

AHUIMANU HOMEOWNERS ASSOCIATION

Financial Statements

December 31, 2015 and 2014

AHUIMANU HOMEOWNERS ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Ahuimanu Homeowners Association

I have audited the accompanying financial statements of the Ahuimanu Homeowners Association, which comprise the statements of cash receipts and disbursements and changes in cash balances for the years ended December 31, 2015 and 2014, 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 the cash basis of accounting described in Note 1; this responsibility includes determining that the cash basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances. Management is also responsible for 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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

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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, I 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.

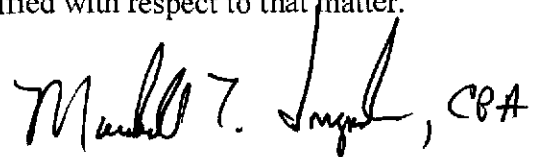
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the cash receipts and disbursements and changes in cash balances of the Ahuimanu Homeowners Association for the years ended December 31, 2015 and 2014 in accordance with the basis of accounting described in Note 1.

Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. These financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

 Marshall T. Long, CBA

Honolulu, Hawaii
September 30, 2016

AHUIMANU HOMEOWNERS ASSOCIATION

Statements of Cash Receipts and Disbursements

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash receipts:		
Member assessments	\$ 98,420	\$ 123,744
Clubhouse reservation deposits	15,000	13,500
Recovery of costs related to Lot 140 foreclosure	9,266	-
Interest income	-	24
Miscellaneous	<u>1,510</u>	<u>1,210</u>
Total cash receipts	<u>124,196</u>	<u>138,478</u>
Cash disbursements:		
Contract and professional services:		
Grounds maintenance	22,508	22,620
Bookkeeping	8,796	8,796
Pool maintenance and repairs	7,805	8,389
Clubhouse utilization	6,858	6,348
Professional fees	6,490	6,896
Tree trimming and removal	5,445	7,330
Refuse collection	2,908	3,149
Pest control	<u>838</u>	<u>-</u>
Total contract and professional services	<u>61,648</u>	<u>63,528</u>
Utilities:		
Electricity	3,581	4,802
Water	2,512	1,693
Telephone	<u>1,917</u>	<u>1,877</u>
Total utilities	<u>8,010</u>	<u>8,372</u>
Administration and other:		
Insurance	14,491	12,907
Refunds of clubhouse reservation deposits	9,075	8,115
Clubhouse repairs and maintenance	3,541	7,057

Continued

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Statements of Cash Receipts and Disbursements, cont'd

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Administration and other, cont'd:		
Clubhouse supplies and replacements	1,710	6,759
Foreclosure costs	-	5,228
Printing, postage, and office expense	1,013	1,181
Real property and general excise tax	<u>900</u>	<u>903</u>
Total administration and other	<u>30,730</u>	<u>42,150</u>
Total cash disbursements	<u>100,388</u>	<u>114,050</u>
Cash receipts in excess of cash disbursements	\$ <u>23,808</u>	\$ <u>24,428</u>

See accompanying notes to financial statements.

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Statements of Changes in Cash Balances

For the Years Ended December 31, 2015 and 2014

	<u>Operating Account</u>	<u>Reserve Accounts</u>	<u>Total</u>
Cash balances, December 31, 2013	\$ 25,378	\$ 16,204	\$ 41,582
Cash receipts in excess of cash disbursements	24,428	--	24,428
Funds transferred from operating account to reserve account	(--)	--	--
Funds transferred from reserve to operating account	16,228	(16,228)	--
Interest retained in reserve accounts	(24)	24	--
Cash balances, December 31, 2014	\$ <u>66,010</u>	\$ --	\$ <u>66,010</u>
Cash receipts in excess of cash disbursements	23,808	--	23,808
Funds transferred from operating account to reserve account	--	--	-
Funds transferred from reserve to operating account	--	--	-
Interest retained in reserve accounts	(--)	--	-
Cash balances, December 31, 2015	\$ <u>89,818</u>	\$ --	\$ <u>89,818</u>

See accompanying notes to financial statements.

AHUIMANU HOMEOWNERS ASSOCIATION

Notes to Financial Statements

December 31, 2015 and 2014

(1) Nature of Organization and Significant Accounting Policy:

The Association is organized to hold title to and maintain the common area real property for homeowners in the Ahuimanu Estates subdivision in Windward Oahu, Hawaii. The Association is self-managed by volunteer members. The Association collects member assessments, clubhouse reservation deposits, interest, late fees and other receipts and pays operating expenses.

The Association maintains its books of account and prepares its income tax returns on the basis of cash receipts and disbursements. Under the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles, revenue and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

(2) Member Assessments:

At December 31, 2015 and 2014, the Association had \$10,806 and \$7,785, respectively, in member assessments receivable (including related late charges). There were no member assessments paid in advance as of December 31, 2015 and 2014.

(3) Basis of Member Assessment Allocation:

Members are assessed annually an equal share of budgeted Association expenditures for maintenance of the common areas. Until January 1, 2014, owners of each of the 261 lots in the Ahuimanu Estates subdivision are members. Under the terms of a settlement agreement reached in 2014 with the owner of Lot 263 regarding delinquent member assessments, the Association received a payment of \$20,000 in satisfaction of all claims, and Lot 263 was removed from the Association. Accordingly, effective in 2014, the Association consists of 260 members. Annual assessments were \$375 per member for the years ended December 31, 2015 and 2014.

(3) Prepaid Expenses:

At December 31, 2015 and 2014, the Association had prepaid insurance coverage totaling \$4,609 and \$4,840, respectively.

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Notes to Financial Statements

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(4) Reserve Accounts:

Prior to January 1, 2014, cash not required for immediate operating expenses was deposited at Capital One, N.A. The Capital One, N. A. account was closed in July 2014 and all funds were transferred to the Association's two Bank of Hawaii checking accounts.

(5) Clubhouse Repairs, Maintenance and Replacements:

In the years ended December 31, 2015 and 2014, the Association expended funds for the following clubhouse repairs, maintenance and replacements:

	<u>2015</u>	<u>2014</u>
Security cameras and motion lights	\$ 1,373	\$ 1,412
Plumbing repairs	-	2,861
New gates	-	2,300
Clubhouse refrigerator	500	-
Gate locks, miscellaneous repairs	1,668	<u>484</u>
	\$ <u>3,541</u>	\$ <u>7,057</u>

(6) Unpaid Expenses:

At December 31, 2015 and 2014, the Association had incurred but not paid certain expenses as detailed below:

	<u>2015</u>	<u>2014</u>
Contract and professional services	\$ 3,190	\$ 4,289
Utilities	<u>468</u>	<u>503</u>
	\$ <u>3,658</u>	\$ <u>4,792</u>

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(7) Income Taxes:

Condominium associations may be taxed either as a homeowner's association or as a regular corporation. For the years ended December 31, 2015 and 2014, the Association was taxed as a homeowners association. Under the homeowners' election, the Association is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for, 2013, 2014 and 2015 remain open to examination by the Internal Revenue Service and the Hawaii Department of Taxation. In evaluating the Association's tax provisions, the Association believes that its estimates are appropriate based on current facts and circumstances.

(8) Future Major Repairs and Replacements:

The State of Hawaii's Condominium Property Regime Act, which requires condominium associations to accumulate funds for future major repairs and replacements, does not apply to homeowners' associations. Accordingly, although a reserve study is not required by law, the Board of Directors monitors the Association's reserves on a monthly basis and has concluded that a formal accumulation of funds is not required as of December 31, 2015 and 2014. The Board recognizes that additional financing alternatives are available to the Association if necessary, including commercial borrowing and the declaration of a special assessment.

(9) Related Party Transactions:

The Association employs the services of one of its members to provide professional bookkeeping services. For the years ended December 31, 2015 and 2014, the Association paid \$8,796 annually to this member for monthly bookkeeping, accounting, and financial statement preparation services.

(10) Foreclosure Action:

During the year ended December 31, 2014 the Association incurred \$5,228 in attorney's fees and costs as a result of its foreclosure action against the owner of lot 140 for unpaid member assessments dating back to 2011. The lot was sold for \$697,000 in January 2015, and after payment of all creditors and expenses of the sale, the Association received

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Notes to Financial Statements

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(10) Foreclosure Action, cont'd:

\$11,116. In the accompanying financial statements, the delinquent amount of \$1,850 has been reported as income from member assessments, with the balance of \$9,266 reported as recovery of costs related to the foreclosure proceeding.

(11) Date of Management Evaluation:

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 30, 2016, the date on which the financial statements were available to be issued. In management's judgment, there were no events or transactions which would modify the accompanying financial statements.