

**HAWAIIAN PARADISE PARK OWNERS ASSOCIATION**  
**Financial Statements and Audit Opinion**  
**For the Year Ended June 30, 2016**

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

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# Hawaiian Paradise Park Owners Association

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# Independent Auditor's Report

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

We have audited the accompanying financial statements of Hawaiian Paradise Park Owners Association (a nonprofit organization), which comprise the balance sheet as of June 30, 2016, and the related statement of revenues, expenses, and changes in fund balances and 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 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 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 June 30, 2016, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## *Report on Prior Year Comparative Information*

We have previously audited Hawaiian Paradise Park Owners Association's June 30, 2016 financial statement, and we expressed an unqualified audit opinion on those audited financial statements in our report dated October 18, 2016. In our opinion, the prior year comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## *Omission of Required Supplementary Information about Future Major Repairs and Replacements*

Management has omitted the information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Ron Dolan, CPA & Associates, Inc.

Ron Dolan, CPA & Associates, Inc.  
Hilo, Hawaii  
October 18, 2016

Hawaiian Paradise Park Owners Association  
Statement of Financial Position  
As of June 30, 2016  
(With Prior Year Comparative Information)

	Notes	General	Roads	Property	Total 06/30/2016	Total 06/30/2015
<b>Assets</b>						
<b>Current Assets</b>						
Cash on Hand			54,619		54,619	800
Cash - Checking		188,629	317,461		506,090	464,482
Cash - Savings Accounts		408	2,862,704		2,863,112	2,547,546
Cash - Money Market Funds & Commercial Paper			123,999	1,301,233	1,425,232	1,215,531
Cash - Certificate Deposits					0	65,824
Total Cash	7	189,037	3,358,783	1,301,233	4,849,053	4,294,183
Receivables, Net of Allowance	8		1,123,292		1,123,292	1,079,617
Other Prepaid			15,210		15,210	10,000
Prepaid Insurance		61	29,353		29,414	34,119
<b>Current Assets</b>		189,098	4,526,638	1,301,233	6,016,969	5,417,919
<b>Fixed Assets:</b>						
Construction In Progress				164,467	164,467	0
Building & Building Improvements				368,171	368,171	352,741
Road Improvements			13,287,860		13,287,860	13,287,860
Land Improvements			54,087		54,087	54,087
Equipment			664,991		664,991	727,655
Less Accumulated Depreciation			14,539,576		14,539,576	14,422,343
<b>Total Net Fixed Assets</b>			(6,415,580)	(6,415,580)	(6,415,580)	(5,625,102)
			8,123,996		8,123,996	8,797,241
Investment - Capital Corp. Investment Agreement	9			1,208,500	1,208,500	1,208,500
Prepaid Bond Expenses				276,736	276,736	304,754
Land				95,037	95,037	95,037
<b>Total Assets</b>		189,098	4,526,638	11,005,502	15,721,238	15,823,451

See Accompanying Notes to Financial Statements

**Hawaiian Paradise Park Owners Association**  
**Statement of Financial Position**  
**As of June 30, 2016**  
**(With Prior Year Comparative Information)**

	Notes	General	Roads	Property	Total 06/30/2016	Total 06/30/2015
<b>Liabilities &amp; Net Assets</b>						
<b>Current Liabilities</b>						
Account Payable		12,523	29,233		41,756	10,832
Credit Card Payable			5,434		5,434	3,524
Retainage Payable				0	0	5,980
Current Portion of Bond Payable				560,000	560,000	505,000
Deferred Charges - Future Road Fees	10		1,244,595		1,244,595	1,200,238
Accrued Payable			29,785		29,785	25,180
Interest Payable				346,692	346,692	364,165
Activity Center Deposits		4,775			4,775	6,315
<b>Total Current Liabilities</b>		<b>17,298</b>	<b>1,309,047</b>	<b>906,692</b>	<b>2,233,037</b>	<b>2,121,234</b>
<b>Noncurrent Liabilities</b>						
Bond Payable - Long Term	11			9,460,000	9,460,000	10,020,000
<b>Total Liabilities</b>		<b>17,298</b>	<b>1,309,047</b>	<b>10,366,692</b>	<b>11,693,037</b>	<b>12,141,234</b>
<b>Net Assets</b>						
Current Unrestricted		123,392	3,217,591	632,091	3,973,074	3,358,603
Current Restricted		48,408		6,719	55,127	323,614
<b>Total Net Assets</b>		<b>171,800</b>	<b>3,217,591</b>	<b>638,810</b>	<b>4,028,201</b>	<b>3,682,217</b>
<b>Total Liabilities &amp; Net Assets</b>		<b>189,098</b>	<b>4,526,638</b>	<b>11,005,502</b>	<b>15,721,238</b>	<b>15,823,451</b>

See Accompanying Notes to Financial Statements

**Hawaiian Paradise Park Owners Association**  
**Statement of Activities & Changes in Net Assets**  
**For the Year ended June 30, 2016**  
**(With Prior Year Comparative Information)**

	Notes	General	Roads	Property	Total 06/30/2016	Total 06/30/2015
<b>Revenues</b>						
Road Fees			2,433,177		2,433,177	2,400,430
Road Fees Interest			141,855		141,855	137,798
Transfer Fees			92,000		92,000	79,000
Lien Fees			72,650		72,650	1,350
Bank Interest & Dividend		31	2,957	61,029	64,017	63,404
Activities Center Income		28,435			28,435	18,894
Recovered Foreclosure, Legal Costs & Fees			5,997		5,997	12,181
Misc. Income		4,171	1,139		5,310	6,409
<b>Total Revenues</b>	1,4	32,637	2,749,775	61,029	2,843,441	2,719,466
<b>Expenses</b>						
Depreciation	1			893,077	893,077	888,763
Bond Interest Expense				710,857	710,857	744,173
Personnel & Payroll Taxes		14,141	321,385		335,526	295,131
Direct Road Maintenance			123,884		123,884	266,463
Vehicle & Equipment Expense			99,189		99,189	70,377
Bad Debt			74,132		74,132	172,783
Insurance		696	55,929		56,625	47,784
Office Supplies & Expenses			55,238		55,238	60,925
Professional & Legal Fees		52	39,468		39,520	35,547
Employee Benefits			30,555		30,555	31,573
Road Improvements Exp. through Bond				27,808	27,808	29,296
Shop Supplies & Expenses			18,201		18,201	13,617
Activity Center Expense		17,814			17,814	16,315
Shoulder Maintenance			8,359		8,359	38,790
Property Expense		1,000	3,822		4,822	1,999
Loss on Disposal of Fixed Assets				1,734	1,734	871
Misc. Expenses		116			116	323
<b>Total Expenses</b>		33,819	830,162	1,633,476	2,497,457	2,714,730
<b>Revenues over Expenses</b>		(1,182)	1,919,613	(1,572,447)	345,984	4,736
<b>Beginning Net Assets</b>		249,639	3,361,214	71,364	3,682,217	3,677,481
Interfund transfers		(76,657)	(2,063,236)	2,139,893	0	0
<b>Ending Net Assets</b>		171,800	3,217,591	638,810	4,028,201	3,682,217

See Accompanying Notes to Financial Statements

**Hawaiian Paradise Park Owners Association**  
**Statement of Cash Flows**  
**For the Year ended June 30, 2016**  
**(With Prior Year Comparative Information)**

	Notes	General	Roads	Property	Total 06/30/2016	Total 06/30/2015
<b>Cash provided (used) by:</b>						
<b>Operating Activities</b>						
Excess of revenue over expense		(1,182)	1,919,613	(1,572,447)	345,984	4,736
Items not involving cash						
Depreciation	1			893,077	893,077	888,763
Bad Debt Expense			74,132		74,132	172,783
Loss on Disposal of Fixed Assets				1,734	1,734	871
<b>Subtotal</b>		(1,182)	1,993,745	(677,636)	1,314,927	1,067,153
<b>Changes in noncash balances</b>						
Receivables	8		(117,807)		(117,807)	(152,714)
Prepaid Expenses		(61)	(444)		(505)	(6,840)
Deposits Payable		(1,540)			(1,540)	2,865
Prepaid Bond Expenses				28,018	28,018	22,298
Accounts & Credit Card Payable		12,523	20,311	0	32,834	(908,598)
Retainage Payable				(5,980)	(5,980)	(67,097)
Interest Payable				(17,473)	(17,473)	(15,643)
Deferred Charges	10		44,357		44,357	0
Accrued Payable		(556)	5,161		4,605	(10,521)
		9,184	1,945,323	(673,071)	1,281,436	(69,097)
<b>Investing Activities</b>						
Gain on Investment					0	0
Purchases of Equipment				(41,669)	(41,669)	(94,080)
Purchases of Building				(15,430)	(15,430)	0
Construction in Progress				(164,467)	(164,467)	0
Purchases of Road Improvement				0	0	(2,969)
<b>Financing Activities</b>						
Loan Repayment				(505,000)	(505,000)	(405,000)
Interfund Transfers		(76,657)	(2,063,236)	2,139,893	0	0
<b>Increase (decrease) in cash</b>		(67,473)	(117,913)	740,256	554,870	(621,146)
<b>Cash, beginning of year</b>		256,510	3,476,696	560,977	4,294,183	4,915,329
<b>Cash, end of year</b>	7	189,037	3,358,783	1,301,233	4,849,053	4,294,183
<b>Supplemental Information:</b>						
Interest paid		0	0	710,857	710,857	744,173

See Accompanying Notes to Financial Statements

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2016

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## 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. Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions of potential recognition or disclosure through October 18, 2016, the date when the financial statements were available to be issued. No significant events have occurred since that date.

## 3. 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:

General Fund – This fund is used to account for financial resources available for the non-road operations of the HPPOA.



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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2016

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### 3. Summary of Significant Accounting Policies - Continued

Roads Fund – This fund is used to accumulate financial resources available for the road operations of the HPPOA.

Property Fund – This fund represents the net investment in property and equipment.

#### **Cash and Cash Equivalents**

Cash and cash equivalents are defined for the purposes of presenting the Statement of Cash flows as checking accounts, savings accounts, certificates of deposit and money market accounts that are readily converted to cash within one year.

#### **Receivables**

The lot owners are subject to assessments to provide funds for the HPPOA's operating expenses, road maintenance, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from lot owners. The Association has various collection remedies for delinquent assessments including the filing of liens, foreclosing on the lot owner, and obtaining judgment on the assets of the lot owner. The HPPOA uses the allowance method to account for uncollectible assessments receivable.

#### **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.

#### **Fixed Assets 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.

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2016

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### 3. Summary of Significant Accounting Policies – Continued

#### Fund Balances

The current unrestricted fund represents operating resources over which the governing Board of Directors has discretionary control. Such resources have 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 Board.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### 4. 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, 2016 road fees were assessed in January 2016 at a rate of \$285.00 per lot - base fee.

Fiscal year ending:	<u>2016</u>	<u>2015</u>
Road fees	2,434,356	2,400,730
Discount given	(1,179)	(300)
Interest	141,855	137,798
Liens assessed and collected	<u>72,650</u>	<u>1,350</u>
Total road fees	<u>2,647,682</u>	<u>2,539,578</u>

### 5. Transfer of Road Maintenance Fund

The HPPOA amended the Bylaws on June 12, 2004. The amended Bylaws allows \$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

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2016

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**5. Transfer of Road Maintenance Fund – Continued**

which is allowed should not exceed 5% of road maintenance funds collected in that year is determined annually by the Board. The Board did not approve to transfer any amount to the General Fund in FYE 6/30/16 & 6/30/15.

**6. 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 \$41,669 on equipment, \$15,430 on building improvement, and \$164,467 on road improvement in progress.

**7. 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 \$2,509,733 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 \$3,619,202 and \$3,109,009 as of June 30, 2016 and 2015.

Cash balances as of June 30, 2016 are as follows:

	<u>General</u>	<u>Road</u>	<u>Property</u>	<u>Total</u>
Cash - FHB	189,037	3,180,165		3,369,202
Cash - Union Bank of CA			1,301,233	1,301,233
Cash – Homestreet Bank		123,999		123,999
Cash - On hand (petty cash)		54,619		54,619
	<u>189,037</u>	<u>3,358,783</u>	<u>1,301,233</u>	<u>4,849,053</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.

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2016

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## 8. Receivables

Receivable balances as of June 30, 2016 and 2015 respectively are:

	<u>2016</u>	<u>2015</u>
Receivables	2,300,292	2,195,617
Allowance-Doubtful Accounts	<u>(1,177,000)</u>	<u>(1,116,000)</u>
Total	<u>1,123,292</u>	<u>1,079,617</u>

During the year, the HPPOA charged operations \$74,132 and \$172,783 as bad debt expense in 2016 and 2015 for additions to the allowance for doubtful accounts for old amounts that may not be collectible.

## 9. Investment

Under the trust indenture, HPPOA invested 10% of the aggregate principal amount. Total amount of \$1,208,500 was held and invested by Union Bank of California in a corporate obligation at an interest rate of 5.05%. The investment agreement will mature on 12/31/2026. The HPPOA intends to hold it until it matures.

## 10. Deferred Charges - Future Road Fees

The amounts billed but not recognized are shown as "Deferred Charges - Future Road Fees" in the amounts of \$1,244,595 and \$1,200,238 for the years ended June 30, 2016 and 2015, respectively. The amount of deferred charges represents 50% of the road fees which are billed in January each year.

## 11. Bond 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 equal to 102% of the principal amount to be redeemed plus accrued interest to the redemption date.

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2016

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## 11. Bond Payable – Continued

Annual maturities of bond payable are as follows:

Year ending June 30,	
2017	560,000
2018	615,000
2019	675,000
2020	745,000
2021	810,000
Thereafter	<u>6,615,000</u>
Total	<u>10,020,000</u>

## 12. Lease Commitments

The HPPOA 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 \$2,434. After the fifth year, and at intervals of every ten years thereafter, the rent is subject to renegotiation. The lease expires May 31, 2079.

## 13. Operating Lease

HPPOA leases two office machines under non-cancellable operating leases. The copy machine agreement started on 08/23/2013 on a monthly basis at \$297.84 for a total of 63 payments. The postage machine agreement started on 05/14/2016 on a monthly basis at \$207.08 for a total of 63 payments. Total operating cost for the leases was \$6,260 for June 30, 2016 and \$6,463 for June 30, 2015.

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**Hawaiian Paradise Park Owners Association**  
Notes to Financial Statements

**June 30, 2016**

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**13. Operating Lease – Continued**

The future minimum lease payments for these leases are as follows:

Year Ending June 30,	Amount
2017	6,059
2018	6,059
2019	4,272
2020	2,485
2021	<u>414</u>
Total	<u>19,289</u>

**14. Future Major Repairs and Replacements**

HPPOA has not conducted a study to estimate the remaining useful lives and the replacement costs of the components of the common area because actual expenditures may vary from estimated future amounts and the variations may be material.