

INDEPENDENT AUDITOR'S REPORT

WAIKOLOA VILLAGE ASSOCIATION

For Years Ended December 31, 2008 and 2007

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Independent Auditor's Report

**The Board of Directors
Waikoloa Village Association:**

I have audited the accompanying balance sheets of the Waikoloa Village Association (a Corporation) as of December 31, 2008 and 2007, and the related statements of revenues and expenses, changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Waikoloa Village Association's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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 our audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Waikoloa Village Association as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information on Future Major Repairs and Replacements, is not a required part of the basic financial statements of Waikoloa Village Association 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.



**Honolulu, Hawaii
March 23, 2009**

WAIKOLOA VILLAGE ASSOCIATION

BALANCE SHEETS

ASSETS

	<u>12/31/2008</u>	<u>12/31/2007</u>
Current Assets:		
Cash and cash equivalents - undesignated	\$ 497,359	\$ 622,402
Cash and cash equivalents - designated for future major repairs and replacements	1,219,253	689,257
Construction deposits	168,614	247,316
Accounts receivable, net of allowance for doubtful accounts of \$32,659 and \$43,000 in 2008 and 2007	164,392	137,025
Other receivable-CPB	199,744	-
Golf merchandise inventory	68,035	68,805
Prepaid expense	<u>18,812</u>	<u>18,812</u>
Total Current Assets	<u>2,336,209</u>	<u>1,783,617</u>
Property and Equipment:		
Land and improvements	6,956,137	6,591,993
Buildings	2,003,642	2,003,766
Equipment	1,621,931	1,528,698
Furniture and fixtures	113,688	113,688
18 th Green well	<u>883,730</u>	<u>883,730</u>
	11,579,128	11,121,875
Less accumulated depreciation	<u>3,319,046</u>	<u>3,085,274</u>
Net Property and Equipment	<u>8,260,082</u>	<u>8,036,601</u>
Assets under capital lease, net of accumulated amortization of \$136,800 and \$100,989 in 2008 and 2007	853,111	639,244
Deferred tax asset	<u>26,100</u>	<u>26,100</u>
TOTAL ASSETS	<u>\$11,475,502</u>	<u>\$ 10,485,562</u>

See accompanying notes to financial statements.

WAIKOLOA VILLAGE ASSOCIATION

BALANCE SHEETS

LIABILITIES AND MEMBERS' EQUITY

	<u>12/31/2008</u>	<u>12/31/2007</u>
Current Liabilities:		
Accounts payable	\$ 113,298	\$ 53,566
Accrued payroll and other	58,785	109,203
Construction deposits	166,250	245,496
Deferred revenues	521,030	398,209
Loan payable - current portion	33,261	24,904
Current portion of obligation under capital lease	<u>120,916</u>	<u>126,622</u>
Total current liabilities	<u>1,013,540</u>	<u>958,000</u>
Long-term Liabilities:		
Loan payable - net of current portion	641,285	776,848
Obligation under capital lease - net of current portion	<u>489,164</u>	<u>369,105</u>
Total long-term liabilities	<u>1,130,449</u>	<u>1,145,953</u>
Total Liabilities	<u>2,143,989</u>	<u>2,103,953</u>
Members' Equity:		
Undesignated	8,112,260	7,692,352
Designated for future major repairs and replacements	<u>1,219,253</u>	<u>689,257</u>
Total Members' Equity	<u>9,331,513</u>	<u>8,381,609</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$11,475,502</u>	<u>\$10,485,562</u>

See accompanying notes to financial statements.

**WAIKOLOA VILLAGE ASSOCIATION
STATEMENTS OF REVENUES AND EXPENSES**

	<u>Membership</u>	<u>Operations</u>	<u>Total</u>	
			<u>2008</u>	<u>2007</u>
Revenue:				
Dues	\$1,694,270	\$ -	\$1,694,270	\$1,525,423
Green fees	-	971,229	971,229	938,408
Golf rentals	-	633,471	633,471	693,509
Mauna Lani Easement	-	-	-	-
Golf subsidy	-	500,000	500,000	435,500
Merchandise sales	-	125,981	125,981	156,636
Lease rent	-	-	-	53,577
Driving range	-	51,023	51,023	49,714
Waikoloa Open	-	13,050	13,050	15,600
Land sale proceed	694,332	-	694,332	-
Other	<u>108,026</u>	<u>179,726</u>	<u>287,752</u>	<u>260,233</u>
Total Revenue	<u>2,496,628</u>	<u>2,474,480</u>	<u>4,971,108</u>	<u>4,128,600</u>
 Expenses:				
Salaries and wages, payroll taxes and benefit	301,324	1,337,401	1,638,725	1,533,348
Utilities	31,210	748,493	779,703	531,338
Depreciation and amortization	46,255	223,454	269,709	256,848
Taxes and licenses	51,953	139,336	191,289	187,515
Repairs and maintenance	72,575	209,313	281,888	298,533
Cost of sales	-	157,127	157,127	161,624
Insurance	20,974	100,797	121,771	113,244
Professional fees	206,520	2,234	208,754	218,544
Supplies	6,586	25,863	32,449	26,010
Advertising and promotion	913	30,276	31,189	63,495
Fuel	1,556	51,132	52,688	38,142
Charge card discounts	1,230	37,294	38,524	38,447
Equipment rent	-	1,273	1,273	2,665
Annual meeting	8,706	-	8,706	6,972
Interest expenses	71	62,404	62,475	30,206
Waikoloa Open	-	6,145	6,145	7,155
Other	<u>159,191</u>	<u>11,540</u>	<u>170,731</u>	<u>86,463</u>
Total operating expenses	<u>909,064</u>	<u>3,144,082</u>	<u>4,053,146</u>	<u>3,600,549</u>
Excess (deficiency) of revenues over expenses from operations	<u>1,587,564</u>	<u>(669,602)</u>	917,962	528,051
 Interest and dividend income			<u>31,942</u>	<u>42,602</u>
 Excess of revenues over expenses			<u>949,904</u>	<u>570,653</u>

See accompanying notes to financial statements.

WAIKOLOA VILLAGE ASSOCIATION

Statements of Changes in Members' Equity

For the years ended December 31, 2008 and 2007

	<u>Total</u>	<u>Undesignated</u>	<u>Designated for Future Major Repairs and Replacement</u>
Members' equity, January 1, 2007	\$7,810,956	7,484,928	326,028
Excess of revenues over expenses	570,653	570,653	-
Interest earned on reserve funds	-	(41,916)	41,916
Inter-fund transfer	<u>-</u>	<u>(321,313)</u>	<u>321,313</u>
Members' equity, December 31, 2007	8,381,609	7,692,352	689,257
Excess of revenues over expenses	949,904	949,904	-
Interest earned on reserve funds	-	(31,418)	31,418
Inter-fund transfer	<u>-</u>	<u>(498,578)</u>	<u>498,578</u>
Members' equity, December 31, 2008	<u>\$9,331,513</u>	<u>8,112,260</u>	<u>1,219,253</u>

See accompanying notes to financial statements.

WAIKOLOA VILLAGE ASSOCIATION
Statements of Cash Flows
For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Excess of revenues over expenses	<u>\$949,904</u>	<u>570,653</u>
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:		
Depreciation and amortization	269,709	256,849
 (Increase) decrease in:		
Accounts receivable	(27,367)	(31,675)
Inventory	770	(1,722)
Other receivable - CPB	(199,744)	-
Construction deposits	78,702	(60,882)
 Increase (decrease) in:		
Accounts payable	59,732	(40,042)
Accrued expenses	(50,418)	6,100
Construction deposits	(79,246)	60,139
Deferred revenues	<u>122,821</u>	<u>160,142</u>
Total adjustments	<u>174,959</u>	<u>348,909</u>
 Net cash provided by operations	<u>1,124,863</u>	<u>919,562</u>
 Cash flows used by investing activities:		
Investment in certificate of deposits	-	97,000
Increase in assets under capital lease	(249,804)	-
Capital expenditures for property and equipment	<u>(457,253)</u>	<u>(455,345)</u>
Net cash used in investing activities	<u>(707,057)</u>	<u>(358,345)</u>
 Cash flows provided by financing activities:		
Loan principal payments	(127,206)	241,156
Repayment of capital lease	-	(119,120)
Increase in capital lease	<u>114,353</u>	<u>-</u>
Net cash used in financing activities	<u>(12,853)</u>	<u>122,036</u>
 Net increase in cash	404,953	683,253
 Cash and cash equivalents, beginning of year	<u>1,311,659</u>	<u>628,406</u>
 Cash and cash equivalents, end of year	<u>\$1,716,612</u>	<u>1,311,659</u>

(Continued)

WAIKOLOA VILLAGE ASSOCIATION
Statements of Cash Flows, Continued

	<u>2008</u>	<u>2007</u>
Summary of cash accounts:		
Cash and cash equivalents - undesignated	\$ 497,359	622,402
Cash and cash equivalents - designated for future major repairs and replacements	1,219,253	689,257

Supplemental Disclosure of Cash Flow Information

	<u>2008</u>	<u>2007</u>
Cash paid during the year for:		
Interest	\$ 62,475	30,206
Taxes	-	-

See accompanying notes to financial statements.

WAIKOLOA VILLAGE ASSOCIATION

Notes to Financial Statements

December 31, 2008 and 2007

(1) Organization and Summary of Significant Accounting Policies

Organization

Waikoloa Village Association (the Association) is an incorporated property owners' association located on the island of Hawaii. The Association provides for the management, maintenance, protection, preservation and development of property within the area known as "Waikoloa Village". The Association is responsible for the operation and maintenance of the common property within the development. The development consists of approximately 3,000 residential and condominium units located on approximately 10,000 acres in Waikoloa, Hawaii. The goal of the Association is to promote the health, safety, recreation, sports, entertainment and athletic activities within the community. To that end the Association operates a golf course and leases other facilities used by its members, other residents of Hawaii and tourists. A significant portion of golf revenues is received from nonmember Hawaii residents and tourists. As required by its bylaws, the board of directors is comprised of members of the Association.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents.

Construction Deposits

Construction deposits of \$2,500 are provided by Waikoloa Village property owners to the Association prior to the commencement of construction. The Association provides guidelines which members must comply with during the construction process. If unapproved changes are made the Association reserves the right to use this deposit to remediate the problem. Prior to April 21, 2004, construction deposits were maintained in individual interest bearing accounts at Solomon Smith Barney and American Savings Bank. After April 21, 2004, new construction deposits were maintained in one American Savings Bank account with interest accruing to the Association. Upon completion of the construction project, if all guidelines have been met, the original deposit is returned to the member. The Association maintains a liability for the trust deposits provided to the Association prior to commencement of construction.

WAIKOLOA VILLAGE ASSOCIATION

Notes to Financial Statements, Continued

Golf Merchandise Inventory

Golf merchandise inventory is stated at the lower of cost or market, with cost determined on the first-in, first-out basis.

Accounts Receivable and Allowance for Doubtful Accounts

Association members are subject to yearly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable on the balance sheet date represent assessments due from property owners and other trade receivables. The Association's policy is to assess a penalty on properties of homeowners whose assessments are thirty days or more delinquent and to retain legal counsel and place liens on properties with assessments that become significantly past due. Any excess assessments at year end are retained by the Association for use in future years. As of December 31, 2008 and 2007, there was approximately \$133,000 and \$70,000, respectively in receivables 90 days or more past due. An allowance for doubtful accounts has been established based on a percentage of accounts receivable outstanding, payment history, and present market conditions. A review of the delinquent accounts is done periodically. Accounts are written off when deemed uncollectible. Accounts receivable are net of allowances for doubtful accounts of \$32,659 and 43,000 at December 31, 2008 and 2007.

Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. According to the Association's governing documents, any exchange, sale, or other disposition of any real property owned by the Association requires the approval of two-thirds of the members present at a meeting of the Association, notice of the meeting must disclose that such a transaction is being considered.

Property and equipment acquired by the Association are recorded at cost. Property contributed to the Association by the developer is recorded at estimated fair value at the date of contribution. Land and buildings consist predominantly of property contributed to the Association by Boise Cascade Home and Land Corporation and its successor in interest, Transcontinental Development Co. Boise Cascade, developer of the Waikoloa Village, agreed to convey approximately 10,000 acres of land and improvements to the Association. Accordingly, in 1975, the Clubhouse, swimming pool, tennis courts and approximately 2,000 acres of land were conveyed to the Association. In 1987, the remaining 8,000 acres were conveyed to the Association.

WAIKOLOA VILLAGE ASSOCIATION

Notes to Financial Statements, Continued

These properties have been recorded at their fair value based on either their assessed value for real property tax purposes or their appraised value as determined by a private appraisal company as follows:

	<u>Recorded Value</u>	<u>Basis for Recorded Value</u>
Property conveyed in 1975:		
Land and improvements - approximately 2,000 acres	\$ 652,600	Assessed Value
Clubhouse, swimming pool, tennis courts	137,400	Assessed Value
Property conveyed in 1987:		
Land - approximately 8,000 acres	4,800,000	Private Appraisal
Maintenance buildings	<u>166,397</u>	Assessed Value
	5,756,397	
Other property and equipment acquired by the Association	<u>5,822,731</u>	Cost
	<u>\$11,579,128</u>	

Depreciation on all property and equipment is recorded on the straight-line basis over the estimated useful lives of the respective assets. Repairs and maintenance are charged directly to income, and expenditures for renewals and betterments are capitalized. Cost and related accumulated depreciation of property and equipment retired or otherwise disposed are eliminated from the accounts at the time of retirement or sale, and gain or loss is credited or charged to income.

Equipment acquired under a capital lease is amortized using the straight-line method over the estimated useful lives of the respective assets.

Deferred Revenues

In accordance with generally accepted accounting principles, revenues and expenses are recorded when earned and incurred. Deferred revenues consist primarily of association assessments which were collected but not earned during the year.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred. Advertising and promotion costs amounted to approximately \$31,100 and \$63,400 for the years ended December 31, 2008 and 2007, respectively.

WAIKOLOA VILLAGE ASSOCIATION

Notes to Financial Statements, Continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

(2) Leases

The Association leases equipment used in its operations and classifies those leases as either operating or capital leases following the provision of SFAS No. 13, "Accounting for Leases." In 2004, the Association entered into a five year lease for ground maintenance equipment for the golf course. In 2005, the Association entered into a four year lease for golf carts. These leases are accounted for as capital leases.

At December 31, 2008 the future minimum lease commitments under capital leases are as follows:

	<u>Capital leases</u>
Year ending December 31:	
2009	165,261
2010	53,493
2011	55,087
2012	59,867
2013 and future years	<u>331,900</u>
Total minimum lease payments	665,608
Less amount representing interest	<u>55,528</u>
Present value minimum lease payments	610,080
Less current portion of obligation under capital lease	<u>120,916</u>
Obligations under capital lease, less current portion	<u><u>\$489,164</u></u>

Rental Income Leases

The Association has entered into various agreements to lease land and other real property for periods ranging from two to sixty years. In addition other real property is leased on a month-to-month or year-to-year basis.

WAIKOLOA VILLAGE ASSOCIATION

Notes to Financial Statements, Continued

Future minimum rental income under non-cancelable leases to be received as of December 31, 2008 is as follows:

	<u>Future Minimum Rental Income</u>
Year ending December 31:	
2009	\$ 48,000
2010	48,000
2011	48,000
2012	48,000
2013	48,000
Thereafter	<u>1,497,000</u>
Total	<u>\$1,737,000</u>

(3) Union Contract

Golf course maintenance workers, based on wages paid, comprise approximately fifty percent of the Association's workforce. They are employed under a union contract.

(4) Employee Benefit Plan

The Association has a profit sharing plan for all non-bargaining unit employees who meet the qualifications of the plan. Employer contributions are determined by the Board of Directors of the Association. The plan includes a salary reduction provision under which employees can elect to contribute up to \$40,000 but no more than 25% of annual compensation.

Bargaining unit employees are covered under a pension plan as part of their union contract.

(5) Golf Subsidy Agreement

In 2006, the Association entered into an agreement with the County of Hawaii to provide subsidized golf course rounds for Hawaii County Residents. Under the terms of the Agreement, the fee charged to any and all Big Island of Hawaii Residents shall not exceed \$25 and the County to be billed for individual subsidized rounds at \$20 per round. The term of this Agreement is for the period beginning September 1, 2006 and ending June 30, 2007 with the maximum total subsidy not to exceed \$350,000. The Golf Subsidy Agreement was subsequently renewed until June 30, 2009 with a subsidy amount of \$250,000 for each six month period.

WAIKOLOA VILLAGE ASSOCIATION

Notes to Financial Statements, Continued

(6) Income Taxes

For income tax purposes, the Association is taxed under Internal Revenue Code Section 277, which requires that the Association pay tax on the excess of its membership income over its membership operating expenses as well as its excess non-membership income over non-membership expenses. Pursuant to Internal Revenue Service Revenue Ruling 70-604 the Association may elect to apply its excess membership income to reduce the future year's membership fee assessments and as a result pay tax only on the excess of its non-membership income. The Association records income tax expense for its excess non-membership income only.

(7) Litigation

The Association is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect the Association's financial statements or results of operations.

(8) Note Payable

The Association entered into a promissory note with a financial institution on August 4, 2005, to finance the construction of a new well. The total note is for \$850,000 with monthly interest only payments until August 2006 at an annual interest rate of 6.38%. Beginning in September 2006, monthly principal and interest payments of \$6,278 are required. The note is due in August 2015 and is secured by all assets of the Association.

WAIKOLOA VILLAGE ASSOCIATION

Notes to Financial Statements, Continued

(9) Future Major Repairs and Replacements

Neither the Association's governing documents nor current Hawaii state law requires the Association to accumulate funds for future major repairs and replacements. However, in 1992, the Association's board of directors adopted a program to accumulate such funds. Accumulated funds, which aggregate \$1,219,253 and \$689,257 at December 31, 2008 and 2007, respectively, are held in separate accounts and are generally not available for operating purposes. It is the Association's policy that interest earned on such funds is allowed to accumulate in those accounts.

The Association engaged Armstrong Consulting, Inc. to conduct a study in April 2005 to estimate the remaining useful lives and the replacement costs of the common property components. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet future needs. If additional funds are needed, the Association may increase regular assessment or levy special assessments, or it may delay major repairs and replacements until funds are available.

WAIKOLOA VILLAGE ASSOCIATION

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

December 31, 2008 and 2007

The following information is based on the April 2005 study conducted by Armstrong Consulting, Inc. and presents significant information about the components of common property. (Estimated amounts are rounded to the nearest thousand dollars.)

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Estimated Future Replacement Cost</u>
Buildings	0 - 15	\$ 166,000	249,000
Furniture and equipment	0 - 6	47,000	58,000
Pavements, fences and lights	0 - 20	252,000	261,000
Stable	0 - 13	203,000	210,000
Pool	0 - 5	85,000	99,000
Tennis court	0 - 4	55,000	58,000
Pro Shop improvements	0 - 3	552,000	616,000
Restaurant improvements	0 - 6	169,000	202,000
Golf course improvements and maintenance equipment	0 - 18	<u>1,322,000</u>	<u>1,548,000</u>
TOTAL		<u>\$2,851,000</u>	<u>3,301,000</u>