

Sharron Courter, CPA, LLC.

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Kahului, Hawaii 96732

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Ku'au Bayview at Paia Homeowners Association
Paia, Hawaii 96779

I have audited the accompanying balance sheet of the Ku'au Bayview at Paia Homeowner's Association – cash basis as of December 31, 2003, and the related statements of revenues, expenses, and changes in fund balances for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 2, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising from cash transactions of the Ku'au Bayview at Paia Homeowner's Association as of December 31, 2003, and its revenue collected and expenses paid during the year then ended, on the basis of accounting described in Note 2.

Sharron Courter CPA, LLC.

Kahului, Hawaii
August 31, 2004

KU'AU BAYVIEW at PAIA HOMEOWNER'S ASSOCIATION

Notes to the Financial Statements
December 31, 2003

Note 1. ORGANIZATION

Ku'au Bayview at Paia Homeowner's Association (the Association) was organized as a not-for-profit entity in the State of Hawaii on November 1, 1996. The Association was formed to provide for the management and maintenance of the common areas, which consists of 92 homeowners and 1 lot owned by Maui County. The lots are located in the Ku'au Bayview Sub-Division in Paia, Hawaii.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting:

The association uses the cash method of accounting for financial statement purposes. Accordingly, revenue is recognized when received and expenses are recognized when the obligations are paid. In addition, the Association uses fund accounting because of Board restrictions on the disbursements of monies intended solely for designated purposes, namely, renewals and replacements of common components. Income tax return preparation is on the accrual basis.

Property and Equipment:

Real property and common areas and related improvements to such property are not reflected on the Association's financial statements. Those properties are owned by the individual unit owners in common and not by the Association. According to the Association's governing documents, two-thirds of all unit owners must approve dispositions of any common real property.

Member Assessments:

The Association's members are subject to monthly assessments to provide funds for the Association's operating expenses and major replacements. Excess assessments at year-end are retained by the Association for use in subsequent years. If, however, funds are inadequate, special assessments may be levied by the Association's Board of Directors.

KU'AU BAYVIEW at PAIA
HOMEOWNER'S ASSOCIATION

Notes to the Financial Statements - Continued
December 31, 2003

Income Taxes:

The Association qualifies as a tax-exempt homeowner's association under Internal Revenue Code Section 528 for the year ended December 31, 2003. Under that section, the Association is taxed on its nonexempt function, such as interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

Note 3. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's Board of Directors has authorized funds to be accumulated for future major repairs and replacements. The Association is in the process of revising the reserve study to estimate the remaining useful lives and replacement costs of the common property components. In prior years, the Association maintained separate bank accounts for the estimated replacement costs of the common property components. In June 2003, the accounts were closed and the funds were transferred to the operating account. The Association intends to fund the reserves in a separate bank account when the reserve study is revised.

NOTE 4: LITIGATION

The Association filed a RICO complaint against Lyn Erickson dba Lyn Erickson Bookkeeping Service. Pursuant to a settlement amount paid by Lyn Erickson in April 2004, the RICO complaint was withdrawn by the Association on June 23, 2004.

Sharron Courter CPA, LLC.
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September 12, 2004

Ku'ua Bayview at Paia Homeowner's Association.
C/O Bob Pellettieri
Paia, Hawaii 96779

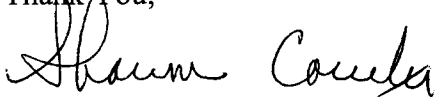
Invoice # 091204

Professional fees for:

December 31, 2003 Audit

Per Proposal	\$1,650.00
General Excise Tax at 4.166%	<u>68.73</u>
Total Amount Due	<u>\$1,718.73</u>

Thank You,



Sharron Courter, CFE, CPA



Sharron Courter, CPA, LLC.



Professional Experience:

- ☛ More than 20 years of accounting experience
- ☛ Maui resident since 1985
- ☛ Certified Public Accountant specializing in non-profits and governmental agencies
- ☛ Certified Fraud Examiner with extensive experience in fraud investigations
 - § Contracted with the Washington State Auditor's Office Special Investigations Division, to investigate fraud cases
 - § Contracted with the Washington State Auditor's Office to investigate whistleblower cases
- ☛ Experienced in the organization of engagement workflow and day-to-day consultation for a variety of organizations
- ☛ Former Controller with the Royal Lahaina Resort, The Hawaii Prince Hotels and The Maui Tropical Plantation

Services we provide:

- ☛ Fraud investigations
- ☛ Audits, reviews and compilations
- ☛ Internal control reviews and systems reviews
- ☛ Compliance testing
- ☛ Consulting
- ☛ Bookkeeping services
- ☛ Software training and consulting
- ☛ Income tax planning and preparation for corporations and individuals
- ☛ Business plans
- ☛ "Fraud in the Workplace" and "Identity Theft" seminars

Professional Affiliations:

- § National Association of Certified Fraud Examiners
- § Hawaii Association of Certified Fraud Examiners
- § Hawaii Society of Certified Public Accountants
- § Hawaii Association of Public Accountants

Honesty • Integrity • Reliability

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