

**INDEPENDENT AUDITOR'S REPORT**  
**WAIKOLOA VILLAGE ASSOCIATION**  
**For Years Ended December 31, 2010 and 2009**

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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, 2010 and 2009, 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, 2010 and 2009, 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  
April 5, 2011**

WAIKOLOA VILLAGE ASSOCIATION

BALANCE SHEETS

ASSETS

	<u>12/31/2010</u>	<u>12/31/2009</u>
<b>Current Assets:</b>		
Cash and cash equivalents - undesignated	\$ (62,280)	\$ 104,833
Cash and cash equivalents - designated for future major repairs and replacements	1,460,787	1,617,461
Construction deposits	105,139	120,063
Accounts receivable, net of allowance for doubtful accounts of \$77,052 and \$70,278 in 2010 and 2009	357,832	236,408
Other receivable	54,022	36,945
Golf merchandise inventory	73,260	64,533
Prepaid expense	<u>53,425</u>	<u>27,469</u>
<b>Total Current Assets</b>	<b><u>2,042,185</u></b>	<b><u>2,207,712</u></b>
<b>Property and Equipment:</b>		
Land and improvements	7,233,481	7,175,691
Buildings	2,004,949	2,004,949
Equipment	1,734,869	1,621,894
Furniture and fixtures	120,783	113,688
Vehicles	84,873	80,123
40 kwp photovoltaic system	240,558	-
18 <sup>th</sup> Green well	<u>1,043,350</u>	<u>883,730</u>
	12,462,863	11,880,075
Less accumulated depreciation	<u>3,872,001</u>	<u>3,584,725</u>
<b>Net Property and Equipment</b>	<b><u>8,590,862</u></b>	<b><u>8,295,350</u></b>
<b>Assets under capital lease, net of accumulated     amortization of \$379,557 and \$172,737 in 2010 and 2009</b>	<b>567,065</b>	<b>1,182,087</b>
<b>Deferred tax asset</b>	<b><u>26,100</u></b>	<b><u>26,100</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$11,226,212</u></b>	<b><u>\$ 11,711,249</u></b>

See accompanying notes to financial statements.

WAIKOLOA VILLAGE ASSOCIATION

BALANCE SHEETS

LIABILITIES AND MEMBERS' EQUITY

	<u>12/31/2010</u>	<u>12/31/2009</u>
<b>Current Liabilities:</b>		
Accounts payable	\$ 82,743	\$ 93,334
Accrued payroll and other	85,254	38,488
Construction deposits	102,500	117,500
Deferred revenues	42,555	66,783
Loan payable - current portion	44,849	38,880
Current portion of obligation under capital lease	<u>145,014</u>	<u>144,721</u>
Total current liabilities	<u>502,915</u>	<u>499,706</u>
<b>Long-term Liabilities:</b>		
Loan payable - net of current portion	453,329	550,150
Obligation under capital lease - net of current portion	<u>422,051</u>	<u>743,229</u>
Total long-term liabilities	<u>875,380</u>	<u>1,293,379</u>
Total Liabilities	<u>1,378,295</u>	<u>1,793,085</u>
<b>Members' Equity:</b>		
Undesignated	8,387,130	8,300,703
Designated for future major repairs and replacements	<u>1,460,787</u>	<u>1,617,461</u>
Total Members' Equity	<u>9,847,917</u>	<u>9,918,164</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u><b>\$11,226,212</b></u>	<u><b>\$11,711,249</b></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>2010</u>	<u>2009</u>
<b>Revenue:</b>				
Dues	\$1,754,920	\$ -	\$1,754,920	\$1,754,920
Green fees	-	1,579,349	1,579,349	1,530,272
Golf subsidy	-	77,630	77,630	351,930
Merchandise sales	-	150,449	150,449	103,021
Golf rentals	-	69,280	69,280	58,894
Driving range	-	42,427	42,427	46,281
Beverage cart	-	7,778	7,778	80,305
Other	<u>272,642</u>	<u>17,307</u>	<u>289,949</u>	<u>238,329</u>
<b>Total Revenue</b>	<u><b>2,027,562</b></u>	<u><b>1,944,220</b></u>	<u><b>3,971,782</b></u>	<u><b>4,163,952</b></u>
<b>Expenses:</b>				
Salaries and wages, payroll taxes and benefit	395,883	1,231,802	1,627,685	1,587,034
Utilities	36,263	521,466	557,729	489,593
Repairs and maintenance	32,071	194,084	226,155	239,462
Depreciation and amortization	71,049	651,944	722,993	301,616
Taxes and licenses	48,059	126,708	174,767	180,704
Professional fees	167,518	13,025	180,543	139,607
Insurance	15,421	68,022	83,443	128,103
Cost of sales	-	108,564	108,564	121,296
Equipment rent	650	16,107	16,757	53,887
Charge card discounts	3,805	37,541	41,346	36,526
Supplies	15,434	23,306	38,740	34,164
Fuel	3,157	42,718	45,875	31,979
Advertising and promotion	821	34,664	35,485	29,452
Annual meeting	8,323	-	8,323	9,192
Interest expenses	-	38,116	38,116	53,360
Waikoloa Open	-	266	266	(3,125)
Other	<u>124,288</u>	<u>17,181</u>	<u>141,469</u>	<u>154,590</u>
<b>Total operating expenses</b>	<u><b>922,742</b></u>	<u><b>3,125,514</b></u>	<u><b>4,048,256</b></u>	<u><b>3,587,440</b></u>
<b>Excess (deficiency) of revenues over expenses from operations</b>	<u><b>1,104,820</b></u>	<u><b>(1,181,294)</b></u>	<u><b>(76,474)</b></u>	<u><b>576,512</b></u>
<b>Interest and dividend income</b>			<u><b>6,227</b></u>	<u><b>10,139</b></u>
<b>Excess of revenues over (under) expenses</b>			<u><b>\$ (70,247)</b></u>	<u><b>\$ 586,651</b></u>

See accompanying notes to financial statements.

**WAIKOLOA VILLAGE ASSOCIATION**

**Statements of Changes in Members' Equity**

**For the years ended December 31, 2010 and 2009**

	<u>Total</u>	<u>Undesignated</u>	<u>Designated for Future Major Repairs and Replacement</u>
<b>Members' equity, January 1, 2009</b>	<b>\$9,331,513</b>	<b>\$8,112,260</b>	<b>\$ 1,219,253</b>
<b>Excess of revenues over expenses</b>	<b>586,651</b>	<b>586,651</b>	<b>-</b>
<b>Interest earned on reserve funds</b>	<b>-</b>	<b>(10,139)</b>	<b>10,139</b>
<b>Inter-fund transfer</b>	<b><u>-</u></b>	<b><u>(388,069)</u></b>	<b><u>388,069</u></b>
<b>Members' equity, December 31, 2009</b>	<b>9,918,164</b>	<b>8,300,703</b>	<b>1,617,461</b>
<b>Excess of revenues (under) expenses</b>	<b>(70,247)</b>	<b>(70,247)</b>	<b>-</b>
<b>Interest earned on reserve funds</b>	<b>-</b>	<b>(6,227)</b>	<b>6,227</b>
<b>Inter-fund transfer</b>	<b><u>-</u></b>	<b><u>162,901</u></b>	<b><u>(162,901)</u></b>
<b>Members' equity, December 31, 2010</b>	<b><u>\$ 9,847,917</u></b>	<b><u>\$8,387,130</u></b>	<b><u>\$1,460,787</u></b>

**See accompanying notes to financial statements.**

**WAIKOLOA VILLAGE ASSOCIATION**  
**Statements of Cash Flows**  
**For the years ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Excess of revenues over (under) expenses	\$(70,247)	<u>586,651</u>
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:		
Depreciation	287,276	301,616
<b>(Increase) decrease in:</b>		
Accounts receivable	(121,424)	(72,016)
Inventory	(8,727)	3,502
Other receivable	(17,077)	162,799
Construction deposits	14,924	48,551
Prepaid expense	(25,956)	(8,657)
<b>Increase (decrease) in:</b>		
Accounts payable	(10,591)	(19,964)
Accrued expenses	46,766	(20,297)
Construction deposits	(15,000)	(48,750)
Deferred revenues	(24,228)	<u>(454,247)</u>
Total adjustments	<u>125,963</u>	<u>(107,463)</u>
<b>Net cash provided by operations</b>	<u>55,716</u>	<u>479,188</u>
<b>Cash flows used in investing activities:</b>		
Decrease (increase) in assets under capital lease	615,022	(364,913)
Capital expenditures for property and equipment	<u>(582,788)</u>	<u>(300,947)</u>
Net cash used in investing activities	<u>32,234</u>	<u>(665,860)</u>
<b>Cash flows provided by financing activities:</b>		
Loan principal payments	(90,852)	(85,516)
Increase (decrease) in capital lease	<u>(320,885)</u>	<u>277,870</u>
Net cash provided by (used in) financing activities	<u>(411,737)</u>	<u>192,354</u>
<b>Net increase (decrease) in cash</b>	(323,787)	5,682
<b>Cash and cash equivalents, beginning of year</b>	<u>1,722,294</u>	<u>1,716,612</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$1,398,507</u>	<u>\$1,722,294</u>

(Continued)

**WAIKOLOA VILLAGE ASSOCIATION**  
**Statements of Cash Flows, Continued**

	<u>2010</u>	<u>2009</u>
<b>Summary of cash accounts:</b>		
Cash and cash equivalents - undesignated	\$ (62,280)	\$ 104,833
Cash and cash equivalents - designated for future major repairs and replacements	<u>1,460,787</u>	<u>1,617,461</u>
<b>Total</b>	<b><u>\$1,398,507</u></b>	<b><u>\$1,722,294</u></b>

**Supplemental Disclosure of Cash Flow Information**

	<u>2010</u>	<u>2009</u>
<b>Cash paid during the year for:</b>		
Interest	\$ 38,116	\$ 53,360

See accompanying notes to financial statements.

# WAIKOLOA VILLAGE ASSOCIATION

## Notes to Financial Statements

December 31, 2010 and 2009

### (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 3,005 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. Effective 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. Any excess assessments at year end are retained by the Association for use in future years. 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. 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 \$77,052 and 70,278 at December 31, 2010 and 2009.

#### 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>
<b>Property conveyed in 1975:</b>		
Land and improvements - approximately 2,000 acres	\$ 652,600	Assessed Value
Clubhouse, swimming pool, tennis courts	137,400	Assessed Value
<b>Property conveyed in 1987:</b>		
Land - approximately 8,000 acres	4,800,000	Private Appraisal
Maintenance buildings	<u>166,397</u>	Assessed Value
	5,756,397	
<b>Other property and equipment acquired by the Association</b>	<u>6,123,678</u>	Cost
	<u><b>\$11,880,075</b></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 \$35,485 and \$29,452 for the years ended December 31, 2010 and 2009, 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. Beginning January 1, 2010, the Association entered into a four year lease for golf carts. These leases are accounted for as capital leases.

At December 31, 2010 the future minimum lease commitments under capital leases are as follows:

	<u>Capital leases</u>
Year ending December 31:	
2011	\$145,014
2012	147,954
2013	147,954
2014	42,047
2015 and future years	<u>84,096</u>
Total minimum lease payments	567,065
Less current portion of obligation under capital lease	<u>145,014</u>
Obligations under capital lease, less current portion	<u>\$422,051</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, 2010 is as follows:

Year ending December 31:	<u>Future Minimum Rental Income</u>
2011	\$ 75,600
2012	75,600
2013	75,600
2014	52,600
2015	52,600
Thereafter	<u>1,396,400</u>
Total	<u>\$1,728,400</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. The Golf Subsidy Agreement was subsequently renewed until June 30, 2009 with a subsidy amount of \$250,000 for each six month period. Effective July 1, 2009, the County of Hawaii has changed the golf subsidy program to a fund available basis through June 30, 2010. Effective October 2010, the golf subsidy was changed to \$24,100 per month.

**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 and Subsequent Event**

A Mechanic's Lien in the amount of \$1,600,000 was placed on the 268 acres where the Light Industrial Park is to be built. Rivera and Sons, who did the grading on the project, placed the lien as a result of their not receiving payment from Bay Pacific for their work. As owners of the land, the Association was sued for payment and a settlement was negotiated for a one time payment of \$600,000 in February 2011. The new developer has agreed to refund this amount to the Association in the form of a lease premium to be included in the new lease. Until the money is refunded the settlement will be included in the 2011 expenses.

**(8) Note Payable**

In August 2005, the Association signed a promissory note of \$850,000 with a financial institution to finance the construction of a new well. Currently, the note is payable in monthly payments of \$6,278 with interest rate at 6.38% per annum. The note is due in August 2015 and is secured by all assets of the Association.

**(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, the Association's board of directors adopted a program to accumulate such funds. Accumulated funds, which aggregate \$1,460,787 and \$1,617,461 at December 31, 2010 and 2009, 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, 2010 and 2009

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>
<b>TOTAL</b>		<u><u>\$2,851,000</u></u>	<u><u>\$3,301,000</u></u>