

**Financial Statements**

**The Association of Apartment  
Owners of Hanalei Bay Resort**

**For the Year Ended  
December 31, 2014**

# The Association of Apartment Owners of Hanalei Bay Resort

## Contents

December 31, 2014

(Summarized Totals for 2013)

Page

---

Independent Auditor's Report	1-2
Financial Statements	
Balance Sheet	3
Statement of Revenue, Expenses, and Fund Balances	4
Statement of Cash Flows	5
Statement of Other Operating Income and Expenses	6
Notes to Financial Statements	7-16
Supplemental Information on Future Major Repairs and Replacements	17

## **Independent Auditor's Report**

Board of Directors  
The Association of Apartment  
Owners of Hanalei Bay Resort  
Kauai, Hawaii

We have audited the accompanying financial statements of The Association of Apartment Owners of Hanalei Bay Resort, which comprise the balance sheet as of December 31, 2014, and the related statements of income, expenses, fund balances, cash flows and other operating income and expenses 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 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, 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 Hanalei Bay Resort as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on Page 17, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***Other Matters***

The prior year summarized comparative information has been derived from the Association's 2013 financial statements and, in our report dated April 28, 2014 we expressed an unqualified opinion on those financial statements.

*FITZGERALD & ASSOCIATES, INC. CPAs*

Redlands, California  
April 23, 2015

# The Association of Apartment Owners of Hanalei Bay Resort

## Balance Sheet December 31, 2014 (Summarized Totals for 2013)

Page 3

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Capital Fund</u>	<u>2014 Total</u>	<u>2013 Total</u>
<b>Assets</b>					
Cash, including interest-bearing deposits	\$ 470,214	\$ 335,804	\$ -	\$ 806,018	\$ 909,293
Cash, restricted	-	424,783	-	424,783	3,066,411
Accounts receivable, net	22,615	-	-	22,615	23,796
Inventory	7,540	-	-	7,540	5,831
Due from Hanalei Bay VOA	175,319	-	-	175,319	-
Prepaid expenses	179,818	-	-	179,818	163,075
Fire insurance proceeds receivable	-	216,359	-	216,359	-
Property and equipment, net	-	-	20,535	20,535	26,668
Interfund balances	123,886	(123,886)	-	-	-
Other assets	-	-	186,000	186,000	168,650
Total assets	<u>\$ 979,392</u>	<u>\$ 853,060</u>	<u>\$ 206,535</u>	<u>\$ 2,038,987</u>	<u>\$ 4,363,724</u>
<b>Liabilities and Fund Balances</b>					
Accounts payable	\$ 528,059	\$ 217,872	\$ -	\$ 745,931	\$ 148,046
Accrued expenses	66,592	-	-	66,592	148,525
Deferred revenue	-	-	-	-	562,657
Due to Hanalei Bay VOA, for fire damage	-	-	-	-	118,334
Notes payable	36,724	2,425,672	-	2,462,396	2,759,411
Capital lease payable	-	-	8,445	8,445	14,797
Prepaid assessments	31,532	-	-	31,532	17,347
Total liabilities	<u>662,907</u>	<u>2,643,544</u>	<u>8,445</u>	<u>3,314,896</u>	<u>3,769,117</u>
Fund balances (deficits)	<u>316,485</u>	<u>(1,790,484)</u>	<u>198,090</u>	<u>(1,275,909)</u>	<u>594,607</u>
Total liabilities and fund balances	<u>\$ 979,392</u>	<u>\$ 853,060</u>	<u>\$ 206,535</u>	<u>\$ 2,038,987</u>	<u>\$ 4,363,724</u>

The accompanying notes are an integral part of these financial statements.

**The Association of Apartment  
Owners of Hanalei Bay Resort**

**Statement of Revenue, Expenses, and Fund Balances  
For the Year Ended December 31, 2014  
(Summarized Totals for 2013)**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Capital Fund</u>	<u>2014 Total</u>	<u>2013 Total</u>
<b>Revenue</b>					
Member assessments	\$ 2,677,380	\$ 199,752	\$ -	\$ 2,877,132	\$ 2,740,122
Interest income	598	5,024	-	5,622	3,232
Fire repair insurance proceeds	-	3,448,456	-	3,448,456	3,501,610
Other income (Schedule)	<u>662,836</u>	<u>60,000</u>	<u>-</u>	<u>722,836</u>	<u>617,926</u>
Total revenue	<u>3,340,814</u>	<u>3,713,232</u>	<u>-</u>	<u>7,054,046</u>	<u>6,862,890</u>
<b>Expenses</b>					
Depreciation expense	-	-	6,133	6,133	12,200
Fire repairs expense	-	3,752,780	-	3,752,780	3,501,610
Front desk	289,198	-	-	289,198	252,705
General and administrative (Schedule)	777,384	-	-	777,384	803,631
Guest activities	53,157	-	-	53,157	41,276
Income tax expense	2,222	-	-	2,222	985
Interest expense	-	114,980	643	115,623	6,609
Landscaping	345,088	-	-	345,088	340,493
Maintenance	463,651	-	-	463,651	410,964
Management fees	12,000	-	-	12,000	12,000
Repairs and replacements	-	1,797,787	-	1,797,787	331,313
Loan fees	-	-	-	-	17,700
Security	117,145	-	-	117,145	113,405
Tennis expense	162,821	-	-	162,821	185,415
Utilities	905,481	-	-	905,481	738,569
Front desk services	<u>124,092</u>	<u>-</u>	<u>-</u>	<u>124,092</u>	<u>95,016</u>
Total expenses	<u>3,252,239</u>	<u>5,665,547</u>	<u>6,776</u>	<u>8,924,562</u>	<u>6,863,891</u>
Excess revenues (expenses)	88,575	(1,952,315)	(6,776)	(1,870,516)	(1,001)
Fund balances, beginning	312,405	161,831	120,371	594,607	595,608
Fund transfers	<u>(84,495)</u>	<u>-</u>	<u>84,495</u>	<u>-</u>	<u>-</u>
Fund balances (deficits), ending	<u>\$ 316,485</u>	<u>\$ (1,790,484)</u>	<u>\$ 198,090</u>	<u>\$ (1,275,909)</u>	<u>\$ 594,607</u>

The accompanying notes are an integral part of these financial statements.

**The Association of Apartment  
Owners of Hanalei Bay Resort**

**Statement of Cash Flows  
For the Year Ended December 31, 2014  
(Summarized Totals for 2013)**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Capital Fund</u>	<u>2014 Total</u>	<u>2013 Total</u>
<b>Cash Flows From Operating Activities</b>					
Excess revenue (expenses)	\$ 88,575	\$ (1,952,315)	\$ (6,776)	\$ (1,870,516)	\$ (1,001)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:					
Depreciation	-	-	6,133	6,133	12,200
Changes in:					
Accounts receivable	1,181	-	-	1,181	34,241
Inventory	(1,709)	-	-	(1,709)	(5,831)
Due from Hanalei Bay VOA	(175,319)	-	-	(175,319)	18,535
Prepaid expenses	(16,743)	-	-	(16,743)	(16,988)
Fire insurance proceeds receivable	-	(216,359)	-	(216,359)	-
Other assets	650	59,500	(77,500)	(17,350)	(132,650)
Accounts payable	380,013	217,872	-	597,885	22,365
Income tax payable	-	-	-	-	(1,280)
Accrued expenses	(63,580)	(18,353)	-	(81,933)	146,884
Deferred revenue	-	(562,657)	-	(562,657)	(1,794,632)
Due to Hanalei Bay VOA	(118,334)	-	-	(118,334)	118,334
Prepaid assessments	14,185	-	-	14,185	8,097
Net cash provided (used) by operating activities	<u>108,919</u>	<u>(2,472,312)</u>	<u>(78,143)</u>	<u>(2,441,536)</u>	<u>(1,591,726)</u>
<b>Cash Flows From Financing Activities</b>					
Proceeds from notes payable	3,773	-	-	3,773	2,532,951
Principal payments on notes payable	-	(300,788)	-	(300,788)	(20,540)
Principal payments on capital lease obligations	-	-	(6,352)	(6,352)	(5,994)
Interfund balances	326,623	(326,623)	-	-	-
Fund transfers	(84,495)	-	84,495	-	-
Net cash provided (used) by financing activities	<u>245,901</u>	<u>(627,411)</u>	<u>78,143</u>	<u>(303,367)</u>	<u>2,506,417</u>
Net increase (decrease) in cash	354,820	(3,099,723)	-	(2,744,903)	914,691
Cash, beginning of year	<u>230,374</u>	<u>3,745,330</u>	<u>-</u>	<u>3,975,704</u>	<u>3,061,013</u>
Cash, end of year	<u>\$ 585,194</u>	<u>\$ 645,607</u>	<u>\$ -</u>	<u>\$ 1,230,801</u>	<u>\$ 3,975,704</u>

The accompanying notes are an integral part of these financial statements.

# The Association of Apartment Owners of Hanalei Bay Resort

## Statement of Other Operating Income and Expenses For the Year Ended December 31, 2014 (Summarized Totals for 2013)

Page 6

	<u>2014</u> <u>Total</u>	<u>2013</u> <u>Total</u>
<b>Other Income</b>		
Resort service and check in fees	\$ 411,460	\$ 351,559
Pool cave	42,684	43,120
Bad debt recovery	408	31,513
Tennis income	133,393	139,513
Other	74,891	52,221
	<u>662,836</u>	<u>617,926</u>
Total other income	<u>\$ 662,836</u>	<u>\$ 617,926</u>
<b>General and Administrative Services</b>		
Audit, accounting and financial service fees	\$ 27,500	\$ 27,500
Board travel expenses	23,277	14,494
Credit card fees	22,358	21,008
General Excise Tax	15,113	10,820
Insurance	388,616	366,619
Legal expenses	8,631	148,971
Princeville dues	63,311	59,578
Printing and postage	10,710	19,538
Salaries and related costs	160,030	87,123
Other general and administrative	57,838	47,980
	<u>777,384</u>	<u>803,631</u>
Total general and administrative services	<u>\$ 777,384</u>	<u>\$ 803,631</u>

The accompanying notes are an integral part of these financial statements



# The Association of Apartment Owners of Hanalei Bay Resort

## Notes to Financial Statements December 31, 2014 (Summarized Totals for 2013)

Page 7

---

### **1. Organization and Other Matters**

The Association of Apartment Owners of Hanalei Bay Resort (AOAO) is a nonprofit mutual benefit corporation organized in Hawaii in 1978 and is governed by a member-elected Board of Directors. The Association is responsible for the operation and maintenance of the common areas for 134 residential and 1 commercial units. The property is located in Princeville, Hawaii on the island of Kauai.

### **2. Significant Accounting Policies**

#### *Comparative Information*

The financial statements include certain 2013 comparative information. With respect to the balance sheet, the statement of revenue, expenses, and fund balances, and the statement of cash flows, such prior year information is not presented by fund. Accordingly, such information should be read in conjunction with the Association's financial statement for the year ended December 31, 2013 from which the summarized information was derived.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the reporting date and revenues, and expenses during the reporting period. Actual results could differ from those estimates.

#### *Fund Accounting*

The Association's governing documents provide guidelines for managing its financial activities. To ensure compliance with limitations and restrictions on the use of financial resources, the Association maintains its records using fund accounting. They classify transactions for accounting and reporting purposes in funds established according to their nature and purpose.

Operating Fund - This fund is used to account for the financial resources available for the general operations of the Association.

Reserve Fund - This fund is used to account for financial resources designated for future major repairs and replacements.

Capital Fund - This fund is used to account for capital assets purchased by the Association and the related depreciation expense over the life of the asset.

# The Association of Apartment Owners of Hanalei Bay Resort

## Notes to Financial Statements December 31, 2014 (Summarized Totals for 2013)

Page 8

---

### **2. Significant Accounting Policies** (continued)

#### *Major Repairs and Replacements*

Members pay a portion of their Association dues for reserve expenses, generally major repairs and replacements. The Association deposits these funds in separate interest-bearing accounts. See Note 12 for a further discussion of reserves.

#### *Cash and Cash Equivalents*

The Association considers all temporary cash investments with maturity of three months or less to be cash equivalents.

#### *Accounts Receivable*

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

#### *Member Assessments*

Members are subject to annual assessments to provide funds for operating expenses and future major repairs and replacements. The annual budget and assessments of owners are determined by the board of directors. Assessments receivable at the reporting date represent amounts due from members. The Association establishes an allowance for all unpaid accounts with delinquent balances outstanding for more than 90 days. The Association's policy is to accrue interest on all amounts due, including delinquent assessments, reasonable collection costs and late charges commencing 30 days after assessments become due. In addition, the Association's policies permit various collection remedies for delinquent assessments, which include filing liens, foreclosing on the unit owner, and obtaining judgment on other assets of the owner. Any excess assessments at year-end are retained by the Association for use in the succeeding year. See Note 5 for additional details on assessments receivable amounts.

# The Association of Apartment Owners of Hanalei Bay Resort

## Notes to Financial Statements December 31, 2014 (Summarized Totals for 2013)

Page 9

---

### **2. Significant Accounting Policies** (concluded)

#### *Property and Equipment*

The Association conforms to industry practice in recognizing real property and common areas as assets. Based on this practice, the Association only capitalizes property to which it has title and to which the board of directors has discretion to dispose of the property and retain the proceeds for the Association's use. Other real property and common areas are owned by the members in common and not by the Association and therefore are not capitalized. Depreciation is calculated using the straight-line method over the 5-35 year estimated useful life of the asset. Repairs, replacements and improvements of common property are expensed as incurred. See Note 7 for additional information on property and equipment.

#### *Prepaid Assessments*

Prepaid assessments consist of members annual assessments received in advance. The Association recognizes these amounts as income when they are earned in the subsequent year.

### **3. Income Taxes**

Homeowner and timeshare associations may elect to be taxed as regular corporations or as homeowner associations. The Association elected to be taxed as a homeowner association in accordance with Internal Revenue Code Section 528 for the years ending December 31, 2014 and 2013. Under that Section, the Association is not taxed on assessments to members and other income received from association members solely as a function of their membership in the Association. The Association is taxed at the rate of 30% on its nonexempt function income such as interest.

The Association's state and federal income tax filings are subject to audit by various taxing authorities. While the Association currently has no income tax returns under audit, the open tax audit periods, for which the statute of limitations has not expired, are 2011 through 2014. For the years ended December 31, 2014 and 2013, the Association paid no income tax interest or penalties.

### **4. Restricted Cash**

Restricted cash consists of a donation to install synthetic grass on two of the tennis courts and loan proceeds to finance improvements at the property. The restricted cash will be used only for the synthetic grass installation and improvements to the property.

# The Association of Apartment Owners of Hanalei Bay Resort

## Notes to Financial Statements December 31, 2014 (Summarized Totals for 2013)

Page 10

### 4. *Restricted Cash* (concluded)

	<u>2014</u>	<u>2013</u>
Financed improvements at the resort	\$364,783	\$2,485,401
Insurance proceeds for fire repairs	-0-	581,010
Tennis court grass on upper court 1 and 2	<u>60,000</u>	<u>-0-</u>
Total restricted cash	<u>\$424,783</u>	<u>\$3,066,411</u>

### 5. *Accounts Receivable*

Accounts receivable at the reporting dates consist of the following amounts:

	<u>2014</u>	<u>2013</u>
Regular assessments	\$-0-	\$3,153
Other receivables	5,548	5,122
Due from restaurant tenant	17,067	15,521
Allowance for doubtful accounts	<u>-0-</u>	<u>-0-</u>
Accounts receivable, net	<u>\$22,615</u>	<u>\$23,796</u>

### 6. *Prepaid Expenses*

Prepaid expenses at the reporting dates consist of the following amounts:

	<u>2014</u>	<u>2013</u>
Insurance	\$133,453	\$121,939
Income taxes	78	975
Other prepaid expenses	<u>46,287</u>	<u>40,161</u>
Total prepaid expenses	<u>\$179,818</u>	<u>\$163,075</u>

### 7. *Property and Equipment*

Property and equipment at the reporting dates consist of the following amounts:

	<u>2014</u>	<u>2013</u>
Equipment	\$35,406	\$91,724
Building and improvements	-0-	338,080
Golf Carts	30,664	30,664
Accumulated depreciation	<u>(45,535)</u>	<u>(433,800)</u>
Property and equipment, net	<u>\$20,535</u>	<u>\$26,668</u>

# The Association of Apartment Owners of Hanalei Bay Resort

## Notes to Financial Statements December 31, 2014 (Summarized Totals for 2013)

Page 11

### 8. Other Assets

Other assets at the reporting dates consist of the following amounts:

	<u>2014</u>	<u>2013</u>
Accrued interest	\$-0-	\$650
Advance payments on a roof repair loan	-0-	59,500
Deposits towards the eventual purchase of a photovoltaic energy (solar) system.	<u>186,000</u>	<u>108,500</u>
Total other assets	<u>\$186,000</u>	<u>\$168,650</u>

See notes 10 and 13 for additional details.

### 10. Accrued Expenses

Accrued expenses at the reporting dates consist of the following amounts:

	<u>2014</u>	<u>2013</u>
Payroll and related	\$61,837	\$129,711
Fire expenses	-0-	9,353
Reserve expenses	-0-	9,000
Other	<u>4,755</u>	<u>461</u>
Total accrued expenses	<u>\$66,592</u>	<u>\$148,525</u>

### 11. Notes Payable

Notes payable at the reporting dates consist of the following amounts:

	<u>2014</u>	<u>2013</u>
An unsecured note payable to Princeville Solar, Inc. (PCI) for roof repairs payable in monthly installments at 1.27% per annum, maturing five years after the Association begins buying electricity from PCI	\$145,000	\$247,000
An unsecured note payable to IPFS Corporation, payable in 9 monthly installments of \$36,795.86 at 3.45% per annum for the financing of an insurance policy	36,796	32,951

# The Association of Apartment Owners of Hanalei Bay Resort

## Notes to Financial Statements December 31, 2014 (Summarized Totals for 2013)

Page 12

### 11. Notes Payable (concluded)

Notes payable at the reporting dates consist of the following amounts:

	<u>2014</u>	<u>2013</u>
A non-revolving line of credit, secured by existing and future assessments, payable to Alliance Association Financial Services, interest only of Prime Rate plus 1.5% for twelve months with all accrued interest and principal due at maturity. Line of credit converted to a term loan March 22, 2014, with monthly payments of \$26,147 at 4.75% for 120 months with interest reset at 60 months	2,280,672	2,479,460
Total notes payable	2,462,396	2,759,411
Less current portion	(297,632)	(232,709)
Long-term portion	<u>\$2,164,764</u>	<u>\$2,526,702</u>

Future principal payments on the notes payable are as follows:

Year ending December 31,	
2015	\$297,632
2016	271,222
2017	273,850
2018	242,058
2019	253,809
Thereafter	<u>1,123,825</u>
Total	<u>\$2,462,396</u>

### 12. Capital Lease Obligations

The Association leases Golf Carts over periods ranging up to five years that are accounted for as capital leases.

At December 31, 2014 the future minimum lease payments under capital lease obligations are as follows:

# The Association of Apartment Owners of Hanalei Bay Resort

## Notes to Financial Statements December 31, 2014 (Summarized Totals for 2013)

Page 13

### 12. Capital Lease Obligations (concluded)

Year ending December 31,	
2015	\$6,995
2016	1,749
2017	-0-
2018	-0-
Thereafter	-0-
	8,744
Less amount representing interest	(299)
Present value of future minimum lease payments	<u>\$8,445</u>

Property and equipment held under capital lease obligations includes:

	<u>2014</u>	<u>2013</u>
Golf carts	\$30,664	\$30,664
Less accumulated depreciation	<u>(22,999)</u>	<u>(16,866)</u>
	<u>\$7,665</u>	<u>\$13,798</u>

Interest expense incurred for the years ended December 31, 2014 and 2013, was \$643 and \$1,001 respectively under the capital lease obligations.

### 13. Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

Association Reserves San Diego, LLC conducted a study in June 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3 percent and interest of 1 percent, net of taxes, on amounts funded for future major repairs and replacements. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

# The Association of Apartment Owners of Hanalei Bay Resort

## Notes to Financial Statements December 31, 2014 (Summarized Totals for 2013)

Page 14

---

### **13. Future Major Repairs and Replacements** (concluded)

Association Reserves San Diego, LLC conducted a study in June 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3 percent and interest of 1 percent, net of taxes, on amounts funded for future major repairs and replacements. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

In 2014, the board of directors decided to fund 31 percent of the amount recommended by the study. Accordingly, \$199,752 was included in the 2014 budget. Because actual expenditures may vary from estimated future expenditures and the variations may be material, amounts accumulated in the replacement fund 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 membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

### **14. Related Party Transactions**

Each owner of Hanalei Bay Resort Vacation Owners Association (the "VOA") is a member of the Association of Apartment Owners of Hanalei Bay resort (the Association). As such, the owners are assessed dues by the Association for the purpose of paying certain common expenses of the VOA. The VOA serves as the collection agent for the Association. For the years ended December 31, 2014 and 2013, the VOA billed the owners \$1,554,036 and \$1,409,556 respectively, on behalf of the Association. The VOA owed the AOA \$175,319 and \$0 for shared costs at December 31, 2014 and December 31, 2013.

The AOA owed the VOA \$-0- and \$118,334 at December 31, 2014 and 2013 respectively.

The Association entered into an agreement to purchase power from a company that installed a photovoltaic energy (solar) system at the property in 2012. Also in 2012, the Association received a \$247,000 loan from this Company to make repairs and replacements on several of the roofs at the property. The terms of the agreement give the Association the option to purchase the solar system from the Company. One of the Association's board members is an owner and officer of this company.



# The Association of Apartment Owners of Hanalei Bay Resort

## Notes to Financial Statements December 31, 2014 (Summarized Totals for 2013)

Page 15

### 14. *Related Party Transactions* (concluded)

The following transactions occurred between the Association and this company during the years ended December 31:

	<u>2014</u>	<u>2013</u>
Loan payments made to Company	<u>\$42,500</u>	<u>\$46,750</u>
Balance due to Company on loan	<u>\$145,000</u>	<u>\$247,000</u>
Payment made to Company as prepayment on the purchase of the solar system	<u>\$77,500</u>	<u>\$108,500</u>

### 15. *Fire Damages*

The Association experienced a fire during the year ended December 31, 2011 and is in the process of rebuilding the resort areas affected by the fire. It is anticipated that the insurance will cover all of the damages except the \$5,000 deductible.

Activity for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Fire repairs and replacement expense	\$3,752,780	\$3,501,610
Insurance proceeds recognized	<u>(3,448,456)</u>	<u>(3,501,610)</u>
Net fire repair and replacement costs to the Association	<u>\$304,324</u>	<u>\$-0-</u>

### 16. *Financial Instruments*

The Association maintains several accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 in 2014 and 2013. The Association occasionally maintains deposits in excess of Federal limits. At the reporting dates, the Association's uninsured cash balance totaled \$238,439 and \$2,485,401 for 2014 and 2013 respectively.

### 17. *Supplemental Cash Flow Disclosures*

For the reporting periods, cash flows from operating activities include state and federal income tax payments of \$4,961 and \$617 for the years ended December 31, 2014 and 2013, respectively and interest payments of \$115,623 and \$6,609 for the years ended December 31, 2014 and 2013, respectively.

# **The Association of Apartment Owners of Hanalei Bay Resort**

**Notes to Financial Statements  
December 31, 2014  
(Summarized Totals for 2013)**

---

Page 16

## ***18. Subsequent Events***

Management has evaluated subsequent events through April 23, 2015, the date which the financial statements were available for issue. Management has determined there are no subsequent events that require recognition or disclosure in these financial statements.

## **Supplemental Information**

# The Association of Apartment Owners of Hanalei Bay Resort

## Supplemental Information on Future Major Repairs and Replacements (Unaudited) December 31, 2014

Association Reserves San Diego, LLC conducted a study in June 2014 to estimate the remaining useful lives and replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3% and interest of 1%, net of taxes, on amounts funded for future major repairs and replacements.

The following table is based on the study and presents significant information about the components of common property.

<b>Component</b>	<b>Estimated Remaining Useful Life (Years)</b>	<b>Estimated June 2014 Replacement Cost</b>	<b>Estimated 2015 Funding Requirement</b>	<b>Reserve Expenditures For the Year Ended 12/31/14</b>	<b>Reserve Fund Balance at 12/31/14</b>
Building exteriors	0-23	\$ 4,672,750	\$ 191,079	\$ (731,248)	\$ 2,073,648
General grounds	0-29	1,093,950	44,734	(871,603)	485,467
Lobby/maintenance	0-19	645,040	26,377	(29,599)	286,252
Pools	1-16	652,670	26,689	(51,744)	289,638
Tennis	0-19	271,950	11,121	(113,593)	120,684
Totals		<u>\$ 7,336,360</u>	<u>\$ 300,000</u>	<u>\$ (1,797,787)</u>	<u>\$ 3,255,689</u>

The Association's replacement fund cash balance at December 31, 2014, is \$335,804. This amount is 10% of the fully funded replacement fund balance as estimated in the reserve study.

See accountants' report.