

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

ASSOCIATION OF APARTMENT OWNERS OF
THE PALMS AT WAILEA

September 30, 2015 and 2014

AUDITED FINANCIAL STATEMENTS
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September 30, 2015 and 2014

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Board of Directors
Association of Apartment Owners
of The Palms at Wailea

Independent Auditor's Report

Report on the Financial Statements

I have audited the accompanying financial statements of the Association of Apartment Owners of The Palms at Wailea, which is comprised of the balance sheets as of September 30, 2015 and 2014 and the related statements of revenues and expenses and changes in fund balances 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit 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.

Board of Directors
Association of Apartment Owners
of The Palms at Wailea

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Palms at Wailea as of September 30, 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.

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 11, 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. I 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 method of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Wailuku, Hawaii
November 10, 2015

BALANCE SHEETS

ASSOCIATION OF APARTMENT OWNERS OF THE PALMS AT WAILEA

September 30, 2015 and 2014

	September 30, 2015			2014 Totals
	Operating Fund	Capital Reserve	Totals	
ASSETS				
CURRENT ASSETS				
Cash	\$ 392,933	\$ 733,148	\$1,126,081	\$ 989,600
Assessment receivable	68,995	--	68,995	76,598
Less allowance for doubtful accounts	(56,345)	--	(56,345)	(66,080)
	12,650	--	12,650	10,518
Prepaid insurance	70,757	--	70,757	70,337
Prepaid expenses	6,265	--	6,265	5,849
Prepaid income taxes	1,785	--	1,785	3,338
Prepaid WCA dues	16,684	--	16,684	15,974
TOTAL CURRENT ASSETS	\$ 501,074	\$ 733,148	\$1,234,222	\$1,095,616
LIABILITIES AND FUND BALANCES				
CURRENT LIABILITIES				
Accounts payable	\$ 57,669	\$ --	\$ 57,669	\$ 57,127
Insurance premium payable	37,308	--	37,308	37,374
General excise tax due	234	--	234	235
Deposits	8,748	--	8,748	6,900
Prepaid assessments	41,811	--	41,811	53,087
TOTAL CURRENT LIABILITIES	145,770	--	145,770	154,723
FUND BALANCES	355,304	733,148	1,088,452	940,893
TOTAL LIABILITIES AND FUND BALANCES	\$ 501,074	\$ 733,148	\$1,234,222	\$1,095,616

See notes to financial statements.

STATEMENTS OF REVENUES AND EXPENSES
ASSOCIATION OF APARTMENT OWNERS OF THE PALMS AT WAILEA

	<u>Year ended September 30, 2015</u>			<u>2014</u> <u>Totals</u>
	<u>Operating</u> <u>Fund</u>	<u>Capital</u> <u>Reserve</u>	<u>Totals</u>	
REVENUES				
Owner assessments	\$1,277,136	\$ 264,847	\$1,541,983	\$1,482,629
Phone and internet assessment	78,876	--	78,876	78,876
Rental income	27,632	--	27,632	27,723
Bad debt recovery	9,735	--	9,735	--
Interest income	890	1,422	2,312	1,955
Delinquent fees	2,025	--	2,025	2,475
Vending	223	--	223	308
Other	207	--	207	972
TOTAL REVENUES	1,396,724	266,269	1,662,993	1,594,938
OPERATING EXPENSES				
Payroll:				
Salaries and wages	157,501	--	157,501	149,782
Health insurance	21,453	--	21,453	20,207
Payroll taxes	11,553	--	11,553	12,733
Workers compensation insurance	6,857	--	6,857	6,165
Auto	1,528	--	1,528	1,500
	<u>198,892</u>	<u>--</u>	<u>198,892</u>	<u>190,387</u>
Repairs and maintenance:				
Grounds contract	285,000	--	285,000	285,000
Refuse	33,417	--	33,417	31,345
Grounds	21,105	--	21,105	19,482
Pool supplies	7,563	--	7,563	7,980
Pest control	6,203	--	6,203	6,109
Plumbing	5,665	--	5,665	10,125
Equipment	4,876	--	4,876	2,507
Pool	3,810	--	3,810	4,456
Air conditioning	2,854	--	2,854	7,111
Fire equipment	2,369	--	2,369	5,559
Building	1,960	--	1,960	7,148
Water feature	--	--	--	4,172
	<u>374,822</u>	<u>--</u>	<u>374,822</u>	<u>390,994</u>
Utilities:				
Water	182,847	--	182,847	179,629
Cable television/internet	138,956	--	138,956	136,064
Sewer	75,286	--	75,286	81,200
Electricity	50,022	--	50,022	77,645
Telephone	2,436	--	2,436	2,483
	<u>449,547</u>	<u>--</u>	<u>449,547</u>	<u>477,021</u>
SUBTOTAL OPERATING EXPENSES	\$1,023,261	\$ --	\$1,023,261	\$1,058,402

See notes to financial statements.

STATEMENTS OF REVENUES AND EXPENSES-Continued
ASSOCIATION OF APARTMENT OWNERS OF THE PALMS AT WAILEA

	<u>Year ended September 30, 2015</u>			<u>2014</u> <u>Totals</u>
	<u>Operating</u> <u>Fund</u>	<u>Capital</u> <u>Reserve</u>	<u>Totals</u>	
SUBTOTAL OPERATING EXPENSES CARRIED FORWARD	\$1,023,261	\$ --	\$1,023,261	\$1,058,402
Administrative:				
Property and liability insurance	88,164	--	88,164	86,668
Dues-WCA	66,025	--	66,025	63,186
Outside services-security	54,800	--	54,800	67,171
Management fee	49,620	--	49,620	47,736
Professional fees	18,456	--	18,456	9,633
Office and administrative	4,863	--	4,863	6,695
Association meetings	4,458	--	4,458	6,490
Dues and subscriptions	2,259	--	2,259	343
Income taxes	2,053	--	2,053	594
General excise tax	1,296	--	1,296	1,337
Maintenance fees-NR2	585	--	585	562
	<u>292,579</u>	<u>--</u>	<u>292,579</u>	<u>290,415</u>
TOTAL OPERATING EXPENSES	1,315,840	--	1,315,840	1,348,817
RESERVE EXPENSES	--	199,594	199,594	55,394
TOTAL EXPENSES	<u>1,315,840</u>	<u>199,594</u>	<u>1,515,434</u>	<u>1,404,211</u>
EXCESS REVENUES OVER (UNDER) EXPENSES	<u>\$ 80,884</u>	<u>\$ 66,675</u>	<u>\$ 147,559</u>	<u>\$ 190,727</u>

See notes to financial statements.

STATEMENTS OF CHANGES IN FUND BALANCES
ASSOCIATION OF APARTMENT OWNERS OF THE PALMS AT WAILEA

	<u>Year ended September 30, 2015</u>			<u>2014</u> <u>Totals</u>
	<u>Operating</u> <u>Fund</u>	<u>Capital</u> <u>Reserve</u>	<u>Totals</u>	
FUND BALANCE BEGINNING OF YEAR	\$ 274,420	\$ 666,473	\$ 940,893	\$ 750,166
REVENUES OVER (UNDER) EXPENSES	<u>80,884</u>	<u>66,675</u>	<u>147,559</u>	<u>190,727</u>
FUND BALANCE END OF YEAR	<u>\$ 355,304</u>	<u>\$ 733,148</u>	<u>\$1,088,452</u>	<u>\$ 940,893</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS
ASSOCIATION OF APARTMENT OWNERS OF THE PALMS AT WAILEA

	<u>Year ended September 30, 2015</u>			<u>2014</u>
	<u>Operating Fund</u>	<u>Capital Reserve</u>	<u>Totals</u>	
OPERATING ACTIVITIES				
Revenues over (under) expenses	\$ 80,884	\$ 66,675	\$ 147,559	\$ 190,727
Adjustment to reconcile revenue				
Over (under) expenses to net cash				
provided by operating activities-				
Bad debt recovery	(9,735)	--	(9,735)	--
Change in operating assets and				
liabilities:				
(Increase) decrease in:				
Assessment receivables	7,603	--	7,603	(930)
Prepaid insurance	(420)	--	(420)	(2,130)
Prepaid expenses	(416)	--	(416)	(1,732)
Prepaid income taxes	1,553	--	1,553	329
Prepaid WCA dues	(710)	--	(710)	(710)
Increase (decrease) in:				
Accounts payable	542	--	542	11,356
Insurance premiums payable	(66)	--	(66)	(5,284)
General excise tax due	(1)	--	(1)	(5)
Deposits	1,848	--	1,848	(1,000)
Prepaid maintenance fees	(11,276)	--	(11,276)	(1,502)
NET CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES	69,806	66,675	136,481	189,119
CASH AND EQUIVALENTS AT BEGINNING				
OF YEAR	<u>323,127</u>	<u>666,473</u>	<u>989,600</u>	<u>800,481</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 392,933</u>	<u>\$ 733,148</u>	<u>\$1,126,081</u>	<u>\$ 989,600</u>
SUPPLEMENTAL DISCLOSURE:				
Interest paid	\$ --	\$ --	\$ --	\$ --
Income taxes paid	\$ 500	\$ --	\$ 500	\$ 750

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
ASSOCIATION OF APARTMENT OWNERS OF THE PALMS AT WAILEA

September 30, 2015 and 2014

NOTE A – NATURE OF ASSOCIATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Association: The Association of Apartment Owners of The Palms at Wailea is an organization of owners of 150 individual residential units and two non-residential units in a condominium complex located on 16.727 acres in Wailea, Maui, Hawaii. The Association was formed in 1992 for the purpose of providing for the management, maintenance and care of the common areas of the condominium as required by the Declaration of Condominium Property Regime filed with the State of Hawaii.

Principles of Accounting: It is the policy of the Association to prepare its financial statements using the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when the obligations are incurred.

Comparative Financial Statements: The financial statements include prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended September 30, 2014, from which the summarized information was derived.

Cash and Cash Equivalents: Cash equivalents, if any, reflected in the financial statements include certificates of deposit and other investments with original maturities of three months or less.

Member Assessments: Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years. For the year ended September 30, 2015 the Association specifically identified potential uncollectible assessments and recorded an allowance accordingly.

Property and Equipment: The Association capitalizes at cost all property and equipment to which it holds title or has other evidence of ownership. Real property owned by individual unit owners in common and property originally contributed to the Association by the developer and related improvements made by the Association to such property are not capitalized in the financial statements.

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.

Subsequent Events: Management has evaluated subsequent events through November 10, 2015, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS-Continued
ASSOCIATION OF APARTMENT OWNERS OF THE PALMS AT WAILEA

NOTE B - INCOME TAXES

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations.

In general, the Association is required to separate its taxable income and deductions into membership transactions, nonmembership transactions, and capital transactions. The Association is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files Form 1120, which has graduated effective tax rates of 15% to 39% that are applied to net taxable income.

Accounting guidance clarifies the accounting for uncertain tax positions taken or expected to be taken in its income tax returns. The Association believes that reported tax provisions and accruals as well as tax positions taken or expected to be taken are appropriate.

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed, and the Association's federal and state income tax returns for fiscal years ended September 30, 2014, 2013 and 2012 remain open to examination.

There were no penalties and interest incurred in the Association's financial statements for the years ended September 30, 2015 and 2014.

NOTE C - FUND BALANCES

Operating Fund: The Operating Fund accounts for excess funds accumulated from operations. The Association may return this money to its members, apply it to subsequent year's operating budgets, or fund future major repairs and replacements.

Capital Reserve: The Hawaii Revised Statutes require that all condominium associations provide for funds to be accumulated for future major repairs and replacements. Associations must budget for such reserves and must be at least 50% funded by the segregated pooling method or 100% funded under the cash flow method. Accumulated funds are held in money market accounts and certificates of deposit and are generally not used for expenditure in normal operations. Interest earned in these accounts is added to the reserve.

The Association's Board of Directors adopted a study to estimate the remaining useful lives and the replacement costs of the components of common elements. The Association is funding for future major repairs and replacement costs over the remaining useful lives of the components estimated replacement costs and considering amounts previously accumulated in the Capital Reserve.

NOTES TO FINANCIAL STATEMENTS-Continued
ASSOCIATION OF APARTMENT OWNERS OF THE PALMS AT WAILEA

NOTE C – FUND BALANCES

Accordingly, the Association has estimated a reserve requirement and has incorporated it into the maintenance fees. Funds are being accumulated in the Capital Reserve based on estimates of future needs for repairs and replacements of common property components.

Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the Capital Reserve may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to board of directors' approval, to increase regular maintenance fees, pass special assessments, or delay major repairs and replacements until the funds are available.

Expenditures charged to reserves for the year ended September 30, 2015 include:

Tile/pool deck project	\$ 152,855
Pump equipment replacement	15,622
Air conditioners	10,514
Dryer exhaust cleaning	8,190
Landscape upgrades	6,068
Handrail repairs	4,458
Golf cart	1,568
Pool equipment parts	319
	<u>\$ 199,594</u>

Expenditures charged to reserves for the year ended September 30, 2014 include:

Irrigation system	\$ 33,729
Water feature	8,303
Landscape upgrades	6,737
Air conditioners	6,625
	<u>\$ 55,394</u>

NOTE D – CONTRACT COMMITMENT

As of the audit date, the Association has an outstanding contract commitment for the installation of a photovoltaic system. The system is expected to cost \$70,979.

ASSOCIATION OF APARTMENT OWNERS OF THE PALMS AT WAILEA
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (unaudited)

September 30, 2015

The Association's board of directors updated their reserve study in July 2015 which estimates the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair and replace the common property components obtained from independent contractors and based on prior history. The study includes an inflation factor of 3.00% and a savings interest rate of 0.25%. Reserve funds amounted to \$733,148, as of September 30, 2015. Pursuant to the Hawaii Revised Statutes, the Association is utilizing the cash flow method of funding the reserves as the expenditures become due. As a result, reserve funds are allocated first to the components with the least remaining lives. The following information is based on the study and presents significant information about the components of common property.

Common Area Component	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost
A/C Split system	1	1	\$ 9,813
ADA Compliance-pool lift	10	8	6,365
Asphalt overlay	20	18	376,344
Asphalt slurry seal	5	3	97,971
Awnings for windows	15	12	49,443
Backflow preventer-2" irrigation	10	5	7,694
Backflow preventer-3" clear access	10	2	27,358
Backflow preventer-Fire control	10	1	13,105
Backflow preventer-Main water	10	2	6,815
Bicycle racks	15	3	3,271
Bridges, walking	25	15	9,541
Doors accordion hardware	15	6	2,726
Dryer vent cleaning	4	4	9,000
Fence chain link 6 foot high	20	3	10,903
Fire extinguishers	18	7	8,115
Golf cart	5	3	4,907
Irrigation system	20	19	144,200
Kitchen, employee	15	1	2,185
Lighting common areas	10	3	31,827
Lobby refurbishment furnishings	10	2	14,000
Lobby refurbishment stone flooring	20	5	29,985
Mail boxes	25	5	10,222
Mail boxes-UPS Parcel Box Svc	15	4	2,850
Landscaping upgrades	1	1	6,896
Waterproofing exterior	9	5	440,804
Carpentry repairs	7	3	6,815
Painting, front doors	5	1	19,654
Trellis replacement	5	2	48,702
Phone cable replacement	15	5	18,250
Subtotal carried forward			\$ 1,419,761

ASSOCIATION OF APARTMENT OWNERS OF THE PALMS AT WAILEA
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (unaudited)
 September 30, 2015

Common Area Component	Estimated Useful Life (Years)	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost
Subtotal carried forward			\$ 1,419,761
Pool area improvements I	20	11	27,259
Pool area improvements II	20	12	13,105
Pool deck replacement	20	20	154,500
Pool and Jacuzzi equipment	3	1	3,377
Pool deck furniture	6	2	13,506
Pool and Jacuzzi tile	15	3	35,436
Pool fence	18	5	46,340
Pool lobby cabinets	20	11	8,859
Pump room door replacement	15	5	4,002
Recreation building bathrooms	20	18	6,057
Roof built up recoat full system	20	18	983,454
Roof built up removal and repair	40	38	2,121,800
Roof clay tile	35	10	127,571
Roof shake replacement Bldg. 20	20	15	60,878
Security monitors	3	1	2,341
Sewage line repairs	5	4	103,000
Sidewalk & curb repairs	5	3	16,883
Sidewalk ADA entry	50	37	6,133
Signage	20	7	16,883
Unscheduled reserves	1	1	10,000
Walkway railings	30	16	6,815
Walkway & balcony railing repairs	15	5	9,268
Water feature main-equipment	15	15	32,960
Water feature main-filters	20	17	5,724
Water feature small-mechanicals	10	1	1,424
Photovoltaic system	20	20	74,400
Water lines common element	10	4	11,265
Building 20 Foundation/Siding	30	25	<u>110,984</u>
			<u>\$ 5,433,985</u>