

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION
Financial Statements and Audit Opinion
For the Years Ended June 30, 2015 & 2014

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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

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, 2015 and 2014 which comprise the statement of financial position as of June 30, 2015 and 2014, 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 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, 2015 and 2014, 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements on page 12 be presented to supplement the basic financial statement. Such information, although not a part of the basic financial statement, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ron Dolan CPA & Associates Inc.

Ron Dolan, CPA & Associates, Inc.
Hilo, Hawaii
October 20, 2015

Hawaiian Paradise Park Owners Association
Statement of Financial Position
As of June 30, 2015

	Notes	General	Roads	Property	Total 06/30/2015	Total 06/30/2014
Assets						
Current Assets						
Petty Cash			800		800	300
Cash - Checking		175,248	289,234		464,482	155,671
Cash - Savings Accounts		15,438	2,532,108		2,547,546	1,810,921
Cash - Money Market Funds & Commercial Paper			654,554	560,977	1,215,531	2,948,437
Cash - Certificate Deposits		65,824			65,824	0
Total Cash	7	256,510	3,476,696	560,977	4,294,183	4,915,329
Receivables, Net of Allowance						
Other Prepaid	8		1,079,617		1,079,617	1,099,686
Prepaid Insurance			10,000		10,000	4,645
			34,119		34,119	32,634
Current Assets		256,510	4,600,432	560,977	5,417,919	6,052,294
Fixed Assets:						
Construction In Progress				0	0	4,253,091
Building & Building Improvements				352,741	352,741	352,741
Road Improvements				13,287,860	13,287,860	9,037,738
Land Improvements				54,087	54,087	54,087
Equipment				727,655	727,655	634,637
				14,422,343	14,422,343	14,332,294
Less Accumulated Depreciation				(5,625,102)	(5,625,102)	(4,742,468)
Total Net Fixed Assets				8,797,241	8,797,241	9,589,826
Investment - Capital Corp. Investment Agreement						
Prepaid Bond Expenses	9			1,208,500	1,208,500	1,208,500
Land				304,754	304,754	327,052
				95,037	95,037	95,037
Total Assets		256,510	4,600,432	10,966,509	15,823,451	17,272,709

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Financial Position
As of June 30, 2015

	Notes	General	Roads	Property	Total 06/30/2015	Total 06/30/2014
Liabilities & Net Assets						
Current Liabilities						
Account Payable			10,832		10,832	921,027
Credit Card Payable			3,524		3,524	1,927
Retainage Payable				5,980	5,980	73,077
Current Portion of Bond Payable			1,200,238	505,000	505,000	455,000
Deferred Charges - Future Road Fees	10		24,624		1,200,238	1,200,238
Accrued Payable		556			25,180	35,701
Interest Payable		6,315		364,165	364,165	379,808
Activity Center Deposits		6,871	1,239,218	875,145	2,121,234	3,070,228
Total Current Liabilities						
Noncurrent Liabilities						
Bond Payable - Long Term	11			10,020,000	10,020,000	10,525,000
Total Liabilities						
		6,871	1,239,218	10,895,145	12,141,234	13,595,228
Net Assets						
Current Unrestricted		185,807	3,108,151	64,645	3,358,603	3,353,867
Current Restricted		63,832	253,063	6,719	323,614	323,614
Total Net Assets						
		249,639	3,361,214	71,364	3,682,217	3,677,481
Total Liabilities & Net Assets						
		256,510	4,600,432	10,966,509	15,823,451	17,272,709

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Activities & Changes in Net Assets
For the Year ended June 30, 2015

	Notes	General	Roads	Property	Total 06/30/2015	Total 06/30/2014
Revenues						
Road Fees			2,400,430		2,400,430	2,394,931
Road Fees Interest			137,798		137,798	136,638
Transfer Fees			79,000		79,000	90,800
Bank Interest & Dividend		34	2,341	61,029	63,404	63,312
Activities Center Income		18,894			18,894	20,086
Recovered Foreclosure, Legal Costs & Fees			12,181		12,181	15,573
Misc. Income		4,019	2,390		6,409	7,979
Lien Fees			1,350		1,350	26,550
Total Revenues	1,4	22,947	2,635,490	61,029	2,719,466	2,755,869
Expenses						
Depreciation	1			888,763	888,763	600,933
Bond Interest Expense				744,173	744,173	773,729
Personnel & Payroll Taxes		12,078	283,053		295,131	339,552
Direct Road Maintenance			266,463		266,463	282,350
Bad Debt			172,783		172,783	91,071
Vehicle & Equipment Expense			70,377		70,377	68,268
Office Supplies & Expenses			60,925		60,925	54,432
Insurance		587	47,197		47,784	43,065
Shoulder Maintenance			38,790		38,790	50,637
Professional & Legal Fees			35,547		35,547	31,251
Employee Benefits			31,573		31,573	45,451
Road Improvements Exp. through Bond				29,296	29,296	27,972
Activity Center Expense		16,315			16,315	11,014
Shop Supplies & Expenses			13,617		13,617	6,143
Property Expense		850	1,149		1,999	16,330
Loss on Sale of Fixed Assets				871	871	0
Misc. Expenses		323			323	763
Total Expenses		30,153	1,021,474	1,663,103	2,714,730	2,442,961
Revenues over Expenses		(7,206)	1,614,016	(1,602,074)	4,736	312,908
Beginning Net Assets		218,146	2,263,206	1,196,129	3,677,481	3,364,573
Interfund transfers		38,699	(516,008)	477,309	0	0
Ending Net Assets		249,639	3,361,214	71,364	3,682,217	3,677,481

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association
Statement of Cash Flows
For the Year ended June 30, 2015

	Notes	General	Roads	Property	Total 06/30/2015	Total 06/30/2014
Cash provided (used) by:						
Operating Activities						
Excess of revenue over expense		(7,206)	1,614,016	(1,602,074)	4,736	312,908
Items not involving cash						
Depreciation	1			888,763	888,763	600,933
Bad Debt Expense			172,783		172,783	91,071
Loss on Sale of Fixed Assets				871	871	0
Subtotal		(7,206)	1,786,799	(712,440)	1,067,153	1,004,912
Changes in noncash balances						
Receivables	8		(152,714)		(152,714)	(126,551)
Prepaid Expenses			(6,840)		(6,840)	(4,518)
Deposits Payable		2,865			2,865	(150)
Prepaid Bond Expenses				22,298	22,298	25,158
Accounts & Credit Card Payable		(305)	(88,515)	(819,778)	(908,598)	881,845
Retainage Payable				(67,097)	(67,097)	69,048
Interest Payable				(15,643)	(15,643)	(14,113)
Deferred Charges	10		0		0	(962)
Accrued Payable		(1,024)	(9,497)		(10,521)	(3,089)
		(5,670)	1,529,233	(1,592,660)	(69,097)	1,831,580
Investing Activities						
Gain on Investment					0	0
Purchases of Equipment				(94,080)	(94,080)	(4,056)
Construction in Progress				0	0	(1,551,463)
Purchases of Road Improvement				(2,969)	(2,969)	0
Purchases of Land				0	0	0
Financing Activities						
Loan Repayment				(455,000)	(455,000)	(405,000)
Interfund Transfers		38,699	(516,008)	477,309	0	0
Increase (decrease) in cash		33,029	1,013,225	(1,667,400)	(621,146)	(128,939)
Cash, beginning of year		223,481	2,463,471	2,228,377	4,915,329	5,044,268
Cash, end of year	7	256,510	3,476,696	560,977	4,294,183	4,915,329
Supplemental Information:		0	0	744,173	744,173	773,729
Interest paid						

See Accompanying Notes to Financial Statements

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2015

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 20, 2015, 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.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2015

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.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2015

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, 2015 road fees were assessed in January 2015 at a rate of \$275.00 per lot - base fee.

Fiscal year ending:	<u>2015</u>	<u>2014</u>
Road fees	2,400,730	2,395,131
Discount given	(300)	(200)
Interest	137,798	136,638
Liens assessed and collected	<u>1,350</u>	<u>26,550</u>
Total road fees	<u>2,539,578</u>	<u>2,558,119</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 which is allowed should not exceed 5% of road maintenance funds collected in that year is determined annually by the Board. In FYE 6/30/15 & 06/30/2014, the Board approved to transfer the amount of \$0 and \$13,000 to the General Fund, respectively.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2015

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 \$102,518 on equipment, and \$2,969 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 \$560,977 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 \$3,109,009 and \$2,063,808 as of June 30, 2015 and 2014.

Cash balances as of June 30, 2015 are as follows:

	<u>General</u>	<u>Roads</u>	<u>Property</u>	<u>Total</u>
Cash - FHB	190,686	2,821,342		3,012,028
Cash - Morgan Stanley	65,824	531,157		596,981
Cash - Union Bank of CA			560,977	560,977
Cash - Homestreet Bank		123,397		123,397
Cash - On hand (petty cash)		800		800
	<u>256,510</u>	<u>3,476,696</u>	<u>560,977</u>	<u>4,294,183</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.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2015

8. Assessments Receivable

Assessments receivable balances as of June 30, 2015 and 2014 respectively are:

	<u>2015</u>	<u>2014</u>
Assessments Receivable	2,195,617	2,051,686
Allowance-Doubtful Accounts	<u>(1,116,000)</u>	<u>(952,000)</u>
Total	<u>1,079,617</u>	<u>1,099,686</u>

During the year, the HPPOA charged operations \$172,783 and \$91,071 as bad debt expense in 2015 and 2014 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. Deferred Charges - Future Road Fees

The amounts billed but not recognized are shown as "Deferred Charges - Future Road Fees" in the amounts of \$1,200,238 and \$1,200,238 for the years ended June 30, 2015 and 2014, respectively. The amount of deferred charges represents 50% of the road fees which are billed in January each year.

Hawaiian Paradise Park Owners Association

Notes to Financial Statements

June 30, 2015

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,	
2016	505,000
2017	560,000
2018	615,000
2019	675,000
2020	745,000
Thereafter	<u>7,425,000</u>
Total	<u>10,525,000</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 \$2,753. 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. Related Party Transaction

The former Road Supervisor owns Kalaheo Trucking, LLC. HPPOA paid this company for truck rental and material in the amount of \$1,509 for the year ended June 30, 2014.

Hawaiian Paradise Park Owners Association
 Supplementary Information on Future Major Repairs & Replacements
 (Unaudited)

June 30, 2015

The Board of Directors reviews the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained by the board and general manager who determined the costs based on previous bids from licensed contractors for services performed on the common area components; and by past experience with repairs and replacements.

The following information is based on the study and presents significant information about the components of common area.

<u>Component</u>	<u>Estimated Remaining Useful Life</u>		<u>Estimated Future Replacement Costs</u>
Activity Center		Dry Rot	2,500
		Power Wash	600
		Paint	5,000
	Work done in 2015 - 2016	Total	<u>8,100</u>
Road Workshop		Replace Ridge Cap	3,000
		Power Wash Roof	500
	Work done in 2015 - 2016	Total	<u>3,500</u>
Road Maintenance	Work done each year Through 2015	Water Hauling	\$85,000
	Work done each year	Chipseal	\$5,000 - \$7,000 Per mile over contract price