

KALAPANA SEAVIEW ESTATES

COMMUNITY ASSOCIATION

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

KALAPANA SEAVIEW ESTATES
COMMUNITY ASSOCIATION

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INDEPENDENT AUDITOR'S 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, 2014, and related statement of revenue, expenses and changes in owners' equity—cash basis for the year 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.

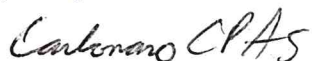
Opinion

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, 2014, and its revenue, expenses and changes in owners' equity for the year 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
October 31, 2015



**KALAPANA SEAVIEW ESTATES
COMMUNITY ASSOCIATION**

**Statement of Assets, Liabilities and Owners' Equity-Cash Basis
As of December 31, 2014**

Assets

CURRENT ASSETS	
Cash and Cash Equivalents (Note 2)	\$ 71,960
Property (Note 4)	<u>-</u>
TOTAL ASSETS	<u><u>\$ 71,960</u></u>

Liabilities and Equity

CURRENT LIABILITIES	
Mailbox Deposits (Note 8)	<u>\$ 15,500</u>
TOTAL LIABILITIES	15,500
OWNERS' EQUITY	
Owners' Equity	<u>56,460</u>
TOTAL OWNERS' EQUITY	<u>56,460</u>
TOTAL LIABILITIES AND OWNERS' EQUITY	<u><u>\$ 71,960</u></u>

**KALAPANA SEAVIEW ESTATES
COMMUNITY ASSOCIATION**

**Statement of Revenue, Expenses and Changes in Owners' Equity-Cash Basis
For the Year Ended December 31, 2014**

REVENUE	
Owner Assessments (Note 2)	\$ 36,038
Reimbursement (Note 5)	7,342
Transfer Fees	5,750
Late Fees	3,660
Other Income	982
Interest Income	<u>192</u>
 Total Operating Revenue	 53,964
EXPENSES	
Lawn and Park Maintenance	18,587
Legal and Professional Fees	7,238
Insurance	5,339
Website and Newsletter	2,874
Administration, Fees & Supplies	3,278
Park Improvements and Repairs	519
Property Taxes	<u>300</u>
 Total Operating Expenses	 <u>38,135</u>
 Excess of Revenue Over Expenses	 15,829
 Owners' Equity - Beginning of the Year	 <u>40,631</u>
 Owners' Equity - End of the Year	 <u>\$ 56,460</u>

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

KALAPANA SEAVIEW ESTATES
COMMUNITY ASSOCIATION

Notes to the Financial Statements
December 31, 2014

Note 1. ASSOCIATION

Kalapana Seaview Estates Community Association (KSECA, the Association) was incorporated in the State of Hawai'i on June 10, 1991. Currently, there are 993 members. 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.

Under Section 528, 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 2012, 2013 and 2014 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. The Association is not funding for major repairs and replacements and not presenting the Reserve Study in these financial statements. 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, 2014

Note 4. PROPERTY

On December 31, 2014, the Association held title to common real property consisting of 3 lots in the community, designated for parks, which were 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 filed by a former board member/owner. As of December 31, 2014, KSECA has retained legal counsel and received \$7,342 reimbursement of previously garnished funds. The case is ongoing. 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 67% of total revenue in 2014.

Note 7. SUBSEQUENT EVENTS

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 31, 2015, the date the financial statements were available for use.

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.