

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION
Financial Statements and Audit Opinion
For the Years Ended June 30, 2011 & 2010

Ron Dolan, CPA & Associates, Inc.
An Accountancy Corporation
16A Railroad Avenue
Hilo, HI 96720

Independent Auditor's Report

To the Board of Directors of
The Hawaiian Paradise Park Owners Association

We have audited the accompanying statement of financial position of Hawaiian Paradise Park Owners Association (a nonprofit organization) as of June 30, 2011 and 2010, and the related statement of activities and changes in net assets for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawaiian Paradise Park Owners Association (a nonprofit organization) as of June 30, 2011 and 2010, and the results of its activities and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Ron Dolan, CPA & Associates, Inc.
September 15, 2011

Hawaiian Paradise Park Owners Association
Statement of Financial Position
As of June 30, 2011

	Notes	General	Roads	Property	Total 06/30/11	Total 06/30/10
Assets						
Current Assets						
Petty Cash		300			300	300
Cash - Checking		113,709	76,307		190,016	101,299
Cash - Savings Accounts			1,008,490		1,008,490	967,204
Cash - Money Market Funds & Commercial Paper			531,539	5,441,192	5,972,731	6,121,045
Cash - Certificate Deposits		66,396	106,059		172,455	171,308
Total Cash	6	180,405	1,722,395	5,441,192	7,343,992	7,361,156
Receivables, Net of Allowance						
Other Receivable	7		733,236		733,236	595,326
Payroll Security Deposit			0		0	14,809
Other Prepaid			10,300		10,300	0
Prepaid Insurance		0	29,694		29,694	0
Current Assets		180,405	2,495,832	5,441,192	8,117,429	8,003,739
Fixed Assets:						
Building & Building Improvements				352,741	352,741	320,017
Road Improvements				9,037,738	9,037,738	8,833,525
Land Improvements				54,087	54,087	54,087
Equipment				606,817	606,817	582,075
Less Accumulated Depreciation				10,051,383	10,051,383	9,789,704
Total Net Fixed Assets				(2,901,807)	(2,901,807)	(2,443,469)
				7,149,576	7,149,576	7,346,235
Investment - Capital Corp. Investment Agreement						
Prepaid Bond Expenses	6			1,239,015	1,239,015	1,239,015
Land				405,821	405,821	431,483
				78,732	78,732	78,732
Total Assets		180,405	2,495,832	14,314,336	16,990,573	17,099,204

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Financial Position
As of June 30, 2011

	Notes	General	Roads	Property	Total 06/30/11	Total 06/30/10
Liabilities & Net Assets						
Current Liabilities						
Account Payable			26,542		26,542	94,014
Retainage Payable				135,442	135,442	131,479
Deferred Charges - Future Road Fees	8		1,043,460		1,043,460	946,607
Prepaid Road Fees					0	3,757
Accrued Payable			10,322		10,322	39,488
Interest Payable				418,141	418,141	418,141
Other Liabilities						
Activity Center Deposits		5,250			5,250	6,060
Coqui Eradication Fund		14,820			14,820	14,820
Total Current Liabilities		20,070	1,080,324	553,583	1,653,977	1,654,366
Noncurrent Liabilities						
Bond Payable	9			11,985,000	11,985,000	12,085,000
Total Liabilities		20,070	1,080,324	12,538,583	13,638,977	13,739,366
Net Assets						
Current Unrestricted		111,927	1,415,508	1,769,034	3,296,469	3,304,711
Current Restricted		48,408	0	6,719	55,127	55,127
Total Net Assets		160,335	1,415,508	1,775,753	3,351,596	3,359,838
Total Liabilities & Net Assets		180,405	2,495,832	14,314,336	16,990,573	17,099,204

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Activities & Changes in Net Assets
For the Year ended June 30, 2011

	Notes	General	Roads	Property	Total 06/30/11	Total 06/30/10
Revenues						
Road Fees			1,999,510		\$1,999,510	\$1,807,114
Road Fees Interest			85,636		85,636	64,642
Bank Interest & Dividend	10		2,208	61,309	63,527	76,971
Transfer Fees			63,373		63,373	63,875
Activities Center Income		20,649			20,649	12,995
Lien Fees			14,825		14,825	12,025
Recovered Foreclosure Costs			11,272		11,272	80,511
Misc. Income		4,511	155		4,666	4,690
Unrealized Gain/Loss on Investment					0	253
Realized Gain/Loss on Investment					0	20
Total Revenues	1,3	25,170	2,176,979	61,309	2,263,458	2,123,096
Expenses						
Bond Interest Expense				836,282	836,282	836,282
Depreciation	1			458,339	458,339	449,966
Personnel & Payroll Taxes		10,126	311,912		322,038	312,848
Direct Road Maintenance			271,196		271,196	294,110
Vehicle & Equipment Expense			67,580		67,580	75,520
Shoulder Maintenance			63,004		63,004	62,917
Insurance		595	43,064		43,659	72,672
Employee Benefits			38,358		38,358	18,566
Office Supplies & Expenses		245	36,826		37,071	60,952
Road Improvements Exp. through Bond				29,757	29,757	38,548
Professional & Legal Fees		0	29,506		29,506	23,018
Bad Debt			22,865		22,865	35,429
Lien & Foreclosure Expenses			18,033		18,033	31,722
Property Expense		850	15,219		16,069	11,449
Activity Center Expense		11,998			11,998	14,781
Shop Supplies & Expenses			5,945		5,945	8,304
Total Expenses		23,814	923,508	1,324,378	2,271,700	2,347,084
Revenues over Expenses		1,356	1,253,471	(1,263,069)	(8,242)	(223,988)
Beginning Net Assets		125,073	1,246,729	1,988,036	3,359,838	3,583,826
Interfund transfers		33,906	(1,084,692)	1,050,786	0	0
Ending Net Assets		160,335	1,415,508	1,775,753	3,351,596	3,359,838

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Cash Flows
For the Year ended June 30, 2011

	Notes	General	Roads	Property	Total 06/30/11	Total 06/30/10
Cash provided (used) by:						
Operating Activities						
Excess of revenue over expense		1,356	1,253,471	(1,263,069)	(8,242)	(223,988)
Items not involving cash						
Depreciation	1			458,339	458,339	449,966
Subtotal		1,356	1,253,471	(804,730)	450,097	225,978
Changes in noncash balances						
Receivables	7		(123,101)		(123,101)	(175,550)
Prepaid Expenses			2,754		2,754	12,541
Other Prepaid & Payroll Security Deposit			(10,507)		(10,507)	0
Deposits Payable		(810)			(810)	3,825
Prepaid Bond Expenses				25,662	25,662	28,207
Accounts Payable		(130)	(5,026)	(62,316)	(67,472)	(185,953)
Retainage Payable				3,963	3,963	115,828
Deferred Charges	8		96,853		96,853	95,830
Accrued Payable			(29,166)		(29,166)	23,340
Other Liabilities		0	(3,757)		(3,757)	0
		416	1,181,521	(837,421)	344,516	144,046
Investing Activities						
Purchases of Equipment				(32,724)	(32,724)	(3,803)
Purchases of Building Improvement				(24,742)	(24,742)	(17,548)
Purchases of Road Improvement				(204,214)	(204,214)	(3,174,846)
Financing Activities						
Borrowings	9				0	0
Loan Repayment				(100,000)	(100,000)	0
Interfund Transfers		33,906	(1,084,692)	1,050,786	0	0
Increase (decrease) in cash		34,322	96,829	(148,315)	(17,164)	(3,052,151)
Cash, beginning of year		146,083	1,625,566	5,589,507	7,361,156	10,413,307
Cash, end of year	6	180,405	1,722,395	5,441,192	7,343,992	7,361,156

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2011

1. Nature of Organization

General

Hawaiian Paradise Park Owners Association (HPPOA) which was formerly known as (fka) Paradise Hui Hanalike (the Hui) is a private nonprofit membership corporation. It was incorporated on December 22, 1972, under the laws of the State of Hawaii. The HPPOA is an owner association serving the property owners of Hawaiian Paradise Park, a subdivision located in the Puna District of the County of Hawaii, State of Hawaii. The HPPOA is responsible for maintaining approximately 147 miles of roadways and 191 acres of real property for the benefit of the owners of the subdivision's 8,835 lots. It was organized for the purpose of promoting the welfare, beauty and safety of the subdivision.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in United States of America.

Fund Accounting

In order to observe the limitations and restrictions placed on the use of resources available to the HPPOA, the accounts of the HPPOA are maintained in accordance with the principles of fund accounting. The assets, liabilities, and net assets of the HPPOA are reported in three self-balancing fund groups as follows:

The current unrestricted fund represents operating resources over which the governing board of directors has discretionary control. Such resources arise from membership fees, fund-raising, rent and contributions upon which the donor has placed no restriction.

The current restricted fund is used to account for those resources that are currently available for use but expendable only for operating purposes specified by the assessment or donor.

The property and equipment fund represents the net investment in property and equipment. Current funds used for property acquisitions are accounted for as transfers to the property and equipment fund.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2011

2. Summary of Significant Accounting Policies - Continued

Income Taxes

Hawaiian Paradise Park Owners Association is determined to be a tax-exempt organization under Section 501(c)(4) of the U.S. Internal Revenue Code. The HPPOA is recognized to be exempt from Federal and State income taxes.

Property and Depreciation

Property is stated at cost or at value established by the Board of Directors at date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the properties.

Lease

Leases that transfer substantially all of the benefits and risks of ownership are classified capital leases. All other leases are shown as operating leases.

Contributions

All contributions are considered available for unrestricted use unless specifically restricted by the donor.

Donated Materials

The HPPOA assigns values to donated materials based on historical cost or fair value at the date of gift if it can be determined in the absence of adequate cost records.

Donated Services

Volunteers provide assistance to the HPPOA for various program and support activities. The HPPOA assigns values to such services performed when such services would otherwise be performed by salaried personnel. No amounts have been reflected in the accompanying financial statements for donated services in as much as no objective basis is available to measure the value of such donated services; however, a substantial number of volunteers have donated significant amounts of their time to the organization.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2011

3. Road Maintenance Fund

The HPPOA is responsible for the maintenance of approximately 147 miles of roadways in the Hawaiian Paradise Park Subdivision. These activities are funded through the mandatory road maintenance assessments paid by the property owners of Hawaiian Paradise Park Owners Association. For the fiscal year ending June 30, 2011 road fees were assessed in January 2011 at a rate of \$238.25 per lot - base fee.

Fiscal year ending:	<u>2011</u>	<u>2010</u>
Road fees	1,999,510	1,807,114
Interest	85,636	64,642
Liens assessed and collected	<u>14,825</u>	<u>12,025</u>
Total road fees	<u>2,099,971</u>	<u>1,883,781</u>

4. Transfer of Road Maintenance Fund

The HPPOA amended the Bylaws on June 12, 2004. The amended Bylaws requires \$24,000 of road maintenance funds to be transferred to the General Fund for the administration purposes for the fiscal year 2004-2005. Thereafter, the amount of transfer which should not exceed 5% of road maintenance funds collected in that year is determined annually by the Board. In June 2011, the Board approved to transfer the amount of \$10,000 to the General Fund for 2011.

5. Property Fund

The property and equipment fund represents the net investment, at cost, in property and equipment. During the period under audit the corporation spent \$32,724 on equipment, \$24,742 on building improvement, and \$204,214 on road improvement.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2011

6. Cash

The HPPOA maintains several cash accounts at banks. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. However, the amount of \$5,441,192 at Union Bank of CA is subject to a trust indenture effective June 21, 2007. This is the remaining proceeds received from the revenue bond issuance. See note #9 for more information. The HPPOA's uninsured cash balances not including these trust funds total \$1,296,441 and \$1,166,569 as of June 30, 2011 and 2010.

Cash balances as of June 30, 2011 are as follows:

	<u>General</u>	<u>Roads</u>	<u>Property</u>	<u>Total</u>
Cash - FHB	113,709	1,084,797		1,198,506
Cash - Homestreet Bank		106,059		106,059
Cash - Morgan Stanley	66,396	531,539		597,935
Cash - Union Bank of CA			5,441,192	5,441,192
Cash - On hand (petty cash)	300			300
	<u>180,405</u>	<u>1,722,395</u>	<u>5,441,192</u>	<u>7,343,992</u>

The HPPOA holds a corporation investment agreement of \$1,208,500 in the debt service reserve fund at Union Bank of CA. The interest of this agreement is 5.050% and the maturity date is 12/31/2026. The HPPOA intends to hold it until it matures.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2011

7. Assessment Receivables

Assessment receivable balances as of June 30, 2011 and 2010 respectively are:

	<u>2011</u>	<u>2010</u>
Assessments Receivable	1,326,236	1,139,326
Allowance-Doubtful Accounts	<u>(593,000)</u>	<u>(544,000)</u>
Total	<u>733,236</u>	<u>595,326</u>

During the year, the HPPOA charged operations \$22,865 and \$35,429 as bad debt expense in 2011 and 2010 for additions to the allowance for doubtful accounts for old amounts that may not be collectible.

8. Net Assets - Adjustment for Reporting Deferred Charges

The amounts billed but not recognized are shown as “Deferred Charges- Future Road Fees” in the amounts of \$1,043,460 and \$946,607 for the years ended June 30, 2011 and 2010, respectively. The amount of deferred charges represents 50% of the road fees which are billed in January each year.

9. Bonds Payable

On June 21, 2007, the HPPOA issued \$12,085,000 in revenue bonds (Series 2007 Revenue Bonds) to fund the construction of major improvements (primarily paving) to HPPOA’s roadways. The trustee of the bond issue is Union Bank of California. The bond issue is at 6.92% interest rate per annum. The interest is payable on every January 1 and July 1 of each year. The maturity of the bond issue is on January 1, 2027. The bond issue is subject to optional redemption at the direction of the issuer, at any time on and after January 1, 2018, as a whole or in part, at a redemption price equals to 102% of the principal amount to be redeemed plus accrued interest to the redemption date.

Annual maturities of bond payable are as follows:

Year ending June 30,		
2012	\$	235,000
2013		365,000
2014		405,000
2015		455,000
2016		505,000
Thereafter		<u>10,020,000</u>
Total		<u>11,985,000</u>

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2011

10. Lease Commitments

The corporation leases 20-acres of land to Malamalama School, Inc. under the terms of a 99-year lease which began June 1, 1980. Under the current lease terms in effect, rent is payable monthly at a rate of \$1 per student enrolled while school is in session. When school is not in session, no rent is due or payable. During the current fiscal year rents received under this lease were \$2,688. After the fifth year, and at intervals of every ten years thereafter, the rental is subject to renegotiation. The lease expires May 31, 2079.

11. Related Party Transaction

The Road Supervisor owns Kalaheo Trucking, LLC. HPPOA paid this Company for truck rental and material in the amounts of \$121,580 and \$103,134 for the years ended June 30, 2011 and 2010, respectively.