

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

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2015 and 2014

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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, 2015 and 2014, and the related statements of revenue and expenses, changes in fund balance, and cash flows for the years 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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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
March 4, 2016

Shaun Thayer, CPA

Association of Apartment Owners of Wailea Fairway Villas

Balance Sheet

December 31, 2015 and 2014

	2015			2014
	Operating Fund	Reserve Fund	Total	Total
ASSETS				
Assets				
Cash and cash equivalents	\$ 342,974	\$ 679,153	\$ 1,022,127	\$ 886,304
Certificates of deposit	-	393,500	393,500	392,683
Assessments receivable, net of allowance for doubtful accounts of \$71,520 in 2015 and 2014	33,071	-	33,071	35,080
Prepaid expenses	22,518	-	22,518	22,251
PV Deposit	2,000	-	2,000	1,000
Property and equipment	74,400	-	74,400	-
Accumulated depreciation	(2,170)	-	(2,170)	-
Total assets	<u>\$ 472,793</u>	<u>\$ 1,072,653</u>	<u>\$ 1,545,446</u>	<u>\$ 1,337,318</u>
LIABILITIES & FUND BALANCES				
Liabilities				
Accounts payable	\$ 36,127	\$ -	\$ 36,127	\$ 43,956
Insurance claim payable	9,178	-	9,178	-
Prepaid assessments	42,346	-	42,346	52,760
Other liabilities	466	-	466	361
Total liabilities	88,117	-	88,117	97,077
FUND BALANCES	<u>384,676</u>	<u>1,072,653</u>	<u>1,457,329</u>	<u>1,240,241</u>
Total liabilities & fund balances	<u>\$ 472,793</u>	<u>\$ 1,072,653</u>	<u>\$ 1,545,446</u>	<u>\$ 1,337,318</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, 2015 and 2014

	2015			2014
	Operating Fund	Reserve Fund	Total	Total
REVENUE:				
Owner assessments	\$ 837,143	\$ 207,457	\$ 1,044,600	\$ 1,050,888
Rental income	39,454	-	39,454	22,600
Late fees and late interest	5,405	-	5,405	11,456
Interest income	1,180	1,824	3,004	2,514
Other income	755	-	755	2,215
Total revenue	883,937	209,281	1,093,218	1,089,673
EXPENSES:				
Utilities (Exhibit I)	243,336	-	243,336	247,807
Grounds contract	201,600	-	201,600	201,600
Payroll and related costs (Exhibit I)	149,722	-	149,722	141,375
Repairs and maintenance (Exhibit I)	72,026	-	72,026	55,489
Insurance	59,614	-	59,614	62,165
Management fee	47,244	-	47,244	45,864
Rental expenses	38,294	-	38,294	13,817
Major repairs and replacements	-	34,679	34,679	2,990
Office and administrative	10,139	-	10,139	9,979
Security	8,537	-	8,537	8,537
Professional fees	5,299	-	5,299	9,763
Meetings	2,626	-	2,626	1,875
Depreciation expense	2,170	-	2,170	-
Income taxes	481	-	481	2,802
General excise taxes	363	-	363	650
Total expenses	841,451	34,679	876,130	804,713
EXCESS OF REVENUE OVER (UNDER) EXPENSES	\$ 42,486	\$ 174,602	\$ 217,088	\$ 284,960

Association of Apartment Owners of Wailea Fairway Villas
Statement of Changes in Fund Balance
For the Years Ended December 31, 2015 and 2014

	2015			2014
	Operating Fund	Reserve Fund	Total	Total
BEGINNING FUND BALANCE	\$ 342,190	\$ 898,051	\$ 1,240,241	\$ 955,281
EXCESS OF REVENUE OVER (UNDER) EXPENSES	<u>42,486</u>	<u>174,602</u>	<u>217,088</u>	<u>284,960</u>
ENDING FUND BALANCE	<u>\$ 384,676</u>	<u>\$ 1,072,653</u>	<u>\$ 1,457,329</u>	<u>\$ 1,240,241</u>

Association of Apartment Owners of Wailea Fairway Villas
Statement of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015			2014
	Operating Fund	Reserve Fund	Total	Total
CASH FLOW FROM OPERATING ACTIVITIES:				
Excess of revenue over (under) expenses	\$ 42,486	\$ 174,602	\$ 217,088	\$ 284,960
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,170	-	2,170	-
(Increase) decrease in assessments receivable	2,009	-	2,009	(15,880)
(Increase) decrease in prepaid expenses	(267)	-	(267)	1,063
(Increase) decrease in PV deposit	(1,000)	-	(1,000)	(1,000)
Increase (decrease) in accounts payable	(7,829)	-	(7,829)	14,989
Increase (decrease) in insurance claim payable	9,178	-	9,178	-
Increase (decrease) in income taxes payable	-	-	-	(2,136)
Increase (decrease) in prepaid assessments	(10,414)	-	(10,414)	11,944
Increase (decrease) in other liabilities	105	-	105	11
Net cash provided (used) by operating activities	<u>36,438</u>	<u>174,602</u>	<u>211,040</u>	<u>293,951</u>
CASH FLOW FROM INVESTING ACTIVITIES:				
Net change in certificates of deposit	-	(817)	(817)	(703)
Purchase of fixed assets	<u>(74,400)</u>	<u>-</u>	<u>(74,400)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(74,400)</u>	<u>(817)</u>	<u>(75,217)</u>	<u>(703)</u>
CASH FLOW FROM FINANCING ACTIVITIES				
No activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	(37,962)	173,785	135,823	293,248
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>380,936</u>	<u>505,368</u>	<u>886,304</u>	<u>593,056</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 342,974</u></u>	<u><u>\$ 679,153</u></u>	<u><u>\$ 1,022,127</u></u>	<u><u>\$ 886,304</u></u>
Supplemental disclosure of cash flow information:				
Cash paid during the year for income taxes	\$ 128	\$ -	\$ 128	\$ 5,824
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, 2015 and 2014

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, 2015 and 2014, member receivables greater than 90 days outstanding were approximately \$103,700 and \$96,400, 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, 2015 and 2014, 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, 2015 and 2014, 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 2012 through 2015 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, 2015 and 2014

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. Property and equipment is being depreciated using the straight-line method over its estimated useful life of 20 years. 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, 2015 and 2014

NOTE C - CASH AND CASH EQUIVALENT BALANCES

At December 31, 2015 and 2014, 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. Cash accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

	<u>2015</u>	<u>2014</u>
Mutual of Omaha – ICS sweep, Reserve	\$ 576,371	\$405,629
HomeStreet Bank – money market, Operating	232,817	231,774
Mutual of Omaha – money market, Reserve	102,782	99,739
Mutual of Omaha - checking, Operating	82,872	121,916
Mutual of Omaha – money market, Operating	26,285	26,246
Petty cash, Operating	<u>1,000</u>	<u>1,000</u>
Total cash and cash equivalents	<u>\$1,022,127</u>	<u>\$886,304</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 2014 amounts were made to conform to 2015 presentations. Such reclassifications had no impact on 2014 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, 2015 and 2014, accumulated funds of \$1,072,653 and \$898,051, 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, 2015 and 2014

NOTE F - FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

The Association's Board of Directors engaged Association Reserves, Inc. 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. As of December 31, 2015 and 2014, the Association was 62% and 57% funded, respectively.

NOTE G - LEASES

The Association leased two units that it took over via non-judicial foreclosure under short-term leases lasting less than one year. The Association received \$39,454 and \$22,600 in rental income from these leases for the years ended December 31, 2015 and 2014, respectively. The units are subject to their primary mortgages and may be foreclosed on by the mortgagee at any time. The mortgagee of Unit H-101 foreclosed on the unit and it will be conveyed back to the lender in 2016. The unit is no longer being rented.

NOTE H – CERTIFICATES OF DEPOSIT

The Association has invested a portion of its reserve funds in three certificates of deposit. These certificates mature on March 10, 2016, July 7, 2016 and October 11, 2016 and have interest rates of 0.25%, 0.25%, and 0.35%, respectively. The Association has the ability and intent to hold the certificates until maturity.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE I - COMMITMENTS

As of December 31, 2015, the Association had various contracts or commitments, which consist of:

Landscape maintenance contract with Island Plant Company LLC terminating on December 31, 2018. The agreement may be terminated by either party at any time by a 30 day written notice of termination. The agreement calls for monthly fees of \$17,400 in 2016 and 2017 and \$17,660 in 2018.

Property management services contract with Destination Maui, Inc. of approximately \$4,000 per month.

The Association 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 had been paid under the agreement. The remaining balance of \$73,400 was paid in accordance with the agreement's payment schedule. The project was completed in June 2015. The Association paid a deposit of \$2,000 to the Wailea Community Association. This deposit will be returned after an inspection of the system is completed in 2016.

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 March 4, 2016, 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, 2015 and 2014

	Total 2015	Total 2014
Utilities:		
Water	\$ 100,489	\$ 94,268
Television cable service	53,702	50,514
Sewer	46,247	47,802
Electricity	38,442	50,842
Telephone	3,498	3,137
Gas	958	1,244
Total utilities	<u>\$ 243,336</u>	<u>\$ 247,807</u>
Payroll and payroll taxes:		
Salaries and wages	\$ 120,286	\$ 113,872
Employee benefits	13,954	11,436
Payroll taxes	10,630	10,446
Workers compensation and TDI	4,852	5,621
Total payroll and related costs	<u>\$ 149,722</u>	<u>\$ 141,375</u>
Repairs and maintenance:		
Refuse	\$ 32,893	\$ 31,045
Building	18,973	6,906
Grounds and landscaping	9,226	3,502
Pool, spa, BBQ	5,021	2,492
Pest control	2,695	3,513
Equipment	1,178	1,282
Irrigation	1,055	5,230
Fire equipment	985	1,519
Total repairs and maintenance	<u>\$ 72,026</u>	<u>\$ 55,489</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, 2015

The following table is based on the study conducted by Association Reserves, Inc. 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	19	328,930	120,608
Asphalt - seal/repair	5	0	40,005	40,005
Ext. AC Units - replace	10	1	11,600	10,440
Fan Coil Units - replace	15	11	10,200	2,720
Pole Lights - replace	25	12	148,200	77,064
Bollard Lights - replace	20	14	168,350	50,505
Wall Lights - replace	15	6	37,250	22,350
Electrical Panels - inspect/repair	5	1	4,500	3,600
Mailboxes - replace	15	6	18,150	10,890
Metal Fences - partial replace	15	9	25,500	10,200
Metal Handrails - partial replace	10	5	25,500	12,750
Metal Lanai Handrail - partial replace	15	6	25,500	15,300
Metal Pool Fence - replace	15	2	21,250	18,417
Rubber Tile Floor - replace	15	8	3,360	1,568
Exercise Equipment - replace	10	0	7,500	7,500
Exercise Equipment - replace	10	4	6,000	3,600
Furniture - replace	12	8	9,500	3,167
Kitchenette - remodel	12	0	9,500	9,500
Bathroom - refurbish	12	7	6,500	2,708
Backflow Devices - replace	15	6	7,000	4,200
Irrigation Timeclock - replace	10	7	8,550	2,565
Irrigation Timeclock - replace	10	8	4,300	860
Stucco - repaint	10	4	436,500	261,900
Rec. Wood Surfaces - repaint	5	0	4,950	4,950
Pool - retile	20	13	34,000	11,900
Spa - retile	15	8	12,000	5,600
Pool/Spa Heater - replace	20	14	6,500	1,950
Tile Roof P1 - repair	25	9	512,400	327,936
Tile Roof P2 - repair	25	10	481,200	288,720
Tile Roof P3 - repair	25	11	481,200	269,472
Gutters/Downspouts P1 - repair	20	9	38,250	21,038
Gutters/Downspouts P2 - repair	20	10	35,460	17,730
Gutters/Downspouts P3 - repair	20	11	19,706	8,868
Signage - replace	20	9	6,000	3,300
Sewer System - repair	5	2	7,000	4,200
Landscape - restoration	15	2	75,000	65,000
Utility Vehicles - replace	8	1	5,500	4,813
Foot Bridge - restoration	15	0	5,500	5,500
Total			<u>\$ 3,088,311</u>	<u>\$ 1,733,392</u>

See accompanying notes to financial statements