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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
KAILUA VIEW ESTATES

Report on the Financial Statement:

We have audited the accompanying financial statement of cash receipts and disbursements and changes in cash balances of **KAILUA VIEW ESTATES**, for the year ended December 31, 2016, and the related notes to the financial statement.

Management's Responsibilities:

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash 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: We are responsible to express our opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements 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's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion:

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash receipts and disbursements and the changes in cash balances of **KAILUA VIEW ESTATES** for the year-ended December 31, 2016 in accordance with the cash basis of accounting described in Note 2.

Basis of Accounting:

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, 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 this matter.

Restriction on Use:

This report is intended solely for the information and use of the Board of Directors and Members of the Association of KAILUA VIEW ESTATES and is not intended to be used and should not be used by anyone other than these specified parties.

Daniel J Sullivan CPA

Honolulu, Hawaii
April 15, 2017

KAILUA VIEW ESTATES
Notes to the Financial Statements
December 31, 2016

NOTE 1. Nature of Organization:

This residential homeowners association, located on the island of Hawaii, Hawaii, is organized for the purposes of maintaining and preserving common property of the association.

NOTE 2. Summary of Significant Accounting Policies:

Member Assessments: Association members are assessed monthly to provide for operating expenses, improvements, replacements and major repairs. 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.

Basis of Accounting: In accordance with industry practice, the accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under that basis, the only asset recognized is cash, and no liabilities are recognized. All transactions are recognized as either cash receipts or disbursements. Non-cash transactions are not recognized in the financial statement. The cash basis differs from generally accounting principles primarily because the effects of accounts receivable and accounts payable are not reflected in the accompanying financial statement.

NOTE 3. Ending Cash Balance:

The balance at December 31, 2016 is comprised of:

Operating Cash	\$ 78,745
Deposits	675
Reserves	<u>50,410</u>
Total Cash	\$ <u>129,830</u>

NOTE 4. Federal and State Income Taxes:

KAILUA VIEW ESTATES has the option to file its tax returns either as a homeowners association or as a regular corporation. For the year ended December 31, 2016, they intend to file the tax form that proves to be most beneficial in minimizing tax payments.

NOTE 5. Surprise Cash Confirmation:

In conformity with Hawaii State law, a surprise cash verification was conducted during the fiscal year. No material discrepancies were encountered.