

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION
Financial Statements and Audit Opinion
For the Year Ended June 30, 2017

Ron Dolan, CPA & Associates, Inc.
An Accountancy Corporation
16A Railroad Avenue
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

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, 2017, 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 from 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, 2017, 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 statements, 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, 2017 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 23, 2017

Hawaiian Paradise Park Owners Association
Statement of Financial Position
As of June 30, 2017
(With Prior Year Comparative Information)

	Notes	General	Roads	Property	Total 6/30/2017	Total 6/30/2016
Assets						
Current Assets						
Cash on Hand			800		800	54,619
Cash - Checking		188,807	288,186		476,993	506,090
Cash - Savings Accounts			3,418,182		3,418,182	2,863,112
Cash - Money Market Funds & Commercial Paper			124,557	1,631,952	1,756,509	1,425,232
Total Cash	7	188,807	3,831,725	1,631,952	5,652,484	4,849,053
Receivables, Net of Allowance	8		1,158,242		1,158,242	1,123,292
Other Prepaid			30,698		30,698	15,210
Prepaid Insurance		1,372	8,995		10,367	29,414
Total Current Assets		190,179	5,029,660	1,631,952	6,851,791	6,016,969
Fixed Assets:						
Construction In Progress				295,380	295,380	164,467
Building & Building Improvements				368,171	368,171	368,171
Road Improvements				13,287,860	13,287,860	13,287,860
Land Improvements				54,087	54,087	54,087
Equipment				802,418	802,418	664,991
Less Accumulated Depreciation				14,807,916	14,807,916	14,539,576
Total Net Fixed Assets				(7,259,252)	(7,259,252)	(6,415,580)
				7,548,664	7,548,664	8,123,996
Investment - Capital Corp. Investment Agreement	9			1,208,500	1,208,500	1,208,500
Prepaid Bond Expenses				251,578	251,578	276,736
Land				78,731	78,731	95,037
Total Assets		190,179	5,029,660	10,719,425	15,939,264	15,721,238

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Financial Position
As of June 30, 2017
(With Prior Year Comparative Information)

	Notes	General	Roads	Property	Total 6/30/2017	Total 6/30/2016
Liabilities & Net Assets						
Current Liabilities						
Account Payable		1,124	13,791		14,915	41,756
Credit Card Payable			1,790		1,790	5,434
Current Portion of Loan Payable				22,258	22,258	0
Current Portion of Bond Payable				615,000	615,000	560,000
Deferred Charges - Future Road Fees	10		1,364,822		1,364,822	1,244,595
Accrued Payable			35,515		35,515	29,785
Interest Payable		2,325		327,316	327,316	346,692
Activity Center Deposits					2,325	4,775
Total Current Liabilities		3,449	1,415,918	964,574	2,383,941	2,233,037
Noncurrent Liabilities						
Loan Payable - Long Term	12			87,980	87,980	0
Bond Payable - Long Term	11			8,845,000	8,845,000	9,460,000
Total Liabilities		3,449	1,415,918	9,897,554	11,316,921	11,693,037
Net Assets						
Current Unrestricted		138,322	3,613,742	815,152	4,567,216	3,973,074
Current Restricted		48,408		6,719	55,127	55,127
Total Net Assets		186,730	3,613,742	821,871	4,622,343	4,028,201
Total Liabilities & Net Assets		190,179	5,029,660	10,719,425	15,939,264	15,721,238

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Activities & Changes in Net Assets
For the Year ended June 30, 2017
(With Prior Year Comparative Information)

	Notes	General	Roads	Property	Total 6/30/2017	Total 6/30/2016
Revenues						
Road Fees			2,612,740		2,612,740	2,433,177
Transfer Fees			182,600		182,600	92,000
Road Fees Interest			147,903		147,903	141,855
Bank Interest & Dividend		31	4,581	61,030	65,642	64,017
Activities Center Income		29,390			29,390	28,435
Lien Fees			26,650		26,650	72,650
Gain on Sale of Land				10,183	10,183	0
Recovered Foreclosure, Legal Costs & Fees			6,315		6,315	5,997
Misc. Income		2,995	1,963		4,958	5,310
Total Revenues	3,4	32,416	2,982,752	71,213	3,086,381	2,843,441
Expenses						
Depreciation	3			878,268	878,268	893,077
Bond Interest Expense				674,007	674,007	710,857
Personnel & Payroll Taxes		16,068	362,743		378,811	335,526
Direct Road Maintenance			149,140		149,140	123,884
Insurance		1,172	69,120		70,292	56,625
Professional & Legal Fees			68,942		68,942	39,520
Vehicle & Equipment Expense			63,870		63,870	99,189
Office Supplies & Expenses		183	63,081		63,264	55,238
Shoulder Maintenance			45,087		45,087	8,359
Road Improvements Exp. through Bond				29,193	29,193	27,808
Employee Benefits			24,318		24,318	30,555
Shop Supplies & Expenses			17,229		17,229	18,201
Activity Center Expense		16,391			16,391	17,814
Property Expense		1,096	4,902		5,998	4,822
Loss on Disposal/Sale of Fixed Assets				5,212	5,212	1,734
Loan Interest Expense				2,048	2,048	0
Misc. Expenses		169			169	116
Bad Debt			0		0	74,132
Total Expenses		35,079	868,432	1,588,728	2,492,239	2,497,457
Revenues over Expenses		(2,663)	2,114,320	(1,517,515)	594,142	345,984
Beginning Net Assets		171,800	3,217,591	638,810	4,028,201	3,682,217
Interfund transfers		17,593	(1,718,169)	1,700,576	0	0
Ending Net Assets		186,730	3,613,742	821,871	4,622,343	4,028,201

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Cash Flows
For the Year ended June 30, 2017
(With Prior Year Comparative Information)

	Notes	General	Roads	Property	Total 6/30/2017	Total 6/30/2016
Cash provided (used) by:						
Operating Activities						
Excess of revenue over expense		(2,663)	2,114,320	(1,517,515)	594,142	345,984
Items not involving cash						
Depreciation	3			878,268	878,268	893,077
Bad Debt Expense			0		0	74,132
Gain on Sale of Land				(10,183)	(10,183)	0
Loss on Disposal/Sale of Fixed Assets				5,212	5,212	1,734
Subtotal		(2,663)	2,114,320	(644,218)	1,467,439	1,314,927
Changes in noncash balances						
Receivables	8		(34,950)		(34,950)	(117,807)
Prepaid Expenses		(1,311)	4,870		3,559	(505)
Deposits Payable		(2,450)			(2,450)	(1,540)
Prepaid Bond Expenses				25,158	25,158	28,018
Accounts & Credit Card Payable		(11,399)	(19,086)		(30,485)	32,834
Retainage Payable				0	0	(5,980)
Interest Payable				(19,376)	(19,376)	(17,473)
Deferred Charges	10		120,227		120,227	44,357
Accrued Payable			5,730		5,730	4,605
		(17,823)	2,191,111	(638,436)	1,534,852	1,281,436
Investing Activities						
Proceeds from Sale of Equipment				2,500	2,500	0
Proceeds from Sale of Land				26,489	26,489	0
Purchases of Equipment				(179,735)	(179,735)	(41,669)
Purchases for Building				0	0	(15,430)
Construction in Progress				(130,913)	(130,913)	(164,467)
Financing Activities						
Proceeds from Loan	12			119,237	119,237	0
Loans Repayment				(568,999)	(568,999)	(505,000)
Interfund Transfers		17,593	(1,718,169)	1,700,576	0	0
Increase (decrease) in cash		(230)	472,942	330,719	803,431	554,870
Cash, beginning of year		189,037	3,358,783	1,301,233	4,849,053	4,294,183
Cash, end of year	7	188,807	3,831,725	1,631,952	5,652,484	4,849,053
Supplemental Information:						
Interest paid		0	0	676,055	676,055	710,857

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2017

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 23, 2017, 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.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2017

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.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2017

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, 2017 road fees were assessed in January 2017 at a rate of \$313.50 per lot - base fee.

Fiscal year ending:	<u>2017</u>	<u>2016</u>
Road fees	2,609,886	2,434,356
Discount given	(206)	(1,179)
Interest	147,903	141,855
Liens assessed and collected	<u>26,650</u>	<u>72,650</u>
Total road fees	<u>2,784,233</u>	<u>2,647,682</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

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2017

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 6/30/17 & 6/30/16.

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 \$179,735 on equipment, and \$130,913 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 \$2,840,452 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 \$3,645,175 and \$3,619,202 as of June 30, 2017 and 2016, respectively.

Cash balances as of June 30, 2017 are as follows:

	<u>General</u>	<u>Road</u>	<u>Property</u>	<u>Total</u>
Cash - FHB	188,807	3,706,368		3,895,175
Cash - Union Bank of CA			1,631,952	1,631,952
Cash – Homestreet Bank		124,557		124,557
Cash - On hand (petty cash)		800		800
	<u>188,807</u>	<u>3,831,725</u>	<u>1,631,952</u>	<u>5,652,484</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.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2017

8. Receivables

Receivable balances as of June 30, 2017 and 2016 respectively are:

	<u>2017</u>	<u>2016</u>
Receivables	2,335,242	2,300,292
Allowance-Doubtful Accounts	<u>(1,177,000)</u>	<u>(1,177,000)</u>
Total	<u>1,158,242</u>	<u>1,123,292</u>

During the year, the HPPOA charged operations \$0 and \$74,132 as bad debt expense in 2017 and 2016 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 \$1,364,822 and \$1,244,595 for the years ended June 30, 2017 and 2016, 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, 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

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2017

11. Bond Payable – Continued

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.

Annual maturities of bond payable are as follows:

Year ending June 30,	
2018	615,000
2019	675,000
2020	745,000
2021	810,000
2022	885,000
Thereafter	<u>5,730,000</u>
Total	<u>9,460,000</u>

12. Loan Payable

On 02/09/2017, HPPOA borrowed a loan from Bank of the West in the amount of \$119,237 to purchase a grader for road improvement. The interest rate of the loan is 4.25% per annum. The total financing term is 5 years. HPPOA makes the payment of \$2,209 monthly including principle and interest. The current portion of loan payable is \$22,258 as of 06/30/2017.

Annual principle of loan payable are as follows:

Year ending June 30,	
2018	22,258
2019	23,223
2020	24,228
2021	25,279
2022	<u>13,047</u>
Total	<u>108,035</u>

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2017

13. Lease Commitments

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 \$3,060. After the fifth year, and at intervals of every ten years thereafter, the rent is subject to renegotiation. The lease expires May 31, 2079.

14. 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 \$6,075 for June 30, 2017 and \$6,260 for June 30, 2016.

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

Year Ending June 30,	Amount
2018	6,059
2019	4,272
2020	2,485
2021	<u>414</u>
Total	<u>13,230</u>

15. 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.