

SERVICE PRINTERS HAWAII, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014

SERVICE PRINTERS HAWAII, INC.
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DARRELL LIM AND COMPANY, INC.

A Corporation of Certified Public Accountants

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Service Printers Hawaii, Inc.
Honolulu, Hawaii

We have reviewed the accompanying financial statements of Service Printers Hawaii, Inc. (a corporation), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and retained earnings and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The supplementary information included on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.

Daniel S. and Company, Inc.

Certified Public Accountants

May 20, 2016
Honolulu, Hawaii

SERVICE PRINTERS HAWAII, INC.

BALANCE SHEETS

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>A S S E T S</u>		
CURRENT ASSETS		
Cash and cash equivalents (Note 1)	\$ 59,674	\$ 186,991
Receivables, less allowance for bad debts (Note 2)	389,621	380,014
Customer postage receivable	8,129	10,400
Prepaid expenses	36,054	75,755
Income tax refund receivable	15,186	7,290
Deferred income tax benefit	<u>100,296</u>	<u>99,368</u>
 TOTAL CURRENT ASSETS	 608,960	 759,818
 PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation (Notes 1, 3, and 6)		
	105,195	133,846
 OTHER ASSETS (Note 4)	 <u>10,008</u>	 <u>20,148</u>
 TOTAL ASSETS	 <u>\$ 724,163</u>	 <u>\$ 913,812</u>

See accompanying notes and independent accountants' review report

SERVICE PRINTERS HAWAII, INC.

BALANCE SHEETS

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Short - term notes payable	\$ 34,690	\$ 38,546
Line of credit (Note 5)	-	31
Current portion of long - term debt (Note 6)	24,833	72,013
Accounts payable, trade	148,731	228,899
Accrued salaries and wages	18,521	26,168
Accrued profit sharing contribution (Note 9)	1,075	21,974
Other accrued expenses	<u>26,665</u>	<u>21,734</u>
TOTAL CURRENT LIABILITIES	254,515	409,365
LONG - TERM DEBT, less current portion above (Note 6)	<u>67,913</u>	<u>97,476</u>
TOTAL LIABILITIES	<u>322,428</u>	<u>506,841</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$10, authorized 1,000,000 shares, issued 2,000 shares	20,000	20,000
Retained earnings	467,626	472,862
Treasury stock, 560 shares at cost	<u>(85,891)</u>	<u>(85,891)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>401,735</u>	<u>406,971</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 724,163</u>	<u>\$ 913,812</u>

See accompanying notes and independent accountants' review report

SERVICE PRINTERS HAWAII, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
NET SALES	\$ 3,052,218	\$ 4,032,853
COST OF GOODS SOLD	<u>1,573,420</u>	<u>2,194,457</u>
GROSS PROFIT	1,478,798	1,838,396
OPERATING EXPENSES	<u>1,478,800</u>	<u>1,658,678</u>
OPERATING INCOME (LOSS)	(2)	179,718
OTHER INCOME (EXPENSES)		
Interest income	1	-
Miscellaneous income	392	-
Interest expense	(6,555)	(19,110)
Gain on disposal of fixed assets	-	8,864
Non-deductible expense	<u>-</u>	<u>(340)</u>
TOTAL OTHER INCOME (EXPENSES)	<u>(6,162)</u>	<u>(10,586)</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>(6,164)</u>	<u>169,132</u>
INCOME TAX EXPENSE (CREDIT) (Note 1 and 8)		
Current tax expense (credit)	<u>(928)</u>	<u>39,517</u>
TOTAL INCOME TAX EXPENSE (CREDIT)	<u>(928)</u>	<u>39,517</u>
NET INCOME (LOSS)	(5,236)	129,615
RETAINED EARNINGS, beginning of year	<u>472,862</u>	<u>343,247</u>
RETAINED EARNINGS, end of year	<u>\$ 467,626</u>	<u>\$ 472,862</u>

See accompanying notes and independent accountants' review report

SERVICE PRINTERS HAWAII, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (5,236)	\$ 129,615
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	55,617	123,367
Gain on disposal of fixed assets	-	(8,864)
(Increase) decrease in:		
Accounts receivable	(9,607)	44,134
Customer postage receivable	2,271	(10,400)
Prepaid expenses	39,701	(24,389)
Income tax refund receivable	(7,896)	31,710
Deferred income tax benefit	(928)	7,806
Other assets	10,140	-
Increase (decrease) in:		
Short - term notes payable	(3,856)	359
Line of credit	(31)	-
Trade accounts payable	(80,168)	46,764
Customer postage payable	-	(26)
Accrued salaries and wages	(7,647)	13,288
Accrued profit sharing contribution	(20,899)	21,030
Accrued expenses	4,931	7,373
Total adjustments and changes	(18,372)	252,152
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(23,608)	381,767
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(26,966)	(138,754)
Proceeds from the sale of fixed assets	-	10,000
NET CASH USED BY INVESTING ACTIVITIES	(26,966)	(128,754)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments under long - term debt	(125,243)	(119,313)
Proceeds from long - term debt	48,500	49,651
NET CASH USED BY FINANCING ACTIVITIES	(76,743)	(69,662)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(127,317)	183,351
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	186,991	3,640
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 59,674	\$ 186,991

See accompanying notes and independent accountants' review report

SERVICE PRINTERS HAWAII, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	<u>\$ 6,555</u>	<u>\$ 19,110</u>
Income taxes	<u>\$ 7,896</u>	<u>\$ -</u>

See accompanying notes and independent accountants' review report

SERVICE PRINTERS HAWAII, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014

(1) Summary of significant accounting policies

The significant accounting policies followed by the Company are summarized below:

Nature of operations - The Company is engaged in commercial printing and produces color brochures, multi-page publications, advertising materials, graphic art representations, stationary, and other forms of printed publications. The Company's clients are in various industries in the State of Hawaii and include hotels, labor unions, health care providers, retail businesses, and advertising agencies. The Company grants credit to its clients and consequently, the Company's ability to collect the amounts due from clients is affected by economic fluctuations in those industries.

Property and equipment - Property and equipment are stated at cost. Depreciation of machinery and equipment is computed by the straight-line and double-declining-balance methods over useful lives of 5 - 7 years. Vehicles are depreciated by the double-declining-balance methods over a useful life of 5 years. Depreciation of office equipment is computed by the double-declining-balance methods over useful lives of 5 - 7 years. Leasehold improvements are depreciated by the straight-line method over a useful life of 39 years.

Other assets - other assets are stated at cost. Amortization of loan fees and organization costs are computed by the straight-line methods over useful lives of 60 months.

Income taxes - The Company uses the asset and liability method as identified in FASB ASC 740, *Income Taxes*.

Cash equivalents - Holding of highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Estimates - The preparation of the 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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SERVICE PRINTERS HAWAII, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014

(2) Receivables

Receivables consist of the following:

	<u>2015</u>	<u>2014</u>
Trade	\$ 646,453	\$ 638,771
Other receivables	1,939	14
Less allowance for bad debts	<u>(258,771)</u>	<u>(258,771)</u>
Net receivables	<u>\$ 389,621</u>	<u>\$ 380,014</u>

(3) Property and equipment

Property and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Cost		
Machinery and equipment (including \$685,556 of equipment under a capitalized lease in 2005)	\$ 1,535,870	\$ 1,517,407
Vehicles	56,390	56,390
Leasehold improvements	653	653
Office equipment	<u>145,231</u>	<u>136,727</u>
Total cost	1,738,144	1,711,177
Accumulated depreciation	<u>(1,632,949)</u>	<u>(1,577,331)</u>
Net property and equipment	<u>\$ 105,195</u>	<u>\$ 133,846</u>

See independent accountants' review report

SERVICE PRINTERS HAWAII, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014

(3) Property and equipment (continued)

The aggregate depreciation charged to operations is \$55,617 for 2015 and \$123,367 for 2014. The depreciation policies followed by the Company are described in Note (1).

(4) Other assets

Other assets consist of the following:

	<u>2015</u>	<u>2014</u>
Deposits	<u>\$ 10,008</u>	<u>\$ 20,148</u>

(5) Short-term line of credit

The Company has a \$100,000 open line of credit with a bank with interest payable monthly. The credit line is secured by all assets of the Company and the personal guarantee of its officer/shareholder. There was no outstanding drawings for 2015. The outstanding drawings under this line of credit amounted to \$31 for 2014.

See independent accountants' review report

SERVICE PRINTERS HAWAII, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014

(6) Long-term debt

Long-term debt consists of the following:

	<u>2015</u>	<u>2014</u>
Lease obligation payable to a bank in 120 monthly installments of \$7,599.96, including interest, secured by equipment; interest at 6.858% per annum. Final payment of \$7,666.68 due on June 1, 2015.	\$ -	\$ 39,681
Note payable to a bank in 60 monthly installments of \$512.01, including interest, secured by a vehicle; interest at 2.90% per annum. Final payment due on December 27, 2017.	11,927	17,632
Note payable to a bank in 59 monthly installments of \$1,787.02, including interest, secured by accounts, equipment and fixtures; interest at 6.50% per annum. Final payment of \$1,803.36 due on July 26, 2018.	-	68,371
Note payable to a bank in 59 monthly installments of \$904.05, including interest, secured by accounts, equipment and fixtures; interest at 4.49% per annum. Final payment of \$903.49 due on July 30, 2020.	44,854	-
Financing agreement with King Commercial Finance, LLC in 59 monthly installments of \$1,048.76, including interest, secured by equipment; interest at 8.756% per annum. Final payment of \$1,048.76 due on February 1, 2019.	<u>35,965</u>	<u>43,805</u>
Total long-term debt	92,746	169,489
Less current portion	<u>24,833</u>	<u>72,013</u>
Non-current portion	<u>\$ 67,913</u>	<u>\$ 97,476</u>

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SERVICE PRINTERS HAWAII, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014

(6) Long-term debt (continued)

As of December 31, 2015, future maturities of long-term debt principal are as follows:

2016	\$ 24,833
2017	26,328
2018	21,698
2019	13,660
2020	<u>6,227</u>
	<u>\$ 92,746</u>

(7) Leases

The Company subleases, from Service Printers, Inc., the real property on which its operating facilities are situated. The lease was a sixty month non-cancelable operating lease which expired May 31, 2014. The arrangement provided for a basic monthly rental of \$12,567 from June 1, 2009 through May 31, 2011 and \$14,935 from June 1, 2011 through May 31, 2014, plus related taxes and other assessments. The Company is currently on a month to month basis with Service Printers, Inc.

Aggregate rent expense under the operating lease was \$187,665 for 2015 and 2014.

In February, 2010 the Company entered into lease agreements for three copy machines under two separate four-year operating agreements. The agreements provide for a monthly payment of \$1,904, plus applicable taxes.

In March, 2014 the Company entered into a lease agreement for two copy machines under a five-year operating agreement. The agreement provides for a monthly payment of \$2,356, plus applicable taxes.

Aggregate lease expense for the copy machines under operating leases was \$30,216 for 2015 and \$31,269 for 2014.

See independent accountants' review report

SERVICE PRINTERS HAWAII, INC.

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014

(7) Leases (continued)

Future minimum lease payments under these operating leases as of December 31, 2015 is as follows:

2016	\$ 29,599
2017	29,599
2018	29,599
2019	7,400
2020	<u>-</u>
	<u>\$ 96,197</u>

(8) Income taxes

Income tax expense consists of the following components:

	<u>2015</u>	<u>2014</u>
Current due	\$ -	\$ 31,710
Deferred	<u>(928)</u>	<u>7,807</u>
	<u>\$ (928)</u>	<u>\$ 39,517</u>

(9) Employees' profit sharing

The Company has a profit sharing plan in which non-union employees with a year of service with the Company are eligible for participation. The profit sharing plan provides for the Company to make a safe harbor contribution of 3% of annual compensation. Additional contributions to the profit sharing plan are at the discretion of the Company and are deposited with a trustee annually. Contributions made to the plan were \$11,596 for 2015 and \$30,666 for 2014.

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SERVICE PRINTERS HAWAII, INC.
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(10) Fair values of financial instruments

The following methods and assumptions were used to estimate the fair value of financial instruments.

Cash and cash equivalents - The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable and accounts payable - The carrying amount of accounts receivable and accounts payable in the balance sheet approximates fair value.

Short-term and long-term debt - The carrying amount of the notes payable approximates fair value.

(11) Concentrations of credit risk

The Company maintains several bank accounts at one bank. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. There was no uninsured cash as of December 31, 2015 and 2014.

See independent accountants' review report

SUPPLEMENTARY INFORMATION

SERVICE PRINTERS HAWAII, INC.

COST OF GOODS SOLD

Years Ended December 31, 2015 and 2014

	2015	2014
Direct labor	\$ 512,040	\$ 567,186
Direct materials	639,694	904,894
Other direct costs	255,647	508,537
Distribution cost	41,315	45,858
General excise tax	<u>124,724</u>	<u>167,982</u>
 TOTAL COST OF GOODS SOLD	 \$ <u>1,573,420</u>	 \$ <u>2,194,457</u>
 % OF NET SALES	 <u>51.6</u>	 <u>54.4</u>

OPERATING EXPENSES

Office salaries	\$ 462,550	\$ 486,651
Payroll taxes	85,217	92,593
Fringe benefits	202,659	206,472
Workers' compensation insurance	21,187	22,701
Accounting	31,879	33,626
Auto expense	8,014	9,885
Bad debts	432	22,857
Bank and credit card service fees	16,030	30,966
Charitable contributions	50	1,975
Data processing	8,771	6,882
Depreciation	55,617	123,367
Dues and subscriptions	3,865	1,228
Entertainment	2,764	1,437
Insurance - general lines	26,315	26,465
Legal	5,994	11,608
Office supplies and expenses	9,333	9,006
Other consultants	6,657	13,122
Profit sharing plan contribution	11,596	30,666
Promotion	7,084	5,660
Real property taxes	30,743	29,164
Rental - premises	187,665	187,665
Rental - equipment	38,993	20,027
Repairs and maintenance	145,287	145,614
Telephone	15,782	15,429
Temporary hire agency	4,342	-
Trash removal	6,285	6,597
Travel	1,020	-
Utilities	80,708	115,374
Other	<u>1,961</u>	<u>1,641</u>
 TOTAL OPERATING EXPENSES	 \$ <u>1,478,800</u>	 \$ <u>1,658,678</u>
 % OF NET SALES	 <u>48.5</u>	 <u>41.1</u>

See independent accountants' review report