

**HAWAIIAN PARADISE PARK OWNERS ASSOCIATION**  
**Financial Statements and Audit Opinion**  
**For the Years Ended June 30, 2014 & 2013**

**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

### Report on the Financial Statements

We have audited the accompanying financial statements of Hawaiian Paradise Park Owners Association (a nonprofit organization) as of June 30, 2014 and 2013 which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statement of activities & changes in net assets, and statement of 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 audits. We conducted our audits 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, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Ron Dolan CPA & Associates, Inc.*

Ron Dolan, CPA & Associates, Inc.  
Hilo, Hawaii  
October 28, 2014

Hawaiian Paradise Park Owners Association  
Statement of Financial Position  
As of June 30, 2014

	Notes	General	Roads	Property	Total 06/30/14	Total 06/30/13
<b>Assets</b>						
<b>Current Assets</b>						
Petty Cash			300		300	295
Cash - Checking		142,083	13,588		155,671	179,889
Cash - Savings Accounts		15,431	1,795,490		1,810,921	1,386,350
Cash - Money Market Funds & Commercial Paper		65,967	654,093	2,228,377	2,948,437	3,477,734
Cash - Certificate Deposits					0	0
<b>Total Cash</b>	7	223,481	2,463,471	2,228,377	4,915,329	5,044,268
<b>Receivables, Net of Allowance</b>						
Other Prepaid	8		1,099,686		1,099,686	1,064,206
Prepaid Insurance		0	4,645		4,645	3,048
			32,634		32,634	29,713
<b>Current Assets</b>		223,481	3,600,436	2,228,377	6,052,294	6,141,235
<b>Fixed Assets:</b>						
Construction In Progress				4,253,091	4,253,091	2,701,628
Building & Building Improvements				352,741	352,741	352,741
Road Improvements				9,037,738	9,037,738	9,037,738
Land Improvements				54,087	54,087	54,087
Equipment				634,637	634,637	630,581
				14,332,294	14,332,294	12,776,775
Less Accumulated Depreciation				(4,742,468)	(4,742,468)	(4,141,535)
<b>Total Net Fixed Assets</b>				9,589,826	9,589,826	8,635,240
<b>Investment - Capital Corp. Investment Agreement</b>						
Prepaid Bond Expenses	9			1,208,500	1,208,500	1,208,500
Land				327,052	327,052	352,210
				95,037	95,037	95,037
<b>Total Assets</b>		223,481	3,600,436	13,448,792	17,272,709	16,432,222

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association  
Statement of Financial Position  
As of June 30, 2014

	Notes	General	Roads	Property	Total 06/30/14	Total 06/30/13
<b>Liabilities &amp; Net Assets</b>						
<b>Current Liabilities</b>						
Account Payable		305	100,944	819,778	921,027	39,726
Credit Card Payable			1,927		1,927	1,383
Retainage Payable				73,077	73,077	4,029
Current Portion of Bond Payable				455,000	455,000	405,000
Deferred Charges - Future Road Fees	10		1,200,238		1,200,238	1,201,200
Accrued Payable		1,580	34,121		35,701	38,790
Interest Payable		3,450		379,808	379,808	393,921
Activity Center Deposits					3,450	3,600
<b>Total Current Liabilities</b>		5,335	1,337,230	1,727,663	3,070,228	2,087,649
<b>Noncurrent Liabilities</b>						
Bond Payable - Long Term	11			10,525,000	10,525,000	10,980,000
<b>Total Liabilities</b>		5,335	1,337,230	12,252,663	13,595,228	13,067,649
<b>Net Assets</b>						
Current Unrestricted		154,314	2,010,143	1,189,410	3,353,867	3,119,385
Current Restricted		63,832	253,063	6,719	323,614	245,188
<b>Total Net Assets</b>		218,146	2,263,206	1,196,129	3,677,481	3,364,573
<b>Total Liabilities &amp; Net Assets</b>		223,481	3,600,436	13,448,792	17,272,709	16,432,222

See Accompanying Notes to Financial Statements

**Hawaiian Paradise Park Owners Association**  
**Statement of Activities & Changes in Net Assets**  
**For the Year ended June 30, 2014**

	Notes	General	Roads	Property	Total 06/30/14	Total 06/30/13
<b>Revenues</b>						
Road Fees			2,394,931		\$2,394,931	\$2,287,827
Road Fees Interest			136,638		136,638	117,953
Transfer Fees			90,800		90,800	70,400
Bank Interest & Dividend		22	1,752	61,538	63,312	62,651
Lien Fees			26,550		26,550	14,250
Activities Center Income		20,086			20,086	18,358
Recovered Foreclosure, Legal Costs & Fees			15,573		15,573	4,155
Misc. Income		4,509	3,470		7,979	22,811
<b>Total Revenues</b>	1,4	24,617	2,669,714	61,538	2,755,869	2,598,405
<b>Expenses</b>						
Bond Interest Expense				773,729	773,729	800,471
Depreciation	1			600,933	600,933	614,749
Personnel & Payroll Taxes		18,306	321,246		339,552	320,781
Direct Road Maintenance			282,350		282,350	308,755
Bad Debt			91,071		91,071	185,939
Vehicle & Equipment Expense			68,268		68,268	71,506
Office Supplies & Expenses			54,432		54,432	44,546
Shoulder Maintenance			50,637		50,637	5,904
Employee Benefits			45,451		45,451	41,337
Insurance		587	42,478		43,065	41,794
Professional & Legal Fees			31,251		31,251	31,375
Road Improvements Exp. through Bond				27,972	27,972	30,415
Property Expense		850	15,480		16,330	16,193
Activity Center Expense		11,014			11,014	17,304
Shop Supplies & Expenses			6,143		6,143	4,535
Misc. Expenses		763			763	2,487
<b>Total Expenses</b>		31,520	1,008,807	1,402,634	2,442,961	2,538,091
<b>Revenues over Expenses</b>		(6,903)	1,660,907	(1,341,096)	312,908	60,314
<b>Beginning Net Assets</b>		187,144	1,896,095	1,281,334	3,364,573	3,304,259
Interfund transfers		37,905	(1,293,796)	1,255,891	0	0
<b>Ending Net Assets</b>		218,146	2,263,206	1,196,129	3,677,481	3,364,573

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association  
Statement of Cash Flows  
For the Year ended June 30, 2014

	Notes	General	Roads	Property	Total 06/30/14	Total 06/30/13
<b>Cash provided (used) by:</b>						
<b>Operating Activities</b>						
Excess of revenue over expense		(6,903)	1,660,907	(1,341,096)	312,908	60,314
Items not involving cash						
Depreciation	1			600,933	600,933	614,749
Bad Debt Expense			91,071		91,071	185,939
Theft Loss					0	2,591
<b>Subtotal</b>		(6,903)	1,751,978	(740,163)	1,004,912	863,593
<b>Changes in noncash balances</b>						
Receivables	8		(126,551)		(126,551)	(387,006)
Prepaid Expenses			(4,518)		(4,518)	(8,464)
Other Prepaid & Payroll Security Deposit			0		0	0
Deposits Payable		(150)			(150)	(15,119)
Prepaid Bond Expenses				25,158	25,158	25,158
Accounts & Credit Card Payable		(3,370)	65,437	819,778	881,845	(354,714)
Retainage Payable				69,048	69,048	(99,855)
Interest Payable				(14,113)	(14,113)	(12,629)
Deferred Charges	10		(962)		(962)	57,706
Accrued Payable		714	(3,803)		(3,089)	3,045
		(9,709)	1,681,581	159,708	1,831,580	71,715
<b>Investing Activities</b>						
Gain on Investment					0	169
Purchases of Equipment				(4,056)	(4,056)	(4,544)
Construction in Progress				(1,551,463)	(1,551,463)	(604,184)
Purchases of Land				0	0	(16,305)
<b>Financing Activities</b>						
Loan Repayment				(405,000)	(405,000)	(365,000)
Interfund Transfers		37,905	(1,293,796)	1,255,891	0	0
<b>Increase (decrease) in cash</b>		28,196	387,785	(544,920)	(128,939)	(918,149)
<b>Cash, beginning of year</b>		195,285	2,075,686	2,773,297	5,044,268	5,962,417
<b>Cash, end of year</b>	7	223,481	2,463,471	2,228,377	4,915,329	5,044,268
<b>Supplemental Information:</b>						
Interest paid		0	0	773,729	773,729	800,471

See Accompanying Notes to Financial Statements

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2014

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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 28, 2014, 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:

The current unrestricted fund represents operating resources over which the governing board of directors has discretionary control. Such resources arise from membership fees, fund-raising, rent and contributions upon which the donor has placed no restriction.

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2014

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

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 assessment or donor.

The property and equipment fund represents the net investment in property and equipment. Current funds used for property acquisitions are accounted for as transfers to the property and equipment fund.

#### **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.

#### **Assessments Receivable**

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.

#### **Property 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.

#### **Contributions**

All contributions are considered available for unrestricted use unless specifically restricted by the donor.

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2014

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## Donated Materials

The HPPOA assigns values to donated materials based on historical cost or fair value at the date of gift if it can be determined in the absence of adequate cost records.

## Donated Services

Volunteers provide assistance to the HPPOA for various program and support activities. The HPPOA assigns values to such services performed when such services would otherwise be performed by salaried personnel. No amounts have been reflected in the accompanying financial statements for donated services in as much as no objective basis is available to measure the value of such donated services; however, a substantial number of volunteers have donated significant amounts of their time to the organization.

## 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, 2014 road fees were assessed in January 2014 at a rate of \$275.00 per lot - base fee.

Fiscal year ending:	<u>2014</u>	<u>2013</u>
Road fees	2,395,131	2,340,267
Discount given	(200)	(52,440)
Interest	136,638	117,953
Liens assessed and collected	<u>26,550</u>	<u>14,250</u>
Total road fees	<u>2,558,119</u>	<u>2,420,030</u>

## 5. Transfer of Road Maintenance Fund

The HPPOA amended the Bylaws on June 12, 2004. The amended Bylaws requires \$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 which should not exceed 5% of road maintenance funds collected in that year is determined annually by the Board. In FYE 6/30/14, the Board approved to transfer the amount of \$13,000 to the General Fund.

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2014

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## 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 \$4,056 on equipment, and \$670,568 on road improvement.

## 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 \$2,228,377 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 \$2,063,808 and \$1,663,700 as of June 30, 2014 and 2013.

Cash balances as of June 30, 2014 are as follows:

	<u>General</u>	<u>Roads</u>	<u>Property</u>	<u>Total</u>
Cash - FHB	157,514	1,809,078		1,966,592
Cash - Homestreet Bank		122,844		122,844
Cash - Morgan Stanley	65,967	531,249		597,216
Cash - Union Bank of CA			2,228,377	2,228,377
Cash - On hand (petty cash)		300		300
	<u>223,481</u>	<u>2,463,471</u>	<u>2,228,377</u>	<u>4,915,329</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. The HPPOA intends to hold it until it matures.

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2014

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## 8. Assessments Receivable

Assessments receivable balances as of June 30, 2014 and 2013 respectively are:

	<u>2014</u>	<u>2013</u>
Assessments Receivable	2,051,686	1,943,206
Allowance-Doubtful Accounts	<u>(952,000)</u>	<u>(879,000)</u>
Total	<u>1,099,686</u>	<u>1,064,206</u>

During the year, the HPPOA charged operations \$91,071 and \$185,939 as bad debt expense in 2014 and 2013 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.

## 10. Net Assets - Adjustment for Reporting Deferred Charges

The amounts billed but not recognized are shown as "Deferred Charges- Future Road Fees" in the amounts of \$1,200,238 and \$1,201,200 for the years ended June 30, 2014 and 2013, respectively. The amount of deferred charges represents 50% of the road fees which are billed in January each year.

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# Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2014

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## 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.

Annual maturities of bond payable are as follows:

Year ending June 30,	
2015	455,000
2016	505,000
2017	560,000
2018	615,000
2019	675,000
Thereafter	<u>8,170,000</u>
Total	<u>10,980,000</u>

## 12. Lease Commitments

The corporation 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 \$2,676. After the fifth year, and at intervals of every ten years thereafter, the rental is subject to renegotiation. The lease expires May 31, 2079.

## 13. Related Party Transaction

The Road Supervisor owns Kalaheo Trucking, LLC. HPPOA paid this Company for truck rental and material in the amounts of \$1,509 and \$17,068 for the years ended June 30, 2014 and 2013, respectively.