

**INDEPENDENT AUDITOR'S REPORT**  
**KAKELA MAKAI OCEANVIEW COMMUNITY ASSOCIATION**  
**Year Ended June 30, 2011**

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Independent Auditor's Report

Board of Directors

KAKELA MAKAI OCEANVIEW COMMUNITY ASSOCIATION

I have audited the accompanying statements of cash receipts and disbursements and changes in cash balances of KAKELA MAKAI OCEANVIEW COMMUNITY ASSOCIATION for the year ended June 30, 2011. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the statements referred to above present fairly the cash receipts and disbursements and changes in cash balances of KAKELA MAKAI OCEANVIEW COMMUNITY ASSOCIATION for the year ended June 30, 2011, on the basis of accounting described in Note 1.

The supplementary information on future major repairs and replacements is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

 Terry S.C. Wong, CPA, Inc.

Honolulu, Hawaii  
August 12, 2011

KAKELA MAKAI OCEANVIEW COMMUNITY ASSOCIATION

Statement of Cash Receipts and Disbursements

Year Ended June 30, 2011

Cash receipts:

Maintenance fees		\$146,954
Insurance settlement		3,630
Legal fee reimbursement		3,226
Legal reimb-settlement		3,000
Late and interest charges		1,359
Design review fee		925
Interest income		461
Clubhouse cleaning		350
Security keys		325
Transfer fee		250
Total cash receipts		<u>160,480</u>

Cash disbursements:

Utilities:

Electricity	\$11,264	
Gas	11,227	
Water	1,902	
Telephone	<u>1,125</u>	25,518

Repairs and maintenance:

Cleaning service & supplies	12,852	
Pool contract and supplies	8,537	
Grounds	6,199	
Building repairs	1,853	
Refuse service	<u>574</u>	30,015

Capital improvements and replacements:

Pool & clubhouse decking	9,300	
Clubhouse exercise equipment	3,792	
Pool and spa motors	<u>1,611</u>	14,703

Professional and administrative:

Management services	29,004	
Legal fees	7,386	
Admin. supplies & services	6,680	
Consulting fees-design review	6,527	
Reserve study fee	1,865	
Audit and tax preparation	<u>1,248</u>	52,710

Other:

Insurance-property & liability	10,793	
General excise tax	453	
Miscellaneous expense	337	
Real property tax	<u>25</u>	11,608

Total cash disbursements 134,554

Excess of cash receipts over disbursements \$ 25,926

See accompanying notes to financial statements.

KAKELA MAKAI OCEANVIEW COMMUNITY ASSOCIATION

Statement of Changes in Cash Balances

Year Ended June 30, 2011

Cash balances, July 1, 2010	\$104,508
Add: Excess of cash receipts over disbursements - operating	25,926
Less: Security deposits	<u>(250)</u>
Cash balances, June 30, 2011	<u>\$130,184*</u>

\*Cash balances consist of the following:

Central Pacific Bank - operating	\$ 85,073
HomeStreet Bank - reserve	<u>45,111</u>
Total	<u>\$130,184</u>

See accompanying notes to financial statements.

KAKELA MAKAI OCEANVIEW COMMUNITY ASSOCIATION

Notes to Financial Statements

June 30, 2011

NOTE 1- ORGANIZATION AND ACCOUNTING POLICIES

ORGANIZATION - KAKELA MAKAI OCEANVIEW COMMUNITY ASSOCIATION, a Hawaii non-profit corporation, is responsible for the operation and maintenance of the common property within the development. The development is located at Kalaheo, District of Koloa, County of Kauai, State of Hawaii and contains a total of 199 single-family residential units.

ACCOUNTING POLICIES - The financial statements of the Association are prepared on the basis of cash receipts and disbursements; consequently, certain revenues are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 2 - MAINTENANCE FEES

Maintenance fees are paid by each unit owner in order to maintain the common elements and pay for common expenses. The annual budget and assessments of owners are determined by the board of directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

NOTE 3 - INCOME TAXES

Under current tax law, a homeowners association may annually elect to file its income tax returns as a homeowners association or as a corporation. The Association intends to elect the filing option that is most beneficial to file.

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association conducted a study in June 2011 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously designated for future repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future repairs and replacements may or may not be adequate to meet future needs.

KAKELA MAKAI OCEANVIEW COMMUNITY ASSOCIATION

Supplementary Information on Future Major Repairs  
And Replacements

June 30, 2011  
(Unaudited)

FUTURE REPAIRS AND REPLACEMENTS

The following information is based on the June 2011 study and presents significant information about the components of common property.

Component	Next Due Date	Estimated Cost Now
Pool resurface	2011	\$ 17,435
Stucco paint	2012	8,550
Spa resurface	2012	3,600
Wood surfaces paint	2012	1,600
Spalling repairs contingency	2012	1,500
Security cameras	2012	1,500
Pool pump/motor B-1hp	2012	550
Spa pump/motor (filter)-1hp	2012	550
Spa pump/motor (jet) A-1hp	2012	550
Pool pump/motor A-1hp	2012	550
Pool furnishings	2013	6,950
Spa pump/motor (jet) B-1hp	2013	550
Clubhouse exercise equipment	2015	10,000
Concrete surfaces-reseal	2015	8,641
Wood shake roofing-seal	2015	5,100
Parking lot & ramp repairs	2015	3,167
Spa heater	2015	3,000
Clubhouse furniture	2015	2,150
RR building water heater	2015	1,000
Clubhouse ceiling fans	2015	800
Clubhouse water heater	2015	750
Security camera monitor & taping	2015	700
Clubhouse refrigerator	2017	1,400
RR building partitions	2019	2,565
Spa border tiling	2019	1,280
Pool filters	2020	3,400
Signage small	2020	1,800
Spa filter	2020	1,700
Signs, large-entrance wall	2020	1,500
Security fixtures solar	2020	1,200
Clubhouse rr refurbish	2020	1,000
Signs, large-clubhouse	2020	500
Pool & clubhouse decking repairs	2021	3,746
Pool gate keyless entry	2021	3,000
Metal fencing gates	2023	1,300

(Continued)

KAKELA MAKAI OCEANVIEW COMMUNITY ASSOCIATION

Supplementary Information on Future Major Repairs  
And Replacements (Continued)

June 30, 2011  
(Unaudited)

Wood shale roofing-replace	2025	25,500
Pool border tiling	2025	4,800
Pool bullnose coping	2025	2,700
Clubhouse cabinets/counters	2025	2,500
Pillar fixtures pool area	2025	1,050
Spa bullnose coping	2026	720
Metal fencing	2030	20,850
Clubhouse tile flooring	2030	16,200
RR building tile walls	2030	15,120
RR building tile flooring	2030	7,200
RR building toilets & urinals	2030	2,000
RR building sinks & counters	2030	1,650
Roofing gutters & down spouts	2030	1,080
<b>Total</b>		<b><u>\$204,954</u></b>