

AHUIMANU HOMEOWNERS ASSOCIATION

Financial Statements

December 31, 2014 and 2013

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, 2014 and 2013, 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

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.

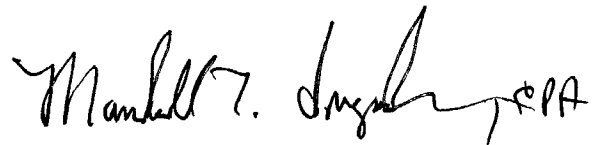
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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, 2014 and 2013 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.

Handwritten signature of Marshall T. Douglas, CPA. The signature is written in black ink and includes the initials 'CPA' at the end.

Honolulu, Hawaii
September 19, 2015

AHUIMANU HOMEOWNERS ASSOCIATION

Statements of Cash Receipts and Disbursements

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash receipts:		
Member assessments	\$ 123,744	\$ 99,685
Clubhouse reservation deposits	13,500	9,900
Interest income	24	49
Miscellaneous	<u>1,210</u>	<u>2,023</u>
Total cash receipts	<u>138,478</u>	<u>111,657</u>
Cash disbursements:		
Contract and professional services:		
Grounds maintenance	22,620	22,620
Bookkeeping	8,796	8,796
Pool maintenance and repairs	8,389	6,447
Tree trimming and removal	7,330	9,764
Professional fees	6,896	3,087
Clubhouse utilization	6,348	6,313
Refuse collection	3,149	2,720
Pest control	<u>-</u>	<u>838</u>
Total contract and professional services	<u>63,528</u>	<u>60,585</u>
Utilities:		
Electricity	4,802	4,385
Telephone	1,877	1,828
Water	<u>1,693</u>	<u>1,333</u>
Total utilities	<u>8,372</u>	<u>7,546</u>
Administration and other:		
Insurance	12,907	7,801
Refunds of clubhouse reservation deposits	8,115	6,025
Clubhouse repairs and maintenance	7,057	1,459

Continued

AHUIMANU HOMEOWNERS ASSOCIATION
 Statements of Cash Receipts and Disbursements, cont'd
 For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Administration and other, cont'd:		
Clubhouse supplies and replacements	6,759	423
Foreclosure costs	5,228	-
Printing, postage, and office expense	1,181	1,875
Real property and general excise tax	<u>903</u>	<u>903</u>
Total administration and other	<u>42,150</u>	<u>18,486</u>
Total cash disbursements	<u>114,050</u>	<u>86,617</u>
Cash receipts in excess of cash disbursements	\$ <u>24,428</u>	\$ <u>25,040</u>

See accompanying notes to financial statements.

AHUIMANU HOMEOWNERS ASSOCIATION

Statements of Changes in Cash Balances

For the Years Ended December 31, 2014 and 2013

	<u>Operating</u> <u>Account</u>	<u>Reserve</u> <u>Accounts</u>	<u>Total</u>
Cash balances, December 31, 2012	\$ 387	\$ 16,155	\$ 16,542
Cash receipts in excess of cash disbursements	25,040	--	25,040
Funds transferred from operating account to reserve account	(--)	--	--
Funds transferred from reserve to operating account	-	(-)	--
Interest retained in reserve accounts	(49)	<u>49</u>	<u>--</u>
Cash balances, December 31, 2013	\$ <u>25,378</u>	\$ <u>16,204</u>	\$ <u>41,582</u>
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)	<u>24</u>	<u>-</u>
Cash balances, December 31, 2014	\$ <u>66,010</u>	\$ <u>-</u>	\$ <u>66,010</u>

See accompanying notes to financial statements.

AHUIMANU HOMEOWNERS ASSOCIATION

Notes to Financial Statements

December 31, 2014 and 2013

(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, 2014 and 2013, the Association had \$7,785 and \$31,704, respectively, in member assessments receivable (including related late charges). There were no member assessments paid in advance as of December 31, 2014 and 2013.

(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, 2014 and 2013.

(3) Prepaid Expenses:

At December 31, 2014 and 2013, the Association had prepaid insurance coverage totaling \$4,840 and \$2,926, respectively.

(4) Reserve Accounts:

Cash not required for immediate operating expenses, which totaled \$16,204 at December 31, 2013, 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 Bank of Hawaii accounts. At December 31, 2013, the Capital One account bore an annual interest rate of 0.30%.

(5) Clubhouse Repairs, Maintenance and Replacements:

In the years ended December 31, 2014 and 2013, the Association expended funds for the following clubhouse repairs, maintenance and replacements:

	<u>2014</u>	<u>2013</u>
Plumbing repairs	\$ 2,861	\$ -
New gates	2,300	-
Security cameras	1,412	-
Gate locks and repairs	<u>484</u>	<u>1,459</u>
	\$ <u>7,057</u>	\$ <u>1,459</u>

(6) Unpaid Expenses:

At December 31, 2014 and 2013, the Association had incurred but not paid certain expenses as detailed below:

	<u>2014</u>	<u>2013</u>
Contract and professional services	\$ 4,289	\$ 4,962
Utilities	<u>503</u>	<u>482</u>
	\$ <u>4,792</u>	\$ <u>5,444</u>

(7) Income Taxes:

Condominium associations may be taxed either as homeowners' associations or as regular corporations. For the years ended December 31, 2014 and 2013, the Association was

(7) Income Taxes, cont'd:

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 2011, 2012, 2013, and 2014 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, 2014 and 2013. 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, 2014 and 2013, the Association paid \$8,796 annually to this member for monthly bookkeeping, accounting, and financial statement preparation services.

(10) Date of Management Evaluation:

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 19, 2015, 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.