

**ASSOCIATION OF HOMEOWNERS OF  
HAWAII LOA RIDGE  
Financial Statements  
December 31, 2011**

**George Lam  
Certified Public Accountant**

# GEORGE LAM, CPA, CMA

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Association of Homeowners of  
Hawaii Loa Ridge

We have audited the accompanying balance sheet of the Association of Homeowners of Hawaii Loa Ridge as of December 31, 2011 and the related statements of revenues, expenses, and changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above represent fairly, in all material respects, the financial position of the Association of Homeowners of Hawaii Loa Ridge as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.



February 8, 2012  
Kapolei, Hawaii

**ASSOCIATION OF HOMEOWNERS OF  
HAWAII LOA RIDGE  
BALANCE SHEET  
December 31, 2011**

**ASSETS**

**CURRENT ASSETS**

Cash in Bank - Operating	\$514,753	
Cash in Reserve	364,309	
Petty Cash	540	
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<b>Total Cash</b>		<b>\$879,602</b>

Assessments Receivable (Note C)	314,920	
Prepaid Insurance	12,626	
Prepaid Real Property Tax	799	
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<b>Total Current Assets</b>		<b>\$1,207,947</b>

<b>LAND</b>		853,100
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<b>Total Assets</b>		<b>\$2,061,047</b>
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**LIABILITIES AND MEMBERS' EQUITY**

**CURRENT LIABILITIES**

Accrued Expenses (Note D)	\$14,985	
Prepaid Assessments (Note C)	170,717	
Security Deposits	44,077	
Construction Deposits	101,950	
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<b>Total Current Liabilities</b>		<b>\$331,729</b>

<b>Total Liabilities</b>		<b>331,729</b>
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<b>MEMBERS' EQUITY</b>		1,729,318
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<b>Total Liabilities and Members' Equity</b>		<b>\$2,061,047</b>
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See Notes to Financial Statement

**ASSOCIATION OF HOMEOWNERS OF  
HAWAII LOA RIDGE**

**Statement of Revenues, Expenses,  
and Changes in Members' Equity  
Year Ended December 31, 2011**

**REVENUES**

Maintenance Fees	\$ 1,389,999	
Dividend & Interest	22,168	
Fines	10,151	
Late Fees	86,722	
Legal Fee Reimbursements	13,317	
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<b>Total Revenues</b>		<b>\$1,522,357</b>

**EXPENSES**

Administration:		
Computer Set Up & Repairs	5,693	
Community Events	9,660	
Consulting Fees	3,977	
Newsletters	1,084	
Office Supplies & Administrative Services	30,307	
Professional Fees	45,010	
Property Management Services	15,734	
Vehicle Expenses	20,639	
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		132,104
Maintenance & Repairs:		
Air Conditioning	4,607	
Building	5,304	
Custodial	8,241	
Electrical	16,901	
Equipment	1,381	
Grounds & Landscaping	311,939	
Irrigation	9,053	
Pest Control	939	
Road Repairs	77,440	
Security	23,221	
Tree Trimming	27,351	
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		486,377
Major Improvements & Purchases:		
Traffic Engineering Services	14,500	
Association Truck	7,693	
Rock Anchors	7,220	
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		29,413
Payroll:		
Salary & Wages	381,320	
Employee Benefits	74,459	
Payroll Preparation	2,364	
Payroll Taxes	37,088	
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		495,231
Utilities:		
Electricity	48,672	
Telephone & Communications	5,727	
Sewer	2,514	
Water	61,147	
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		118,060

**ASSOCIATION OF HOMEOWNERS OF  
HAWAII LOA RIDGE**

**Statement of Revenues, Expenses,  
and Changes in Members' Equity  
Year Ended December 31, 2011**

**(CONTINUED)**

Other:		
Insurance	28,308	
Bad Debt	146,120	
General Excise Tax	7,968	
Real Property Tax	9,992	
Miscellaneous	2,198	194,586
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<b>Total Expenses</b>		<b>1,455,771</b>
<b>Excess of Revenues over Expenses</b>		<b>66,586</b>
<b>Members' Equity - January 1, 2011</b>		<b>1,662,732</b>
<b>Members' Equity - December 31, 2011</b>		<b>\$1,729,318</b>
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See Notes to Financial Statement

**ASSOCIATION OF HOMEOWNERS OF  
HAWAII LOA RIDGE  
STATEMENT OF CASH FLOWS  
December 31, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Excess of revenues over expenses		\$66,586
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
(Increase) Decrease in:		
Assessments Receivable	51,679	
Prepaid Expenses	(1,469)	
Other Assets	138	
Increase (Decrease) in:		
Accounts Payable & Accrued Expenses	(15,919)	
Prepaid Assessments	(57,438)	
Deposits	33,100	
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<b>Total Adjustments</b>		10,091
		-----
<b>Net Increase (Decrease) in Cash</b>		76,677
<b>CASH AT BEGINNING OF YEAR</b>		802,925
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<b>CASH AT END OF YEAR</b>		\$879,602
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See Notes to Financial Statement

**ASSOCIATION OF HOMEOWNERS OF  
HAWAII LOA RIDGE**  
Notes to Financial Statements  
December 31, 2011

**NOTE A - NATURE OF ORGANIZATION & ACCOUNTING POLICIES**

Hawaii Loa Ridge is a single family residential project located in the Honolulu district on the Hawaiian island of Oahu. The association was formed in 1985 by the homeowners of Hawaii Loa Ridge, an unincorporated organization, to provide for the management, maintenance, and care of the common areas of the project. As of December 31, 2011 the association consisted of 556 residential lots.

The association's revenue is from membership assessments and its expenses are for normal operating costs. Any excess assessments at year end are retained for use in future operating periods. The financial statement of the Association of Homeowners of Hawaii Loa Ridge is presented on the accrual basis of accounting.

**NOTE B - INCOME TAXES**

Hawaii Loa Ridge has the option to file its tax returns either as a regular corporation or as a homeowners' association. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the association is taxed only on non-membership income, such as interest earnings, at regular federal and state corporate rates.

Homeowners' associations are taxed on non-exempt income, such as interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. For the year ended December 31, 2011, the association intends to file the tax form that proves to be most beneficial in minimizing tax payments.

**NOTE C - ASSESSMENTS**

As of December 31, 2011 Assessments were comprised of the following:

Assessments Receivable:	
Maintenance Fees	\$ 72,527
Interest	52,449
Late Fees	260,982
Legal Fees	12,170
Lot Clearing	4,932
Other	60
Allowance for Bad Debt	<u>&lt;88,200&gt;</u>
	<u>\$ 314,920</u>
Prepaid Assessments:	
Unearned Maintenance Fees	\$ 169,186
Unapplied Lot Maintenance	<u>1,531</u>
	<u>\$ 170,717</u>

**ASSOCIATION OF HOMEOWNERS OF  
HAWAII LOA RIDGE**  
Notes to Financial Statements  
December 31, 2011

(CONTINUED)

**NOTE D - ACCRUED EXPENSES**

As of December 31, 2011 Accrued Expenses included:

Administrative Supplies & Services	\$ 1,323
General Excise Tax	1,932
Electricity	4,390
Payroll	1,684
Water	5,181
Other - Yard Service	<u>475</u>
	<u>\$ 14,985</u>

**NOTE E - SURPRISE CASH CONFIRMATION**

In conformity with state law, we performed a surprise cash verification as of June 30, 2011. No major discrepancies were encountered. The results of this verification have been incorporated into the preceding financial statements.

**NOTE F - REPLACEMENT RESERVE FUNDS**

Reserves should be accumulated for anticipated future major repairs and replacement of common property elements. Associations may accumulate funds using either the straight-line method or a cash flow assumption.

Associations using the straight-line method collect reserves for each component in equal annual installments over its life expectancy. Adequate reserves amounting to at least 50% of the total cost of repairs and replacements should be established by the subsequent budget year. Under the cash flow system, associations should have sufficient cash flow over a twenty year period to fund the replacement of common property elements without special assessments or loans, except in unforeseen or emergency circumstances.

During 2009, a reserve study was conducted to determine the amount of funds the association needs to collect each year. A copy of the study is on file with the association's management agent. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, therefore, express no opinion on it. The association should review and update this study periodically to ensure that there is adequate reserve funding for anticipated future major repairs and replacement of common property elements.

The association is accumulating funds for major repairs and replacements over the remaining useful lives of the components, based on the study's estimates of current replacement costs and considering amounts previously accumulated in its replacement funds. However, actual expenditures may have variations from these estimated amounts that are material. If additional funds are needed, the association has the right to increase regular assessments, levy special assessments, or delay repairs and replacements until funds become available.



**ASSOCIATION OF HOMEOWNERS OF  
HAWAII LOA RIDGE**  
Notes to Financial Statements  
December 31, 2011

(CONTINUED)

**NOTE G - ARCHITECTURAL REVIEW COMMITTEE**

As required by the Declaration of Covenants, Conditions and Restrictions of Hawaii Loa Ridge Subdivision, the association established an Architectural Review Committee. This committee consists of five members. At least two members must be licensed Architects in the state of Hawaii. All remaining members are required to be homeowners of Hawaii Loa Ridge.

Plans submitted by homeowners are reviewed by the Architectural Review Committee each month. The committee enforces the Architectural Committee Rules, which interprets and implements the provisions of the Declaration of Covenants, Conditions and Restrictions by setting standards, procedures and guidelines for architectural specifications such as:

- Designs
- Placement of structures
- Landscaping
- Color schemes
- Exterior finishes
- Materials used

The following is the Architectural Committee's Statement of Cash Receipts and Disbursements for the year ended December 31, 2011:

**CASH RECEIPTS**

Architectural Review Fees	\$ 19,775
Interest Income	13
Fines	<u>47,250</u>

Total Cash Receipts \$ 67,038

**CASH DISBURSEMENTS**

Professional Service	58,819
Administrative	<u>370</u>

Total Cash Disbursements 59,189

Increase <Decrease> in Cash	7,849
Cash Balance January 1, 2011	16,192
Cash Balance December 31, 2011	<u>\$ 24,041</u>

**NOTE H - ARCHITECTURAL REVIEW COMMITTEE FUND**

Cash balances in the Architectural Review Committee Fund as of December 31, 2011 are comprised of:

Operating Account	\$ 22,080
Reserves	<u>1,961</u>
	<u>\$ 24,041</u>