

**PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION
INDEPENDENT AUDITORS' REPORT
And
FINANCIAL STATEMENTS
FISCAL YEARS ENDED JUNE 30, 2009 AND 2008**

McSwain and Company, PS
Certified Public Accountants

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Independent Auditors' Report

To the Board of Directors and Members
Paradise Service Associates, Inc.
dba Paradise Shores Estate Association
Grapeview, Washington

Charles A. McSwain, CPA
Neil E. Woody, CPA
David Stock, CPA
Jeff Hollingsworth, CPA
Joanne Krusz, CPA

We have audited the accompanying balance sheets of Paradise Service Associates, Inc. dba Paradise Shores Estate Association as of as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in fund balances, and 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 Paradise Service Associates, Inc. dba Paradise Shores Estate Association as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Olympia, Washington
February 26, 2010

McSwain & Company

COMPUTERIZED
BOOKKEEPING

COMPLETE PAYROLL
SERVICE

PAYROLL &
INCOME TAXES

TAX PLANNING
& RETURNS

FINANCIAL
STATEMENTS

BUSINESS
CONSULTING

PENSION PLAN
ADMINISTRATION

ESTATE PLANNING

BUSINESS VALUATION

FUNDS CONTROL

CPA

PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION
BALANCE SHEETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 364,638	\$ 166,084
Assessments receivable	20,253	7,460
Current portion long-term assessments	39,000	-
Prepaid insurance	4,299	3,557
	<u>428,190</u>	<u>177,101</u>
TOTAL CURRENT ASSETS		
	<u>428,190</u>	<u>177,101</u>
PROPERTY AND EQUIPMENT		
Water systems	948,635	217,372
Less accumulated depreciation	<u>-</u>	<u>-</u>
	<u>948,635</u>	<u>217,372</u>
TOTAL PROPERTY AND EQUIPMENT		
	<u>948,635</u>	<u>217,372</u>
OTHER ASSETS		
Special assessments water system long-term, net of current portion	156,679	-
Loan fees, net of accumulated amortization	<u>3,084</u>	<u>-</u>
	<u>159,763</u>	<u>-</u>
TOTAL OTHER ASSETS		
	<u>159,763</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 1,536,588</u></u>	<u><u>\$ 394,473</u></u>

PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION
BALANCE SHEETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable	\$ 189,149	\$ -
Accrued interest payable	817	-
Payroll taxes payable	1,667	995
Accrued federal taxes payable	2,143	-
Deferred dues	43,793	8,350
Current portion long-term debt	59,004	-
TOTAL CURRENT LIABILITIES	<u>296,573</u>	<u>9,345</u>
LONG TERM LIABILITIES		
Note payable	280,250	-
Less current portion long-term debt	<u>(59,004)</u>	<u>-</u>
TOTAL LONG TERM LIABILITIES	<u>221,246</u>	<u>-</u>
TOTAL LIABILITIES	<u>517,819</u>	<u>9,345</u>
FUND BALANCE	<u>1,018,769</u>	<u>385,128</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,536,588</u></u>	<u><u>\$ 394,473</u></u>

PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
REVENUES		
Assessments and fees	\$ 694,654	\$ 187,639
Donations	1,696	2,578
Interest	12,268	4,542
Fees and misc	4,886	2,387
TOTAL REVENUE	<u>713,504</u>	<u>197,146</u>
EXPENSES		
Bank charges	248	123
Construction, cost of	545,366	197,419
Construction, reclass to property and equipment	(545,366)	(197,419)
Amortization	220	-
Bad debts	4,260	-
Depreciation	-	-
Insurance	6,145	5,851
Interest	5,024	0
Office supplies and expense	162	502
Postage	1,309	367
Printing	410	1,428
Professional services	8,884	7,175
Repairs and maintainance	12,723	13,479
Salaries	20,386	20,450
Supplies	2,141	2,612
Taxes and licenses	760	378
Taxes, payroll	3,581	1,556
Taxes, property	145	23
Telephone	23	19
Travel	1,291	1,056
Utilities	10,008	8,998
TOTAL EXPENSES	<u>77,720</u>	<u>64,017</u>
EXCESS OF REVENUES		
OVER EXPENSES BEFORE INCOME TAXES	635,784	133,129
Federal income taxes	<u>(2,143)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES		
OVER EXPENSES	633,641	133,129
FUND BALANCE BEGINNING OF YEAR	<u>385,128</u>	<u>251,999</u>
FUND BALANCE END OF YEAR	<u>\$ 1,018,769</u>	<u>\$ 385,128</u>

PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$ 633,641	\$ 133,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation expense	220	-
Changes in assets and liabilities:		
Accounts receivable	(12,793)	(5,473)
Prepaid insurance	(742)	26
Accounts payable	189,149	-
Accrued interest payable	817	-
Payroll taxes payable	672	236
Income taxes payable	2,143	-
Deferred dues	35,443	8,350
Net cash provided by operating activities	848,550	136,268
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(731,263)	(197,419)
Accounts receivable long-term	(195,679)	-
Net cash provided by investing activities	(926,942)	(197,419)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan fees	(3,304)	-
Acquisition of debt	295,000	-
Reduction of debt	(14,750)	-
Net cash provided by financing activities	276,946	-
NET CHANGE IN CASH	198,554	(61,151)
Cash, beginning of year	166,084	227,235
Cash, end of year	\$ 364,638	\$ 166,084
Supplemental Disclosure:		
Cash paid for income taxes	\$ 2,143	\$ -
Cash paid for interest expense	\$ 5,024	\$ -

PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION
Notes to Financial Statements
June 30, 2009 and 2008

NOTE 1 – NATURE OF THE ORGANIZATION

Organization – Paradise Shores Estate Association (The Association) is a homeowners association organized as a corporation for the purposes of operating, maintaining, and preserving common areas of the Association. The Association consists of 228 lots, which includes developed and undeveloped lots. The Association, which is located in Grapeview, Mason County, Washington, was incorporated November 11, 1965. The common areas consist of waterfront park and marina and land for the Association's water system. The value of the common areas is not reflected in the financial statements, as title to these is vested in the individual homeowners on an undivided basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting – The Association uses fund accounting, which requires that funds be classified separately for accounting and reporting purposes. As of June 30, 2009 and 2008, the Association had the following funds:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Basis of Accounting – The Association's accounts are maintained, and financial statements prepared, using the accrual basis of accounting. This basis recognizes revenues when earned and expenses when incurred.

Cash and Cash Equivalents – Cash and cash equivalents include cash and those short-term highly liquid investments with original maturities of one year or less.

Member Assessments – Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. It is the opinion of the board of directors that the Association will ultimately prevail against homeowners with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary.

PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION
Notes to Financial Statements
June 30, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment – Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-line method. The estimated useful lives of the respective assets are:

Water Systems	39 years
Loan Fees	5 years

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

Income Taxes – The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended June 30, 2009 and 2008. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2009 and 2008, consists of:

	2009	2008
Checking	\$ 164,782	\$ 42,709
Savings	96,044	48,343
CD's	61,329	75,109
Total	<u>\$ 322,155</u>	<u>\$ 166,161</u>

PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION
Notes to Financial Statements
June 30, 2009 and 2008

NOTE 4 – COMMON PROPERTY

The Association holds title to common real property consisting of waterfront park, marina, land for water system, and similar areas. The Association has three wells: Well #1 (located on lot #1-116/117) is decommissioned and out of service. Well #2 (located on lot #1-116/117) and Well #3 (located on Lot #2-004/005) are functioning and in service. The Association pays property tax on those lots in addition to the Park property. The Association is responsible for preserving and maintaining this common real property but may dispose of them only with the consent of the members. Therefore, in accordance with the Association's accounting policies, these assets are not recognized as assets on the Association's balance sheet.

During the years ended June 30, 2009 and 2008, the Association upgraded their water systems which has been reflected as Water Systems on the balance sheet and will be depreciated over its estimated useful life of 39 years. The water system upgrade was not placed in service until July, 2009 therefore; no depreciation was taken for the years ended June 30, 2009 and 2008.

NOTE 5 – RESERVES FOR FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association governing documents require that funds be accumulated for future repairs, replacements, and maintenance. Accumulated funds are held in separate accounts and are generally not available for expenses for normal operations. As of June 30, 2009, the Association has not had a "full" reserve study performed to determine future major repairs and replacements.

NOTE 6 – CONCENTRATIONS OF CASH AND CREDIT RISK

Concentration of Cash on Deposit and Uninsured Cash Balances - At June 30, 2009 and 2008, the Association's cash assets were held entirely at Key Bank in checking, savings, and money market accounts. The Association has concentrated its credit risk for cash by maintaining deposits in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The maximum losses that would have resulted from that risk totaled \$72,155 and \$66,161 at June 30, 2009 and 2008, respectively, for the excess of the deposit liabilities reported by the bank over the amounts that would have been covered by federal insurance. The risk remains relatively the same for both years even though cash held has been increased due to the increased FDIC coverage from \$100,000 to \$250,000. The Association has not experienced any losses in such accounts.

PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION
Notes to Financial Statements
June 30, 2009 and 2008

NOTE 6 – CONCENTRATIONS OF CASH AND CREDIT RISK (continued)

Concentration of Member Revenue and Accounts Receivable - Credit risk with respect to accounts receivable is concentrated geographically to members primarily living in Mason County, Washington. Since assessments are from individuals located within the same geographic area, the collectability of the accounts would be affected by conditions impacting the local economy. The Association may place liens against real property subject to assessments.

NOTE 7 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Assessments Receivable - The carrying amount approximates fair value because, with the exception of a few member accounts, the receivables are generally collected within a short period of time after the assessments are billed.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Association uses the services of a homeowner for partial oversight of the community's water systems. The amounts paid to this individual for the year ended June 30, 2009 and 2008, were \$3,577 and \$3,300, respectively. If this service was outsourced, the expected cost would most likely be increased.

NOTE 9 - SPECIAL ASSESSMENTS RECEIVABLE

The Association, with member approval, levied special assessments to upgrade the water systems. In April 2008, each of the 228 lots were assessed \$440 for Phase I costs. This assessment did not allow for member financing with the Association. In July 2008, each of the 228 lots was assessed \$2,543 for the balance of the water systems upgrade. Some homeowners chose to pay this special assessment in full. Other members, if in good standing, were given the option to finance their special assessment with the Association at 7.00% over 48 months. The monthly payment is \$53 for principal and interest. As of June 30, 2009, the Special Assessments Receivable balance was \$195,679. There were approximately 89 lots that chose to finance. The current portion of long term receivables for the principal as of June 30, 2009 is \$39,000, which is \$438 per lot that is expected to be collected during the current year.

PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION
Notes to Financial Statements
June 30, 2009 and 2008

NOTE 10 – NOTE PAYABLE

The Association entered into a loan agreement with Key Bank in 2009. The loan process was started in 2008, in anticipation of a financing option for the homeowners regarding a special assessment passed at the 2006 annual meeting. The special assessment was for the upgrade and improvement of the community water systems, to include a new well and distribution lines to the individual properties. The five year loan of \$295,000 was finalized March 12, 2009. The interest rate is variable at 2.00% plus prime of 3.25% for a current rate of 5.25% maturing March 12, 2014. The monthly payment is \$6,505.

The minimum future payments as of June 30 are as follows:

2010	\$	59,004
2011		59,004
2012		59,004
2013		59,004
2014 and thereafter		<u>44,234</u>
Total	\$	<u>280,250</u>

NOTE 11 – REPORTING PERIOD FOR AUDITED FINANCIAL STATEMENTS

At the July 2008 annual homeowners meeting, it was the intent of the membership to change from a fiscal year ending June 30 to a calendar year reporting period. However, the Internal Revenue Service (IRS) did not receive notice of the Association's intent to change the reporting period. As a result, the board of directors felt it was best to complete the audit and tax return for the year ending June 30, 2009. In order to comply with IRS regulations, a short year tax return will be filed for the period July 1, 2009 through December 31, 2009. The first full calendar year will be in 2010. The reporting period does not affect the dues, assessment, or fees that have been previously assessed and collected.

NOTE 12 – SUBSEQUENT EVENT

Once the Water System Upgrade is completed (with water meters installed) in July 2009, the Association plans to have a rate study conducted to develop a tiered water rate structure to collect funds for (1) payment of current operating expenses and repairs and (2) develop Reserves for Capital Equipment purchases and replacements. Their goal is to build up reserves for future Major Repairs and Replacements for the water system without creating additional special assessments.

PARADISE SERVICE ASSOCIATES, INC.
dba PARADISE SHORES ESTATE ASSOCIATION

SUPPLEMENTARY SCHEDULES

PARADISE SERVICE ASSOCIATES, INC. dba PARADISE SHORES ESTATE ASSOCIATION
SCHEDULE I - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2009

	Water Maintenance and Operations	Water System Upgrade	Moorage	Park and Common Area	Management and General	Total
REVENUES						
Assessments and fees	\$ 51,150	\$ 580,224	\$ 7,420	\$ -	\$ 55,860	\$ 694,654
Donations				1,696		1,696
Interest	2,690	9,566			12	12,268
Fees and misc	60	2,598	20		2,208	4,886
TOTAL REVENUE	53,900	592,388	7,440	1,696	58,080	713,504
EXPENSES						
Bank charges	42	6		6	194	248
Construction, cost of		545,366				545,366
Construction, reclass to fixed asset		(545,366)				(545,366)
Amortization		220				220
Bad debt		-			4,260	4,260
Depreciation				4,483	1,662	6,145
Insurance		5,024				5,024
Interest	71				91	162
Office supplies and expense	618				691	1,309
Postage					410	410
Printing					1,315	8,884
Professional services	7,490	79				12,723
Repairs and maintenance	2,885		4,174	5,664		20,386
Salaries and outside services	3,877	1,530		8,679	6,300	2,142
Supplies	1,176			423	543	760
Taxes and licenses	750				10	3,581
Taxes, payroll	342	135		1,671	1,433	145
Taxes, property					23	23
Telephone	893		7		390	1,290
Travel						10,008
Utilities	3,566			6,442		77,720
TOTAL EXPENSES	21,710	6,994	4,181	27,368	17,467	77,720
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE INCOME TAXES						
Federal income taxes	32,190	585,394	3,259	(25,672)	40,613	635,784
	(800)	(1,339)			(4)	(2,143)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES						
FUND BALANCE BEGINNING OF YEAR	\$ 31,390	\$ 584,055	\$ 3,259	\$ (25,672)	\$ 40,609	633,641
FUND BALANCE END OF YEAR						385,128
						\$ 1,018,769

See auditors' report.

PARADISE SERVICE ASSOCIATES, INC. dba PARADISE SHORES ESTATE ASSOCIATION
SCHEDULE II - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008

	Water Maintenance and Operations	Water System Upgrade	Moorage	Park and Common Area	Management and General	Total
REVENUES						
Assessments and fees	\$ 12,780	\$ 110,889	\$ 8,110	\$ -	\$ 55,860	\$ 187,639
Donations				2,578		2,578
Interest	4,519				23	4,542
Fees and misc	120	220	10		2,037	2,387
TOTAL REVENUE	17,419	111,109	8,120	2,578	57,920	197,146
EXPENSES						
Bank charges	6				117	123
Construction, cost of		197,419				197,419
Construction, reclass to fixed asset		(197,419)				(197,419)
Amortization		-				-
Depreciation		-				-
Insurance				4,207	1,644	5,851
Interest						
Office supplies and expense						
Postage	44				502	502
Printing					323	367
Professional services	5,846				1,428	1,428
Repairs and maintenance	9,745				1,329	7,175
Salaries and outside services	3,800		1,603	2,131		13,479
Supplies	207		54	10,880	5,770	20,450
Taxes and licenses	368			734	1,617	2,612
Taxes, payroll				1,556	10	378
Taxes, property					23	1,556
Telephone					19	23
Travel	434			197	425	19
Utilities	2,493		94	6,411		1,056
TOTAL EXPENSES	22,943	-	1,751	26,116	13,207	64,017
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE INCOME TAXES	(5,524)	111,109	6,369	(23,538)	44,713	133,129
Federal income taxes						-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(5,524)	111,109	6,369	(23,538)	44,713	133,129
FUND BALANCE BEGINNING OF YEAR						251,999
FUND BALANCE END OF YEAR						\$ 385,128

See auditors' report.