, accumulated funds of \$898,051 and \$702,388, respectively, are held in the Association’s reserve cash and investment accounts and are generally not available for operating purposes. It is the Association’s policy that interest earned on such funds is for reserve purposes.

ASSOCIATION OF APARTMENT OWNERS OF WAILEA FAIRWAY VILLAS

NOTES TO FINANCIAL STATEMENTS December 31, 2014 and 2013

NOTE F - FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

The Association's Board of Directors engaged an independent contractor to conduct a study to estimate the remaining useful lives and the replacement costs of the common property components. This study, dated July 16, 2014, assumes an annual inflation rate of 2.40% and an interest rate of 0.50% on reserve funds. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements, page 13, is based on this study.

The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on this study's estimates of current replacement costs, considering amounts previously designated for future major repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future major repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to the Board of Director's approval, to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds become available.

The Association has elected to use the "percent funded plan" of funding for replacement expenditures. The Hawaii Revised Statutes require that all condominium associations accumulate funds for future major repairs and replacements and that by January 1, 2000 the required reserve funds must be at least 50% funded. The Association was 57% funded as of December 31, 2014.

NOTE G - COMMITMENTS

As of December 31, 2014, the Association had various contracts or commitments, which consist of:

Landscape maintenance contract with Island Plant Company LLC of approximately \$16,800 per month.

Property management services contract with Destination Maui, Inc. of approximately \$3,900 per month.

The Association has entered into an agreement with Haleakala Solar Inc. in the amount of \$74,400 for the purchase and installation of a photovoltaic (PV) system. As of December 31, 2014 a deposit of \$1,000 has been paid under the agreement. The remaining balance of \$73,400 will be paid in accordance with the agreement's payment schedule.

**ASSOCIATION OF APARTMENT OWNERS OF
WAILEA FAIRWAY VILLAS**

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE H - LEASES

The Association leases a unit that it took over via non-judicial foreclosure under a lease expiring February 28, 2015. The Association received \$22,600 and \$21,300 in rental income from this lease for the years ended December 31, 2014 and 2013, respectively.

In December 2014, the Association took over an additional unit via non-judicial foreclosure. The unit is currently available for lease.

NOTE I – CERTIFICATES OF DEPOSIT

The Association has invested a portion of its reserve funds in three certificates of deposit. These certificates mature on March 12, 2015, July 9, 2015 and October 11, 2015 and have interest rates ranging from 0.12% to 0.35%. The Association has the ability and intent to hold the certificates until maturity.

NOTE J – DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 22, 2015, the date that the financial statements were available to be issued.

Association of Apartment Owners of Wailea Fairway Villas
Schedule of Operating Expenses
For the Years Ended December 31, 2014 and 2013

	Total 2014	Total (For Comparative Purposes Only) 2013
Utilities:		
Water	\$ 94,268	\$ 105,276
Electricity	50,842	48,952
Television cable service	50,514	49,185
Sewer	47,802	46,343
Telephone	3,137	3,094
Gas	1,244	817
Total utilities	<u>\$ 247,807</u>	<u>\$ 253,667</u>
Payroll and payroll taxes:		
Salaries and wages	\$ 113,872	\$ 109,332
Employee benefits	11,436	11,038
Payroll taxes	10,446	12,305
Workers compensation and TDI	5,621	5,376
Total payroll and related costs	<u>\$ 141,375</u>	<u>\$ 138,051</u>
Repairs and maintenance:		
Refuse	\$ 31,045	\$ 29,685
Building	6,906	45,679
Irrigation	5,230	2,308
Pest control	3,513	2,964
Grounds and landscaping	3,502	25,408
Pool	2,492	4,412
Fire equipment	1,519	1,031
Equipment	1,282	526
Total repairs and maintenance	<u>\$ 55,489</u>	<u>\$ 112,013</u>

See accompanying notes to financial statements

SUPPLEMENTARY INFORMATION

Association of Apartment Owners of Wailea Fairway Villas
Supplementary Information On Future Major Repairs and Replacements
(UNAUDITED)
December 31, 2014

The following table is based on the study conducted by an independent contractor and presents significant information about the components of the common property (see Note F).

Components	Normal Life	Remaining Life	Estimated Current Replacement Cost	Fully Funded Reserve
Asphalt - resurface	30	20	328,930	109,643
Asphalt - seal/repair	5	1	40,005	32,004
Ext. AC Units - replace	10	2	11,600	9,280
Fan Coil Units - replace	15	12	10,200	2,040
Pole Lights - replace	25	13	148,200	71,136
Bollard Lights - replace	20	15	168,350	42,088
Wall Lights - replace	15	7	37,250	19,867
Electrical Panels - inspect/repair	5	2	4,500	2,700
Mailboxes - replace	15	7	18,150	9,680
Metal Fences - partial replace	15	10	25,500	8,500
Metal Handrails - partial replace	10	6	25,500	10,200
Metal Lanai Handrail - partial replace	15	7	25,500	13,600
Metal Pool Fence - replace	15	3	21,250	17,000
Rubber Tile Floor - replace	15	9	3,360	1,344
Exercise Equipment - replace	10	0	7,500	7,500
Exercise Equipment - replace	10	5	6,000	3,000
Furniture - replace	12	9	9,500	2,375
Kitchenette - remodel	12	0	9,500	9,500
Bathroom - refurbish	12	8	6,500	2,167
Backflow Devices - replace	15	7	7,000	3,733
Irrigation Timeclock - replace	10	8	8,550	1,710
Irrigation Timeclock - replace	10	9	4,300	430
Stucco - repaint	10	5	436,500	218,250
Rec. Wood Surfaces - repaint	5	0	4,950	4,950
Pool - retile	20	14	34,000	10,200
Spa - retile	15	9	12,000	4,800
Pool/Spa Heater - replace	20	15	6,500	1,625
Tile Roof P1 - repair	25	10	512,400	307,440
Tile Roof P2 - repair	25	11	481,200	269,472
Tile Roof P3 - repair	25	12	481,200	250,224
Gutters/Downspouts P1 - repair	20	10	38,250	19,125
Gutters/Downspouts P2 - repair	20	11	35,460	15,957
Gutters/Downspouts P3 - repair	20	12	19,706	7,882
Signage - replace	20	10	6,000	3,000
Sewer System - repair	5	3	7,000	2,800
Landscape - restoration	15	3	75,000	60,000
Utility Vehicles - replace	8	2	5,500	4,125
Foot Bridge - restoration	15	0	5,500	5,500
Total			<u>\$ 3,088,311</u>	<u>\$ 1,564,847</u>

See accompanying notes to financial statements