HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Financial Statements and Audit Opinion
For the Years Ended June 30, 2013 & 2012

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An Accountancy Corporation
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Hilo, HI 96720

Hawaiian Paradise Park Owners Association

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Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of Hawaiian Paradise Park Owners Association (a nonprofit organization) as of June 30, 2013 and 2012 which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statement of activities & changes in net assets, and statement of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 entity'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 entity'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, as well as evaluating the overall presentation of the financial statements.

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

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 as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ron Dolan, CPA & Associates, Inc.
Hilo, Hawaii
September 5, 2013

Hawaiian Paradise Park Owners Association
Statement of Financial Position
As of June 30, 2013

	Notes	General	Roads	Property	Total 06/30/13	Total 06/30/12
Assets						
Current Assets						
Petty Cash			295		**295**	300
Cash - Checking		113,750	66,139		**179,889**	216,878
Cash - Savings Accounts		15,424	1,370,926		**1,386,350**	1,227,501
Cash - Money Market Funds & Commercial Paper		66,111	638,326	2,743,121	**3,447,558**	4,314,862
Cash - Certificate Deposits					**0**	172,700
Total Cash	6	195,285	2,075,686	2,743,121	**5,014,092**	5,932,241
Receivables, Net of Allowance	7		1,064,206		**1,064,206**	863,139
Other Prepaid			3,048		**3,048**	3,048
Prepaid Insurance		0	29,713		**29,713**	21,249
Current Assets		195,285	3,172,653	2,743,121	**6,111,059**	6,819,677
Fixed Assets:						
Construction In Progress				2,701,628	**2,701,628**	2,097,444
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				630,581	**630,581**	629,574
				12,776,775	**12,776,775**	12,171,584
Less Accumulated Depreciation				(4,141,535)	**(4,141,535)**	(3,527,732)
Total Net Fixed Assets				8,635,240	**8,635,240**	8,643,852
Investment - Capital Corp. Investment Agreement	6			1,238,676	**1,238,676**	1,238,845
Prepaid Bond Expenses				352,210	**352,210**	377,368
Land				95,037	**95,037**	78,732
Total Assets		195,285	3,172,653	13,064,284	**16,432,222**	17,158,474

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Financial Position
As of June 30, 2013

	Notes	General	Roads	Property	Total 06/30/13	Total 06/30/12
Liabilities & Net Assets						
Current Liabilities						
Account Payable		3,675	36,051		**39,726**	393,401
Credit Card Payable			1,383		**1,383**	2,422
Retainage Payable				4,029	**4,029**	103,884
Deferred Charges - Future Road Fees	8		1,201,200		**1,201,200**	1,143,494
Accrued Payable		866	37,924		**38,790**	35,745
Interest Payable				393,921	**393,921**	406,550
Other Liabilities						
Activity Center Deposits		3,600			**3,600**	3,300
Coqui Eradication Fund					**0**	15,419
Total Current Liabilities		8,141	1,276,558	397,950	**1,682,649**	2,104,215
Noncurrent Liabilities						
Bond Payable	9			11,385,000	**11,385,000**	11,750,000
Total Liabilities		8,141	1,276,558	11,782,950	**13,067,649**	13,854,215
Net Assets						
Current Unrestricted		123,312	1,721,458	1,274,615	**3,119,385**	3,249,132
Current Restricted		63,832	174,637	6,719	**245,188**	55,127
Total Net Assets		187,144	1,896,095	1,281,334	**3,364,573**	3,304,259
Total Liabilities & Net Assets		195,285	3,172,653	13,064,284	**16,432,222**	17,158,474

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Activities & Changes in Net Assets
For the Year ended June 30, 2013

	Notes	General	Roads	Property	Total 06/30/13	Total 06/30/12
Revenues						
Road Fees			2,287,827		**$2,287,827**	$2,185,119
Road Fees Interest			117,953		**117,953**	95,566
Transfer Fees			70,400		**70,400**	68,000
Bank Interest & Dividend			1,318	61,319	**62,637**	62,479
Misc. Income		21,132	1,693		**22,825**	6,895
Activities Center Income		18,358			**18,358**	23,191
Lien Fees			14,250		**14,250**	45,300
Recovered Foreclosure, Legal Costs & Fees			4,155		**4,155**	5,604
Total Revenues	1,3	39,490	2,497,596	61,319	**2,598,405**	2,492,154
Expenses						
Bond Interest Expense				800,471	**800,471**	817,771
Depreciation	1			614,749	**614,749**	625,924
Personnel & Payroll Taxes		17,706	303,075		**320,781**	324,455
Direct Road Maintenance			308,755		**308,755**	315,355
Bad Debt			185,939		**185,939**	136,036
Vehicle & Equipment Expense			71,506		**71,506**	85,665
Office Supplies & Expenses		199	44,347		**44,546**	37,707
Insurance		586	41,208		**41,794**	44,414
Employee Benefits			41,337		**41,337**	34,127
Professional & Legal Fees			31,375		**31,375**	22,478
Road Improvements Exp. through Bond				30,415	**30,415**	29,374
Activity Center Expense		17,304			**17,304**	8,650
Property Expense		850	15,343		**16,193**	15,388
Shoulder Maintenance			5,904		**5,904**	28,979
Shop Supplies & Expenses			4,535		**4,535**	3,717
Misc. Expenses		2,487			**2,487**	0
Lien & Foreclosure Expenses					**0**	9,451
Total Expenses		39,132	1,053,324	1,445,635	**2,538,091**	2,539,491
Revenues over Expenses		358	1,444,272	(1,384,316)	**60,314**	(47,337)
Beginning Net Assets		167,038	1,275,443	1,861,778	**3,304,259**	3,351,596
Interfund transfers		19,748	(823,620)	803,872	**0**	0
Ending Net Assets		187,144	1,896,095	1,281,334	**3,364,573**	3,304,259

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Cash Flows
For the Year ended June 30, 2013

	Notes	General	Roads	Property	Total 06/30/13	Total 06/30/12
Cash provided (used) by:						
Operating Activities						
Excess of revenue over expense		358	1,444,272	(1,384,316)	**60,314**	(47,337)
Items not involving cash						
Depreciation	1			614,749	**614,749**	625,924
Bad Debt Expense			185,939		**185,939**	136,036
Theft Loss				2,591	**2,591**	0
Subtotal		358	1,630,211	(766,976)	**863,593**	714,623
Changes in noncash balances						
Receivables	7		(387,006)		**(387,006)**	(265,939)
Prepaid Expenses			(8,464)		**(8,464)**	8,445
Other Prepaid & Payroll Security Deposit			0		**0**	7,459
Deposits Payable		(15,119)			**(15,119)**	(1,351)
Prepaid Bond Expenses				25,158	**25,158**	28,453
Accounts & Credit Card Payable		3,675	(358,389)		**(354,714)**	369,281
Retainage Payable				(99,855)	**(99,855)**	(31,558)
Interest Payable				(12,629)	**(12,629)**	(11,591)
Deferred Charges	8		57,706		**57,706**	100,034
Accrued Payable		866	2,179		**3,045**	25,423
		(10,220)	936,237	(854,302)	**71,715**	943,279
Investing Activities						
Gain on Investment				169	**169**	171
Purchases of Equipment				(4,544)	**(4,544)**	(22,757)
Construction in Progress				(604,184)	**(604,184)**	(2,097,444)
Purchases of Land				(16,305)	**(16,305)**	0
Financing Activities						
Loan Repayment				(365,000)	**(365,000)**	(235,000)
Interfund Transfers		19,748	(823,620)	803,872	**0**	0
Increase (decrease) in cash		9,528	112,617	(1,040,294)	**(918,149)**	(1,411,751)
Cash, beginning of year		185,757	1,963,069	3,783,415	**5,932,241**	7,343,992
Cash, end of year	6	195,285	2,075,686	2,743,121	**5,014,092**	5,932,241

See Accompanying Notes to Financial Statements

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.

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.

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, 2013 road fees were assessed in January 2013 at a rate of $275.00 per lot - base fee.

Fiscal year ending:	2013	2012
Road fees	2,340,267	2,185,119
Discount given	(52,440)	0
Interest	117,953	95,566
Liens assessed and collected	14,250	45,300
Total road fees	2,420,030	2,325,985

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 January 2013, the Board approved to transfer the amount of $20,000 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 $4,544 on equipment, $16,305 on land, and $604,184 on road improvement.

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 $2,743,121 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 $1,663,700 and $1,542,080 as of June 30, 2013 and 2012.

Cash balances as of June 30, 2013 are as follows:

	General	Roads	Property	Total
Cash - FHB	129,174	1,437,065		1,566,239
Cash - Homestreet Bank		106,976		106,976
Cash - Morgan Stanley	66,111	531,350		597,461
Cash - Union Bank of CA			2,743,121	2,743,121
Cash - On hand (petty cash)		295		295
	195,285	2,075,686	2,743,121	5,014,092

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.

7. Assessment Receivables

Assessment receivable balances as of June 30, 2013 and 2012 respectively are:

	2013	2012
Assessments Receivable	1,943,206	1,589,139
Allowance-Doubtful Accounts	(879,000)	(726,000)
Total	1,064,206	863,139

During the year, the HPPOA charged operations $185,939 and $136,036 as bad debt expense in 2013 and 2012 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 $1,201,200 and $1,143,494 for the years ended June 30, 2013 and 2012, 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,		
2014	$	405,000
2015		455,000
2016		505,000
2017		560,000
2018		615,000
Thereafter		8,845,000
Total		11,385,000

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 $3,105. 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 $17,068 and $26,047 for the years ended June 30, 2013 and 2012, respectively.