

**KALAPANA SEAVIEW ESTATES**

**COMMUNITY ASSOCIATION**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

DRAFT

KALAPANA SEAVIEW ESTATES  
COMMUNITY ASSOCIATION

**TABLE OF CONTENTS**

Independent Auditors' Report on Financial Statements	1
Financial Statements:	
Statements of Assets, Liabilities and Owners' Equity – (Cash Basis)	2
Statements of Revenue and Expenses – (Cash Basis)	3
Notes to the Financial Statements	4
Unaudited Supplementary Information	6

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Kalapana Seaview Estates Community Association

We have audited the accompanying financial statements of Kalapana Seaview Estates Community Association, which comprise the statement of assets, liabilities, and owners' equity—cash basis as of December 31, 2012 and 2011, and the related statements of revenue and expenses—cash basis and changes in owners' equity—cash basis 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 the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the 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**

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 assets, liabilities, and owners' equity of Kalapana Seaview Estates Community Association as of December 31, 2012 and 2011, and its revenue and expenses and changes in owners' equity for the years then ended, in accordance with the basis of accounting as described in Note 2.

### **Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The 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. Our opinion is not modified with respect to that matter.

Hilo, Hawai'i  
July 31, 2013

**KALAPANA SEAVIEW ESTATES  
COMMUNITY ASSOCIATION**

**Statements of Assets, Liabilities and Owners' Equity-Cash Basis**

As of December 31, 2012 and 2011

	<b>Assets</b>	
	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Note 2)	\$ 63,159	\$ 48,774
Property (Note 4)	-	-
<b>TOTAL ASSETS</b>	<u>\$ 63,159</u>	<u>\$ 48,774</u>
	<b>Liabilities and Equity</b>	
<b>CURRENT LIABILITIES</b>		
Mailbox Deposits (Note 8)	\$ 13,500	\$ 12,000
<b>TOTAL LIABILITIES</b>	13,500	12,000
<b>OWNERS' EQUITY</b>		
Owners' Equity	49,659	36,774
<b>TOTAL OWNERS' EQUITY</b>	<u>49,659</u>	<u>36,774</u>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<u>\$ 63,159</u>	<u>\$ 48,774</u>

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

**KALAPANA SEAVIEW ESTATES  
COMMUNITY ASSOCIATION**

**Statements of Revenue, Expenses and Changes in Owners' Equity-Cash Basis**  
For the Years Ended Decmeber 31, 2012 and 2011

	2012	2011
<b>REVENUE</b>		
Maintenance/Reserve Fees (Note 2)	\$ 32,800	\$ 28,326
Transfer Fees	3,850	3,300
Late Fees	3,950	2,875
Other Income	599	500
Interest Income	293	365
 Total Operating Revenue	 41,492	 35,366
<b>EXPENSES</b>		
Lawn & Park Maintenance	11,213	10,717
Insurance	5,634	3,116
Legal and Profesional Fees	6,606	2,389
Park Improvements & Repairs	604	5,946
Website & Newsletter	2,477	1,503
Administration, Fees & Supplies	1,773	2,646
Property Taxes	300	300
 Total Operating Expenses	 28,607	 26,617
 Excess of Revenue Over Expenses	 12,885	 8,749
 Owners' Equity - Beginning of the Year	 36,774	 28,025
 Owners' Equity - End of the Year	 \$ 49,659	 \$ 36,774

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

KALAPANA SEAVIEW ESTATES  
COMMUNITY ASSOCIATION

Notes to the Financial Statements  
December 31, 2012 and 2011

Note 1. ASSOCIATION

Kalapana Seaview Estates Community Association (KSECA, the Association) was incorporated in the State of Hawai'i on June 10, 1991. The main purpose of the Association is to maintain and improve the common areas in the subdivision. KSECA is also responsible for paying all property taxes for the parks, maintaining liability insurance for the parks and the day to day business of operating the Association.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Method of Accounting:** The Association uses the cash basis of accounting for both financial statement reporting and tax return preparation. Under this method of accounting, revenue is recognized when received and expenses are recognized when paid.

**Cash and Cash Equivalents:** Cash is defined as demand deposits and savings instruments with maturities of three months or less.

**Owner Assessments:** The assessments of owners (unit owners) are determined by the board of directors and are approved by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

**Income Taxes:** The Association may be taxed as either a homeowners' association in accordance with Internal Revenue Code Section 528 or as a regular corporation.

The Association elected to file as a homeowners' association in accordance with Internal Revenue Code Section 528 for the years ended December 31, 2012 and 2011. Under this section, the Association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. However, the Association is taxed on non-exempt function income (if any) that consist of interest and other non-exempt income.

**Open Tax Years:** The Company's Forms 1120-H and State of Hawai'i N-30, *Corporate Income Tax Return*, for the fiscal years ending 2010, 2011 and 2012 are subject to examination by the IRS, generally for 3 years after they were filed.

Note 3. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Board of Directors engaged an independent contractor to conduct a Full Reserve Study in 2012 which is presented as supplemental information on page 6. The Association is not funding for major repairs and replacements. If additional funds are needed however, the Association has the right, subject to owner approval, to increase regular assessments, or it may delay major repairs and replacements until funds are available.

KALAPANA SEAVIEW ESTATES  
COMMUNITY ASSOCIATION

Notes to the Financial Statements  
December 31, 2012 and 2011

Note 4. PROPERTY

On December 31, 2012 and 2011, the Association held title to common real property consisting of 3 lots in the community, designated for parks, transferred to KSECA Board of Directors and recorded in the Bureau of Records and Conveyances, State of Hawai'i. These properties are collectively owned by the ownership.

Note 5. CONTINGENCIES

KSECA was named a defendant in legal proceedings brought on by a former board owner. As of July 31, 2013 KSECA has not retained legal counsel and the potential financial impact, if any, cannot be determined at this time. The Board owners intend to retain legal counsel. No representations can be made as to the outcome of this case and as such, no liability associated with it has been recorded.

Note 6. CONCENTRATIONS

KSECA is funded by the 933 owners that make up the Association, and general Maintenance fees provided approximately 78% and 80% of total revenue in 2012 and 2011, respectively.

Note 7. SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 31, 2013, the date the financial statements were available to be issued.

Note 8. MAILBOX DEPOSITS

The Association maintains mailboxes for its owners and charges a \$100 deposit for each mailbox. When mailboxes are surrendered the deposit is returned to the owner. As a result, as long as the Association maintains the mailboxes there will be a recorded liability for deposits owed to owners.

**KALAPANA SEAVIEW ESTATES  
COMMUNITY ASSOCIATION**

**Unaudited Supplementary Information on  
Future Major Repairs and Replacements**

As of January 1, 2012

<u>COMPONENTS</u>	<u>Useful Life (years)</u>	<u>Remaining Life (years)</u>	<u>Current Average Cost</u>	<u>Future Average Cost</u>
Concrete Deck/Walk - Partial	10	2	\$ 500	\$ 536
Security Cameras - Replace	12	11	2,000	2,920
Catchment Tank - Rebuild	10	3	2,750	3,049
Catchment Tank - Replace	30	15	5,000	8,377
Meter Panel - Replace	20	19	1,350	2,595
Mailboxes - Partial Replace	10	5	5,150	6,117
Pavilion Furniture - Partial Replace	1	0	410	424
Play Equipment - Replace	10	7	3,000	3,817
Rock Wall - Repair	8	7	550	700
Wood Damage - Repairs	1	0	1,150	1,190
Ohia Posts - Partial Replace	5	0	2,300	2,732
Tile Floors - Replace	20	19	3,300	6,344
Utility Doors - Replace	15	14	6,000	9,712
Park Bathrooms - Refurbish	1	0	425	440
Office Furn. & Equipment - Replace	2	1	700	725
Metal Roofs - Replace	20	10	15,145	21,364
Office Metal Roof - Replace	20	19	2,145	4,124
Wood Shingle Roof - Replace	20	2	1,950	2,089
Gutters/Downspouts - Repair	20	10	1,100	1,552
Signage - Replace	20	0	25,000	4,974
Office Building - Install	N/A	0	20,000	-
Septic Tank - Install	N/A	0	10,000	-
<b>TOTAL</b>				<b>\$ 83,781</b>

Note 1: A Useful Life of N/A means a one-time expense, not expected to repeat.

Note 2: Highlighted line items are expected to require attention in the initial year.