

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION
Financial Statements and Audit Opinion
For the Years Ended June 30, 2012 & 2011

Ron Dolan, CPA & Associates, Inc.
An Accountancy Corporation
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Hawaiian Paradise Park Owners Association

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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, 2012 and 2011, and the related statement of activities and changes in net assets, and the statement of cash flows 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, 2012 and 2011, 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.
August 22, 2012

Hawaiian Paradise Park Owners Association
Statement of Financial Position
As of June 30, 2012

	Notes	General	Roads	Property	Total 06/30/12	Total 06/30/11
Assets						
Current Assets						
Petty Cash		300			300	300
Cash - Checking		119,203	97,675		216,878	190,016
Cash - Savings Accounts			1,227,501		1,227,501	1,008,490
Cash - Money Market Funds & Commercial Paper			531,447	3,783,415	4,314,862	5,972,731
Cash - Certificate Deposits		66,254	106,446		172,700	172,455
Total Cash	6	185,757	1,963,069	3,783,415	5,932,241	7,343,992
Receivables, Net of Allowance						
Payroll Security Deposit			863,139		863,139	733,236
Other Prepaid			0		0	10,300
Prepaid Insurance		0	3,048		3,048	207
Total		0	21,249		21,249	29,694
Current Assets		185,757	2,850,505	3,783,415	6,819,677	8,117,429
Fixed Assets:						
Construction In Progress				2,097,444	2,097,444	0
Building & Building Improvements				352,741	352,741	352,741
Road Improvements				9,037,738	9,037,738	9,037,738
Land Improvements				54,087	54,087	54,087
Equipment				629,574	629,574	606,817
				12,171,584	12,171,584	10,051,383
Less Accumulated Depreciation				(3,527,732)	(3,527,732)	(2,901,807)
Total Net Fixed Assets				8,643,852	8,643,852	7,149,576
Investment - Capital Corp. Investment Agreement						
Prepaid Bond Expenses	6			1,238,845	1,238,845	1,239,015
Land				377,368	377,368	405,821
				78,732	78,732	78,732
Total Assets		185,757	2,850,505	14,122,212	17,158,474	16,990,573

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Financial Position
As of June 30, 2012

	Notes	General	Roads	Property	Total 06/30/12	Total 06/30/11
Liabilities & Net Assets						
Current Liabilities						
Account Payable			393,401		393,401	26,542
Credit Card Payable			2,422		2,422	0
Retainage Payable				103,884	103,884	135,442
Deferred Charges - Future Road Fees	8		1,143,494		1,143,494	1,043,460
Accrued Payable			35,745		35,745	10,322
Interest Payable				406,550	406,550	418,141
Other Liabilities						
Activity Center Deposits		3,300			3,300	5,250
Coqui Eradication Fund		15,419			15,419	14,820
Total Current Liabilities		18,719	1,575,062	510,434	2,104,215	1,653,977
Noncurrent Liabilities						
Bond Payable	9			11,750,000	11,750,000	11,985,000
Total Liabilities		18,719	1,575,062	12,260,434	13,854,215	13,638,977
Net Assets						
Current Unrestricted		118,630	1,275,443	1,855,059	3,249,132	3,296,469
Current Restricted		48,408	0	6,719	55,127	55,127
Total Net Assets		167,038	1,275,443	1,861,778	3,304,259	3,351,596
Total Liabilities & Net Assets						
		185,757	2,850,505	14,122,212	17,158,474	16,990,573

Hawaiian Paradise Park Owners Association
Statement of Activities & Changes in Net Assets
For the Year ended June 30, 2012

	Notes	General	Roads	Property	Total 06/30/12	Total 06/30/11
Revenues						
Road Fees			2,185,119		\$2,185,119	\$1,999,510
Road Fees Interest			95,566		95,566	85,636
Transfer Fees			68,000		68,000	63,373
Bank Interest & Dividend			1,128	61,351	62,479	63,527
Lien Fees			45,300		45,300	14,825
Activities Center Income		23,191			23,191	20,649
Misc. Income		4,780	2,115		6,895	4,666
Recovered Foreclosure Costs			5,604		5,604	11,272
Total Revenues	1,3	27,971	2,402,832	61,351	2,492,154	2,263,458
Expenses						
Bond Interest Expense				817,771	817,771	836,282
Depreciation	1			625,924	625,924	458,339
Personnel & Payroll Taxes		7,025	317,430		324,455	322,038
Direct Road Maintenance			315,355		315,355	271,196
Bad Debt			136,036		136,036	22,865
Vehicle & Equipment Expense			85,665		85,665	67,580
Insurance		590	43,824		44,414	43,659
Office Supplies & Expenses			37,707		37,707	37,071
Employee Benefits			34,127		34,127	38,358
Road Improvements Exp. through Bond				29,374	29,374	29,757
Shoulder Maintenance			28,979		28,979	63,004
Professional & Legal Fees		150	22,328		22,478	29,506
Property Expense		850	14,538		15,388	16,069
Lien & Foreclosure Expenses			9,451		9,451	18,033
Activity Center Expense		8,650			8,650	11,998
Shop Supplies & Expenses			3,717		3,717	5,945
Total Expenses		17,265	1,049,157	1,473,069	2,539,491	2,271,700
Revenues over Expenses		10,706	1,353,675	(1,411,718)	(47,337)	(8,242)
Beginning Net Assets		160,335	1,415,508	1,775,753	3,351,596	3,359,838
Interfund transfers		(4,003)	(1,493,740)	1,497,743	0	0
Ending Net Assets		167,038	1,275,443	1,861,778	3,304,259	3,351,596

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Cash Flows
For the Year ended June 30, 2012

	Notes	General	Roads	Property	Total 06/30/12	Total 06/30/11
Cash provided (used) by:						
Operating Activities						
Excess of revenue over expense		10,706	1,353,675	(1,411,718)	(47,337)	(8,242)
Items not involving cash						
Depreciation	1			625,924	625,924	458,339
Subtotal		10,706	1,353,675	(785,794)	578,587	450,097
Changes in noncash balances						
Receivables	7		(129,903)		(129,903)	(123,101)
Prepaid Expenses			8,445		8,445	2,754
Other Prepaid & Payroll Security Deposit			7,459		7,459	(10,507)
Deposits Payable		(1,351)			(1,351)	(810)
Prepaid Bond Expenses				28,453	28,453	25,662
Accounts & Credit Card Payable			369,281		369,281	(67,472)
Retainage Payable				(31,558)	(31,558)	3,963
Interest Payable				(11,591)	(11,591)	0
Deferred Charges	8		100,034		100,034	96,853
Accrued Payable			25,423		25,423	(29,166)
Other Liabilities		0	0		0	(3,757)
		9,355	1,734,414	(800,490)	943,279	344,516
Investing Activities						
Gain on Investment				171	171	0
Purchases of Equipment				(22,757)	(22,757)	(32,724)
Purchases of Building Improvement				0	0	(24,742)
Purchases of Road Improvement				(2,097,444)	(2,097,444)	(204,214)
Financing Activities						
Borrowings	9				0	0
Loan Repayment				(235,000)	(235,000)	(100,000)
Interfund Transfers		(4,003)	(1,493,740)	1,497,743	0	0
Increase (decrease) in cash		5,352	240,674	(1,657,777)	(1,411,751)	(17,164)
Cash, beginning of year		180,405	1,722,395	5,441,192	7,343,992	7,361,156
Cash, end of year	6	185,757	1,963,069	3,783,415	5,932,241	7,343,992

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2012

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, 2012

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, 2012

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, 2012 road fees were assessed in January 2012 at a rate of \$262.00 per lot - base fee.

Fiscal year ending:	<u>2012</u>	<u>2011</u>
Road fees	2,185,119	1,999,510
Interest	95,566	85,636
Liens assessed and collected	<u>45,300</u>	<u>14,825</u>
Total road fees	<u>2,325,985</u>	<u>2,099,971</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 2012, the Board approved to transfer the amount of \$10,000 to the General Fund.

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 \$22,757 on equipment and \$2,097,444 on road improvement.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2012

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 \$3,783,415 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 \$1,542,080 and \$1,296,441 as of June 30, 2012 and 2011.

Cash balances as of June 30, 2012 are as follows:

	<u>General</u>	<u>Roads</u>	<u>Property</u>	<u>Total</u>
Cash - FHB	119,203	1,325,176		1,444,379
Cash - Homestreet Bank		106,446		106,446
Cash - Morgan Stanley	66,254	531,447		597,701
Cash - Union Bank of CA			3,783,415	3,783,415
Cash - On hand (petty cash)	300			300
	<u>185,757</u>	<u>1,963,069</u>	<u>3,783,415</u>	<u>5,932,241</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, 2012

7. Assessment Receivables

Assessment receivable balances as of June 30, 2012 and 2011 respectively are:

	<u>2012</u>	<u>2011</u>
Assessments Receivable	1,589,139	1,326,236
Allowance-Doubtful Accounts	<u>(726,000)</u>	<u>(593,000)</u>
Total	<u>863,139</u>	<u>733,236</u>

During the year, the HPPOA charged operations \$136,036 and \$22,865 as bad debt expense in 2012 and 2011 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 \$1,143,494 and \$1,043,460 for the years ended June 30, 2012 and 2011, 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,	
2013	\$ 365,000
2014	405,000
2015	455,000
2016	505,000
2017	560,000
Thereafter	<u>9,460,000</u>
Total	<u>11,750,000</u>

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2012

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 \$2,844. 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 \$26,047 and \$121,580 for the years ended June 30, 2012 and 2011, respectively.