

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2018  
(WITH INDEPENDENT AUDITOR'S REPORT)

Table of Contents

	Page
Independent Auditor's Report on the Financial Statements .....	1 – 2
Financial Statements:	
Statements of Financial Position .....	3
Statements of Revenues, Expenses, and Changes in Fund Balances .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6 – 11



## Taketa, Iwata, Hara & Associates, LLC

Certified Public Accountants & Consultants  
101 Aupuni Street, Suite 139  
Hilo, Hawaii 96720-4265

### Independent Auditor's Report

The Board of Directors  
Hawaiian Paradise Park Owners Association:

We have audited the accompanying financial statements of the Hawaiian Paradise Park Owners Association, which comprise the statements of financial position as of June 30, 2018 and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year 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 the Hawaiian Paradise Park Owners Association as of June 30, 2018 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Gregg M. Taketa, CPA • Brian M. Iwata, CPA**

Tel (808) 935-5404 Fax (808) 969-1499 E-mail: [info@tihcpa.com](mailto:info@tihcpa.com) Website: [www.tihcpa.com](http://www.tihcpa.com)

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

Management has omitted the information on future 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, which considers it to be an essential part of 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 this missing information.

*Taketa, Iwata, Hava & Associates LLC*

Hilo, Hawaii  
February 1, 2019

Hawaiian Paradise Park Owners Association

Statements of Financial Position

At June 30, 2018

<u>Assets</u>	<u>General</u>	<u>Roads</u>	<u>Property</u>	<u>Total</u>
Currents assets:				
Cash on hand	\$ -	800	-	800
Cash - checking	194,871	835,422	-	1,030,293
Cash - savings accounts	-	4,326,570	-	4,326,570
Cash - money market funds & commercial paper	-	125,190	-	125,190
Cash - restricted by debt agreements	-	-	669,154	669,154
<b>Total cash and restricted cash</b>	<b>194,871</b>	<b>5,287,982</b>	<b>669,154</b>	<b>6,152,007</b>
Accounts receivable, net of allowance for doubtful accounts of \$750,000 at June 30, 2018	-	1,617,315	-	1,617,315
Due from other funds	-	9,070	-	9,070
Other prepaid expense	-	133,687	-	133,687
Prepaid insurance	-	30,787	-	30,787
<b>Total current assets</b>	<b>194,871</b>	<b>7,078,841</b>	<b>669,154</b>	<b>7,942,866</b>
Property and equipment:				
Buildings and building improvements	-	-	368,171	368,171
Road improvements	-	-	13,287,859	13,287,859
Land improvements	-	-	54,087	54,087
Equipment	-	-	651,466	651,466
Less accumulated depreciation	-	-	(14,361,583)	(14,361,583)
	-	-	(7,944,790)	(7,944,790)
<b>Net property and equipment</b>	<b>-</b>	<b>-</b>	<b>6,416,793</b>	<b>6,416,793</b>
Reserves - restricted by debt agreements	-	-	188,597	188,597
Land	-	-	78,731	78,731
<b>Total assets</b>	<b>\$ 194,871</b>	<b>7,078,841</b>	<b>7,353,275</b>	<b>14,626,987</b>

Liabilities and Fund Balances

Current liabilities:				
Current portion of loan payable	\$ -	-	23,137	23,137
Current portion of bond payable	-	-	790,000	790,000
Accounts payable	-	70,197	-	70,197
Due to other funds	9,070	-	-	9,070
Credit card payable	-	3,078	-	3,078
Accrued payable	-	31,413	-	31,413
Interest payable	-	-	169,691	169,691
Activity center deposits	4,425	-	-	4,425
Deferred revenues	-	1,432,861	-	1,432,861
<b>Total current liabilities</b>	<b>13,495</b>	<b>1,537,549</b>	<b>982,828</b>	<b>2,533,872</b>
Noncurrent liabilities:				
Loan payable - long term	-	-	64,656	64,656
Bond payable, net of debt issuance costs of \$135,373 as of June 30, 2018	-	-	7,169,627	7,169,627
<b>Total liabilities</b>	<b>13,495</b>	<b>1,537,549</b>	<b>8,217,111</b>	<b>9,768,155</b>
Fund balances:				
Total unrestricted fund balances	181,376	5,541,292	(863,836)	4,858,832
<b>Total liabilities and fund balances</b>	<b>\$ 194,871</b>	<b>7,078,841</b>	<b>7,353,275</b>	<b>14,626,987</b>

See accompanying notes to financial statements.

Hawaiian Paradise Park Owners Association

Statements of Revenues, Expenses, and Changes in Fund Balances

For the Year Ended June 30, 2018

	<u>General</u>	<u>Roads</u>	<u>Property</u>	<u>Total</u>
Revenue:				
Road fees	\$ -	2,793,476	-	2,793,476
Transfer fees	-	214,700	-	214,700
Road fee interest	-	148,856	-	148,856
Bank interest and dividend	32	4,757	36,132	40,921
Lien fees	-	35,250	-	35,250
Activites center income	28,908	-	-	28,908
Recovered foreclosure, legal costs and fees	-	2,207	-	2,207
Miscellaneous income	2,017	428,050	-	430,067
	<u>30,957</u>	<u>3,627,296</u>	<u>36,132</u>	<u>3,694,385</u>
Total revenue				
Operating expenses:				
Depreciation	-	-	862,024	862,024
Bond interest expense	-	-	593,567	593,567
Direct road maintenance	-	420,495	-	420,495
Loss on bond retirement	-	417,098	-	417,098
Personnel and payroll taxes	14,829	400,181	-	415,010
Vehicle and equipment expense	-	109,944	-	109,944
Professional and legal fees	-	99,750	-	99,750
Insurance	2,472	69,466	-	71,938
Office supplies and expense	-	70,531	-	70,531
Employee benefits	-	46,350	-	46,350
Shoulder maintenance	-	19,418	-	19,418
Shop supplies and expenses	-	12,351	-	12,351
Activity center expense	12,183	-	-	12,183
Miscellaneous expense	5,227	-	-	5,227
Loan interest expense	-	-	4,068	4,068
Property expense	1,600	4	-	1,604
Bad debt	-	842	-	842
Loss on disposal/sale of fixed assets	-	-	116	116
	<u>36,311</u>	<u>1,666,430</u>	<u>1,459,775</u>	<u>3,162,516</u>
Total expense				
Revenues over (under) expenses	(5,354)	1,960,866	(1,423,643)	531,869
Interfund transfers	-	(33,316)	33,316	-
Fund Balances at beginning of year, as restated	<u>186,730</u>	<u>3,613,742</u>	<u>526,491</u>	<u>4,326,963</u>
Fund Balances at end of year	<u>\$ 181,376</u>	<u>5,541,292</u>	<u>(863,836)</u>	<u>4,858,832</u>

See accompanying notes to financial statements.

Hawaiian Paradise Park Owners Association

Statements of Cash Flows

For the Year Ended June 30, 2018

	General	Roads	Property	Total
Cash flows from operating activities:				
Revenues over (under) expenses	\$ (5,354)	1,960,866	(1,423,643)	531,869
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by (used in) operating activities:				
Depreciation and amortization	-	-	862,024	862,024
Bad debt expense	-	842	-	842
Loss on disposal/sale of fixed assets	-	-	116	116
(Increase) decrease in:				
Accounts receivable	-	(459,915)	-	(459,915)
Due from other funds	-	(9,070)	-	(9,070)
Other prepaid expenses	248	(123,657)	-	(123,409)
Increase (decrease) in:				
Accounts and credit card payable	-	56,570	-	56,570
Due to other funds	9,070	-	-	9,070
Interest payable	-	-	(157,625)	(157,625)
Activity center deposits	2,100	-	-	2,100
Deferred revenues	-	68,039	-	68,039
Accrued payable	-	(4,102)	-	(4,102)
Total adjustments	11,418	(471,293)	704,515	244,640
Net cash provided by (used in) operations	6,064	1,489,573	(719,128)	776,509
Cash flows from investing activities:				
Capital expenditures for equipment	-	-	(25,649)	(25,649)
Net cash used in investing activities	-	-	(25,649)	(25,649)
Cash flows from financing activities:				
Loan repayment	-	-	(22,445)	(22,445)
Prepaid bond expenses	-	-	116,205	116,205
Changes to bond reserves	-	-	1,019,903	1,019,903
Repayment of bond	-	-	(1,365,000)	(1,365,000)
Net cash used in financing activities	-	-	(251,337)	(251,337)
Net increase (decrease) in cash	6,064	1,489,573	(996,114)	499,523
Interfund transfers	-	(33,316)	33,316	-
Cash and restricted cash at beginning of year	188,807	3,831,725	1,631,952	5,652,484
Cash and restricted cash at end of year	<u>\$ 194,871</u>	<u>5,287,982</u>	<u>669,154</u>	<u>6,152,007</u>

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest amounted to \$575,762

Supplemental Schedule of Noncash Investing and Financing Activities

Proceeds in the issuance of the 2018 Series in the amount of \$8,095,000 were used to repay the 2007 Series Revenue Bonds.

See accompanying notes to financial statements.

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to Financial Statements

June 30, 2018

### (1) Organization and Summary of Significant Accounting Policies

#### Organization

Hawaiian Paradise Park Owners Association (the Association), formerly known as Paradise Hui Hanlike, is a private nonprofit corporation. It was incorporated on December 22, 1972, under the laws of the State of Hawaii. The Association, located in the Puna District of the County of Hawaii, State of Hawaii, 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. As required by its bylaws, the board of directors is comprised of members of the Association.

#### Basis of Presentation

The financial statements of the Association were prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method of accounting, revenues are recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

#### Fund Accounting

In order to observe the limitation and restrictions placed on the use of resources available to the Association, the accounts are maintained in accordance with the principles of fund accounting. The assets, liabilities, and net assets of the Association 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 Association.

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

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

#### Cash

For purposes of the statements of cash flows, the Association considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents. At June 30, 2018 the Association had account balances at institutions that were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Amounts exceeding the federally insured limits was approximately \$5,713,400 at June 30, 2018.

#### Restricted Cash

Cash restricted by debt agreements consists of bond funds, held by a trustee, that are required to be established and maintained in accordance with the 2018 Series Revenue Refunding Bond Agreement.



## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to Financial Statements, Continued

#### Reserve Cash

Reserve cash amounts are monies held in a loan restricted account, by the bond purchaser, until maturity. The minimum balance requirement for this account is two months of current principal and interest payments as described in 2018 Series Revenue Refunding Bond Agreement.

#### Accounts Receivable and Allowance for Doubtful Accounts

Association members are subject to yearly assessments to provide funds for the Association's operating expenses, future capital acquisitions, road maintenance, and major repairs and replacements. Accounts receivable on the balance sheet represent assessments due from owners and other trade receivables.

At June 30, 2018 there was approximately \$2,368,000 in receivables 90 days or more past due. The Association has various collection remedies for delinquent assessments including the filing of liens, foreclosing on the lot owner, and obtaining judgement on the assets of the lot owner.

An allowance for doubtful accounts has been established based on the collection status of accounts receivable outstanding, payment history, and present market conditions. A review of the delinquent accounts is done throughout the year in accordance with collection procedures. Accounts are written off when deemed uncollectible. The Association established an allowance for doubtful accounts of \$750,000 at June 30, 2018.

#### Income Tax

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 Association is recognized to be exempt from Federal and State income taxes.

Accounting principles generally accepted in the United States of America require the effect of uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management is not aware of any uncertain tax positions. Tax returns are open for examination by the taxing authorities until the applicable statute of limitation expires.

#### Property and Equipment

The Association records property at stated cost or fair value which is established by the Board of Directors at the date of contribution. Depreciation on all property and equipment is recorded on the straight-line basis over the estimated useful lives of the respective assets. Estimated useful life of land improvements and buildings is between 0-40 years. Estimated useful life of personal property is between 0-20 years. Repairs and maintenance are charged directly to income, and expenditures for renewals and betterments are capitalized. The Association capitalizes all equipment with a value of \$500 or greater and with a useful life greater than one year. Cost and related accumulated depreciation of property and equipment retired or otherwise disposed are eliminated from the accounts at the time of retirement or sale and the gain or loss is credited or charged to income. Depreciation expense was \$862,024 for the year ended June 30, 2018.

#### Deferred Revenues

In accordance with generally accepted accounting principles, revenues and expenses were recorded when earned and incurred. Deferred revenues consisted primarily of association assessments which were collected but not earned during the year. The Association recorded \$1,432,861 in deferred revenue for the year ended June 30, 2018.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to Financial Statements, Continued

Fund Balances

The current unrestricted fund represents operating resources over which the governing Board of Directors has discretionary control. As of June 30, 2018, there are no restricted or temporarily restricted funds.

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.

(2) Leases

As Lessee:

The Association leases equipment used in its operations and classifies those leases as either operating or capital leases in accordance with the Financial Accounting Standards Board, Accounting Standards Codification.

The Association maintains a non-cancelable operating lease. Terms of the lease are as follows;

Postage Machine Agreement; commenced May 2016, 63 months, monthly payment \$207

Rental expense for the year ended June 30, 2018 for the operating lease is summarized below:

Minimum rent	\$ 6,059
Month-to-month rent	<u>-</u>
	<u>\$ 6,059</u>

At June 30, 2018 the future minimum non-cancelable lease commitments are as follows:

<u>Years ending June 30:</u>	
2019	\$ 2,485
2020	2,485
2021	<u>414</u>
Total minimum lease payments	<u>\$ 5,384</u>

As Lessor:

The Association 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 \$3 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 twenty-fifth year of this lease, and at intervals of every ten years thereafter, the rent is subject to negotiation. The lease expires in May 2079.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to Financial Statements, Continued

(3) Loan Payable

In February 2017, the Association received a loan from Bank of the West in the amount of \$119,237 to purchase a grader for road improvement. The loan is financed with 60 monthly payments of \$2,209 including principle and interest. The imputed interest rate is 4.25% per annum.

Annual principal maturities on the loan payable are as follows:

<u>Year ending June 30:</u>	
2019	\$ 23,137
2020	24,168
2021	25,245
2022	<u>15,243</u>
Total	<u>\$ 87,793</u>

(4) 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 bond was issued at a 6.92% annual interest rate, payable on January 1<sup>st</sup> and July 1<sup>st</sup> of each year, with a maturity date of January 1, 2027. The bond was subject to optional redemption at the direction of the issuer at a redemption price of 102% of the principal amount to be redeemed plus accrued interest. On January 10, 2018 HPPOA issued \$8,095,000 in revenue refunding bonds (Series 2018 Revenue Refunding Bonds) to pay off and redeem the previous bond agreement. The redemption fee and unamortized portion of the debt issuance costs relating to the Series 2007 revenue bonds as of June 30, 2018 amounted to \$176,900 and \$240,198, respectively. The total was reported in the Statement of Activities as loss on bond retirement.

The Series 2018 Revenue Refunding bonds have an annual interest rate of 4.30%, are payable in semi-annual installments of interest and annual installments of principal on January 1<sup>st</sup> of each year, with a maturity date of January 1, 2027. The trustee of the bond issue is Union Bank of California. Bond interest expense amounted to \$571,693 as of June 30, 2018. The amortized portion of the debt issuance costs from the Series 2018 revenue bonds amounted to \$21,874 as of June 30, 2018. Bond interest expense and the amortized portion of debt issuance cost were reported in the Statement of Activities as interest expense.

In accordance with the bond trust agreement, the Association is required to make monthly remittance payments of principal and interest equal to 1/12 of the principal amount plus accrued interest at the annual maturity date. These payments are recorded as cash – restricted by debt agreements on the Statement of Financial Position.

The Series 2018 Revenue Refunding bonds issued is subject to the optional redemption at the discretion of the issuer, at any time, upon notice to the Trustee at the following applicable redemption price plus accrued and unpaid interest to the redemption date. Optional redemption on or after January 1, 2018 has a redemption price of 103% of the principal amount to be redeemed. Optional redemption on or after January 1, 2019 has a redemption price of 102% of the principal amount to be redeemed. Optional redemption on or after January 1, 2020 has a redemption price of 101% of the principal amount to be redeemed. Optional redemption on or after January 1, 2021 has a redemption price of 100% of the principal amount to be redeemed.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to Financial Statements, Continued

Annual principal maturities of the bond payable are as follows:

<u>Year ending June 30:</u>	
2019	\$ 790,000
2020	835,000
2021	885,000
2022	945,000
2023	1,005,000
Thereafter	<u>3,635,000</u>
Total	<u>\$ 8,095,000</u>

(5) Road Maintenance Fund

The Association is responsible for 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 the Hawaiian Paradise Park Owners Association. Road fees were assessed in January 2018 and totaled \$328 per lot –base fee for the calendar year.

If additional funds are needed, the Association has the right, subject to board approval, to increase regular assessment or levy special assessments, or it may delay major repairs and replacements until funds are available.

(6) Transfer of Road Maintenance Fund

The Association bylaws, amended and restated as of June 22, 2010, allows for a portion of road maintenance funds to be transferred to the General Fund. The amount transferred shall be determined annually by the Board and shall not exceed 5% of road maintenance funds collected in that year.

(7) Property Fund

The property and equipment fund represents the net investment, at cost, in property and equipment. During the year ending June 30, 2018 the Association spent \$25,649 on equipment.

(8) Litigation

The Association is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect the Association's financial statements or results of operations.

(9) Future Major Repairs and Replacements

Neither the Association's governing documents nor current Hawaii state law requires the Association to accumulate funds for future major repairs and replacements. The Association has not conducted a study to estimate the remaining useful lives and replacement costs of the components of common areas as actual expenditures may vary from the estimated amounts and the variations may be material.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to Financial Statements, Continued

(10) Prior Period Adjustments

The Association's financial statements for the year ended June 30, 2017 classified unrestricted net assets as temporarily restricted and improperly reported fixed assets balances. Management recorded adjustments in the accompanying financial statements as of June 30, 2017.

<u>Unrestricted net assets:</u>	
Unrestricted net assets at June 30, 2017	\$ 4,567,216
Adjustment for temporarily restricted restatement	55,127
Adjustment for Construction in Progress restatement	<u>(295,380)</u>
Unrestricted net assets at June 30, 2017, as restated	<u>\$ 4,326,963</u>
 <u>Temporarily restricted net assets:</u>	
Temporarily restricted net assets at June 30, 2017,	\$ 55,127
Adjustment for temporarily restricted restatement	<u>(55,127)</u>
Temporarily restricted net assets at June 30, 2017, as restated	<u>\$ -</u>
 <u>Fixed Assets:</u>	
Construction in Progress at June 30, 2017	\$ 295,380
Adjustment for Construction in Progress restatement	<u>(295,380)</u>
Construction in Progress at June 30, 2017, as restated	<u>\$ -</u>
 <u>Fixed Assets:</u>	
Equipment at June 30, 2017	\$ 802,418
Adjustment for Fixed Assets – Equipment restatement	<u>(154,046)</u>
Equipment at June 30, 2017, as restated	<u>\$ 648,372</u>
 <u>Fixed Assets:</u>	
Accumulated Depreciation at June 30, 2017	\$ (7,259,252)
Adjustment for Fixed Assets – Equipment restatement	<u>154,046</u>
Accumulated Depreciation at June 30, 2017, as restated	<u>\$ 7,105,206</u>

(11) Subsequent events

The Association's management has evaluated subsequent events through February 1, 2019, the date the financial statements were available to be issued. There were no subsequent events that require adjustments to or disclosure in the financial statements.