

**ASSOCIATION OF APARTMENT OWNERS OF
WAILEA FAIRWAY VILLAS**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2023 and 2022

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Shaun Thayer, CPA

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Association of Apartment Owners of Wailea Fairway Villas

Opinion

I have audited the accompanying financial statements of the Association of Apartment Owners of Wailea Fairway Villas, which comprise the balance sheet – income tax basis as of December 31, 2023, and the related statements of revenue and expenses – income tax basis, changes in fund balance – income tax basis, and cash flows – income tax basis for the year then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balance of the Association of Apartment Owners of Wailea Fairway Villas as of December 31, 2023, and its revenues and expenses, changes in fund balance, and cash flows for the year then ended, in accordance with the basis of accounting the Association uses for income tax purposes as described in Note B.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Association of Apartment Owners of Wailea Fairway Villas and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of Accounting

I draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Association of Apartment Owners of Wailea Fairway Villas uses for income tax purposes, 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.

Future Major Repairs and Replacements

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. I have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note F are adequate to meet such future costs because that determination is outside the scope of my audit. My opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the income tax basis of accounting described in Note B; this includes determining that the income tax 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 Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

Independent Auditor's Report - Continued

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association of Apartment Owners of Wailea Fairway Villas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association of Apartment Owners of Wailea Fairway Villas' ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Report on Summarized Comparative Information

I have previously audited the Association of Apartment Owners of Wailea Fairway Villas' December 31, 2022 financial statements, and my report dated February 23, 2023, expressed an unmodified opinion on those financial statements. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expenses – income tax basis is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

The income tax basis of accounting requires that the Supplementary Information on Future Major Repairs and Replacements on page 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 methods 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.

Shaun Thayer, CPA

Wailuku, Hawaii
March 3, 2024

Association of Apartment Owners of Wailea Fairway Villas
Balance Sheet - Income Tax Basis
December 31, 2023
(With Summarized Totals as of December 31, 2022)

ASSETS	2023			2022
	Operating Fund	Reserve Fund	Total	Total
Assets				
Cash and cash equivalents	\$ 284,728	\$ 509,414	\$ 794,142	\$ 704,592
Certificates of deposit	-	1,736,414	1,736,414	1,590,742
Assessments receivable	21,474	-	21,474	8,332
Prepaid expenses	29,935	-	29,935	31,641
Other assets	312	-	312	-
Property and equipment	74,400	-	74,400	74,400
Accumulated depreciation	(31,930)	-	(31,930)	(28,210)
Total assets	\$ 378,919	\$ 2,245,828	\$ 2,624,747	\$ 2,381,497
LIABILITIES & FUND BALANCES				
Liabilities				
Accounts payable	\$ 54,084	\$ -	\$ 54,084	\$ 47,246
Income taxes payable	364	-	364	-
Insurance claim payable	8,865	-	8,865	8,865
Prepaid assessments	54,987	-	54,987	64,289
Other liabilities	260	-	260	395
Total liabilities	118,560	-	118,560	120,795
Fund balances	260,359	2,245,828	2,506,187	2,260,702
Total liabilities & fund balances	\$ 378,919	\$ 2,245,828	\$ 2,624,747	\$ 2,381,497

See accompanying notes to financial statements

Association of Apartment Owners of Wailea Fairway Villas
Statement of Revenue and Expenses - Income Tax Basis
For the Year Ended December 31, 2023
(With Summarized Totals for the Year Ended December 31, 2022)

	2023			2022
	Operating Fund	Reserve Fund	Total	Total
REVENUE:				
Owner assessments	\$ 1,071,330	\$ 277,206	\$ 1,348,536	\$ 1,235,856
Interest income	568	27,367	27,935	13,224
Fines and late fees	17,173	-	17,173	6,324
Other income	14,420	-	14,420	2,925
Total revenue	1,103,491	304,573	1,408,064	1,258,329
EXPENSES:				
Utilities (Exhibit I)	320,326	-	320,326	289,819
Grounds contract	285,600	-	285,600	262,080
Payroll and related costs (Exhibit I)	200,446	-	200,446	181,313
Repairs and maintenance (Exhibit I)	96,120	-	96,120	97,921
Insurance	89,331	-	89,331	72,101
Major repairs and replacements	-	69,848	69,848	554,118
Management fee	41,496	-	41,496	39,936
Office and administrative	15,319	-	15,319	14,917
Security	15,909	-	15,909	13,712
Professional fees	13,086	-	13,086	11,441
Income taxes	6,135	-	6,135	1,259
Depreciation expense	3,720	-	3,720	3,720
Meetings	2,862	-	2,862	3,105
General excise taxes	2,381	-	2,381	899
Bad debt	-	-	-	8,011
Rental expenses	-	-	-	5,827
Total expenses	1,092,731	69,848	1,162,579	1,560,179
EXCESS OF REVENUE OVER (UNDER) EXPENSES	\$ 10,760	\$ 234,725	\$ 245,485	\$ (301,850)

Association of Apartment Owners of Wailea Fairway Villas
Statement of Changes in Fund Balance - Income Tax Basis
For the Year Ended December 31, 2023
(With Summarized Totals for the Year Ended December 31, 2022)

	2023			2022
	Operating Fund	Reserve Fund	Total	Total
BEGINNING FUND BALANCE	\$ 249,599	\$ 2,011,103	\$ 2,260,702	\$ 2,562,552
EXCESS OF REVENUE OVER (UNDER) EXPENSES	<u>10,760</u>	<u>234,725</u>	<u>245,485</u>	<u>(301,850)</u>
ENDING FUND BALANCE	<u>\$ 260,359</u>	<u>\$ 2,245,828</u>	<u>\$ 2,506,187</u>	<u>\$ 2,260,702</u>

Association of Apartment Owners of Wailea Fairway Villas
Statement of Cash Flows - Income Tax Basis
For the Year Ended December 31, 2023
(With Summarized Totals for the Year Ended December 31, 2022)

	2023			2022
	Operating Fund	Reserve Fund	Total	Total
CASH FLOW FROM OPERATING ACTIVITIES:				
Excess of revenue over (under) expenses	\$ 10,760	\$ 234,725	\$ 245,485	\$ (301,850)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	3,720	-	3,720	3,720
Provision for doubtful accounts	-	-	-	(21,723)
(Increase) decrease in assessments receivable	(13,142)	-	(13,142)	23,490
(Increase) decrease in prepaid expenses	1,706	-	1,706	425
(Increase) decrease in other assets	(312)	-	(312)	173
Increase (decrease) in accounts payable	6,838	-	6,838	(12,226)
Increase (decrease) in income taxes payable	364	-	364	-
Increase (decrease) in prepaid assessments	(9,302)	-	(9,302)	2,309
Increase (decrease) in other liabilities	(135)	-	(135)	(112)
Net cash provided (used) by operating activities	497	234,725	235,222	(305,794)
CASH FLOW FROM INVESTING ACTIVITIES:				
Matured certificates of deposit	-	1,990,742	1,990,742	1,746,258
Purchase of certificates of deposit	-	(2,136,414)	(2,136,414)	(1,590,742)
Net cash provided (used) by investing activities	-	(145,672)	(145,672)	155,516
CASH FLOW FROM FINANCING ACTIVITIES				
No activities	-	-	-	-
NET INCREASE (DECREASE) IN CASH & EQUIVALENTS	497	89,053	89,550	(150,278)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	284,231	420,361	704,592	854,870
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 284,728	\$ 509,414	\$ 794,142	\$ 704,592
Supplemental disclosure of cash flow information:				
Cash paid during the year for income taxes	\$ -	\$ -	\$ -	\$ -
Cash paid during the year for interest	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements

ASSOCIATION OF APARTMENT OWNERS OF WAILEA FAIRWAY VILLAS

NOTES TO FINANCIAL STATEMENTS December 31, 2023 and 2022

NOTE A - NATURE OF ORGANIZATION

The Association of Apartment Owners of Wailea Fairway Villas, an unincorporated association, is an organization of owners of 118 condominium units formed in 1998 to provide for the management, maintenance and care of the common areas. The Association was formed as required by Section 514B of the Hawaii Revised Statutes and the Declaration of Condominium Property Regime filed with the State of Hawaii. The condominium is located in Wailea, Maui, Hawaii.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting used for federal income tax reporting. The income tax basis differs from accounting principles generally accepted in the United States of America (GAAP) primarily as follows: depreciation is calculated using recovery periods prescribed for federal income tax reporting, investments are presented at cost, right-of-use assets and lease liabilities are not recorded for leases, revenue recognition, and bad debts are recognized under the direct write-off method.

Revenue Recognition

Revenue primarily consists of receipts from ongoing member assessments, which are recorded as assessment income in the financial statements. The Association's annual budget is the basis for establishing the annual assessments required from each member to cover the Association's operating expenses, plus an allocation to the capital reserve fund. Member assessments are due on the first of each month. The performance obligation related to member assessments is the maintenance and management of the common area property, which is satisfied in a consistent and ongoing basis through daily management, maintenance, and repairs. The Association also receives rental income and interest from bank deposits and investment accounts. The Association may levy special assessments for capital improvements and other purposes when needed.

Assessments Receivable

Assessments receivable at the balance sheet date are stated at the amounts due from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the units of owners whose assessments are delinquent. Receivables are written-off when substantially all collection efforts have been exhausted. Any excess assessments at year-end are retained by the Association for use in the following year.

ASSOCIATION OF APARTMENT OWNERS OF WAILEA FAIRWAY VILLAS

NOTES TO FINANCIAL STATEMENTS December 31, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

For the years ended December 31, 2023 and 2022, the Association elected to be taxed as a “homeowners association”. Under this election, maintenance fees received from owners are exempt from taxation and the Association pays tax only on non-maintenance fee income, primarily interest, less attributable expense, at a flat rate of 30% for Federal taxes and regular corporate rates for State of Hawaii taxes. Reserve Fund activity is treated as capital contributions/expenditures. In evaluating the tax positions and related income tax contingencies as of December 31, 2023 and 2022, the Association believes it has no uncertain tax positions that would require disclosure or adjustment. The Association’s Federal and Hawaii income tax returns for 2020 through 2023 are open tax years under the normal three-year statute of limitations and are therefore potentially subject to examination.

Fund Accounting

The accounts of the Association are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose.

Operating Fund - The Operating Fund is used to account for financial resources available for the general operations and maintenance of the Association.

Future Repairs and Replacements Fund - The Future Repairs and Replacements Fund (Reserve Fund) accounts for funds accumulated and spent on capital improvements, and major repairs and replacements related to the common areas of the Association.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association’s financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association will capitalize the cost of assets to which it holds title in its name or has other evidence of ownership. Property and equipment will be stated at cost. Depreciation will be computed using the straight-line method or the Modified Accelerated Cost Recovery System (MACRS).

ASSOCIATION OF APARTMENT OWNERS OF WAILEA FAIRWAY VILLAS

NOTES TO FINANCIAL STATEMENTS December 31, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management's Use of Estimates

The preparation of financial statements in conformity with the income tax basis 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.

Prior Year Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by fund. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2022, from which the summarized information was derived.

NOTE C - CASH AND CASH EQUIVALENT BALANCES

Cash equivalents reflected in the financial statements include certificates of deposit and other investments with original maturity of three months or less. Cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Uninsured balances were approximately \$312,000 and \$481,000, as of December 31, 2023 and 2022, respectively. The Association maintained bank deposits which, at times, may exceed insured limits set by the Federal Deposit Insurance Corporation (FDIC). The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE D – DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 3, 2024, the date that the financial statements were available to be issued.

NOTE E – RECLASSIFICATIONS

Certain reclassifications of 2022 amounts were made to conform to 2023 presentations. Such reclassifications had no impact on 2022 net income.

NOTE F - FUTURE MAJOR REPAIRS AND REPLACEMENTS

Hawaii State law mandates all condominium Board of Directors to establish and fund reserve accounts for repairs and replacement of major components of condominium property. Associations shall assess their members to either fund a minimum of fifty percent of the estimated replacement reserves (Percent Funded

ASSOCIATION OF APARTMENT OWNERS OF WAILEA FAIRWAY VILLAS

NOTES TO FINANCIAL STATEMENTS December 31, 2023 and 2022

NOTE F - FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

Plan) or fund one hundred percent of the estimated annual replacement expenditures (Cash Flow Plan). The Association is funding its reserves under the cash flow plan. As of December 31, 2023 and 2022, accumulated funds of \$2,245,828 and \$2,011,103, respectively, are held in the Association's reserve cash and investment accounts and are generally not available for operating purposes. It is the Association's policy that interest earned on such funds is for reserve purposes.

The Association's Board of Directors engaged Hawaii Inspection Group to conduct a study to estimate the remaining useful lives and the replacement costs of the common property components. This study assumes an annual inflation rate of 3.50% and an interest rate of 5.00% on reserve funds. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements, page 13, is based on this study.

The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on this study's estimates of current replacement costs, considering amounts previously designated for future major repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future major repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to the Board of Director's approval, to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds become available.

NOTE G – CERTIFICATES OF DEPOSIT

The Association has invested a portion of its reserve funds in certificates of deposit at various banks that mature from January to August 2024. Proceeds from matured certificates are reinvested in new CD's. The cost basis of the individual CD's does not exceed the FDIC limits at each financial institution. The certificates have interest rates of 2.65% to 5.80%. The certificates are purchased at par, recorded at cost, and held to maturity. Matured certificates totaled \$1,990,742 and \$1,746,258, respectively, for the years ended December 31, 2023 and 2022. No investment gains or losses were recognized on the matured CD's.

**ASSOCIATION OF APARTMENT OWNERS OF
WAILEA FAIRWAY VILLAS**

NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE H – CONTINGENCIES

The Association was named as a Rule 19 Defendant and no damages are being sought against the Association. A Consent Order was issued in October 2023. Rule 19 Defendants agree to allow reasonable access to the public and common use areas for the purpose of complying with the Consent Order by the named parties. The Consent Order will remain in effect for eight (8) years from its entry.

Association of Apartment Owners of Wailea Fairway Villas
Schedule of Operating Expenses - Income Tax Basis
For the Year Ended December 31, 2023
(With Summarized Totals for the Year Ended December 31, 2022)

	Total 2023	Total 2022
Utilities:		
Water	\$ 153,207	\$ 137,854
Sewer	69,837	66,322
Television cable service	67,934	58,509
Electricity	25,441	23,677
Telephone	3,455	3,132
Gas	452	325
Total utilities	<u>\$ 320,326</u>	<u>\$ 289,819</u>
Payroll and payroll taxes:		
Salaries and wages	\$ 162,032	\$ 146,295
Payroll taxes	17,195	14,795
Employee benefits	15,161	14,597
Workers compensation and TDI	6,058	5,626
Total payroll and related costs	<u>\$ 200,446</u>	<u>\$ 181,313</u>
Repairs and maintenance:		
Pool, spa, BBQ	\$ 33,338	\$ 33,287
Refuse	27,736	27,296
Building	16,606	16,378
Pest control	7,990	5,345
Irrigation	4,876	5,287
Equipment	1,991	3,161
Fire equipment	1,806	1,879
Grounds and landscaping	1,777	5,288
Total repairs and maintenance	<u>\$ 96,120</u>	<u>\$ 97,921</u>

See accompanying notes to financial statements

SUPPLEMENTARY INFORMATION

Association of Apartment Owners of Wailea Fairway Villas
Supplementary Information On Future Major Repairs and Replacements
(UNAUDITED)
December 31, 2023

The following table is based on the study prepared by Hawaii Inspection Group and presents significant information about the components of the common property (see Note F).

Components	Normal Life	Remaining Life	Estimated Current Replacement Cost
Building - exterior	1-50	1-36	1,218,514
Clubhouse	5-45	1-21	172,790
Electrical	1-50	1-26	264,587
Fire system	10-50	6-26	33,557
Grounds	10-50	1-26	228,293
Landscaping	1-50	1-3	97,758
Lighting	1-45	1-38	272,018
Paving	10-36	2-21	478,335
Plumbing	6-50	5-31	127,634
Pool & spa area	4-50	4-35	195,931
Roofing	10-49	6-7	2,861,800
Contingency	1-4	1-1	22,783
Total			<u>\$ 5,974,000</u>

See accompanying notes to financial statements