

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2020 and 2019  
(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 – 4
Statements of Revenues, Expenses, and Changes in Fund Balances .....	5 – 6
Statements of Cash Flows .....	7 – 8
Notes to Financial Statements .....	9 – 16



## **Taketa, Iwata, Hara & Associates, LLC**

Certified Public Accountants & Consultants

101 Aupuni Street, Suite 139

Hilo, Hawaii 96720-4260

### 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 (Association), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements 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 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 audits 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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***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.

***Emphasis of Matter – COVID 19***

As more fully described in Note 11 the Association may be materially impacted by the outbreak of the novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020. Our opinion is not modified with respect to this matter.

*Taketa, Iwata, Hara & Associates, LLC*

Hilo, Hawaii  
December 22, 2020

Hawaiian Paradise Park Owners Association

Statements of Financial Position

At June 30, 2020

<u>Assets</u>	<u>General</u>	<u>Roads</u>	<u>Property</u>	<u>Total</u>
Current assets:				
Cash on hand	\$ -	\$ 800	\$ -	\$ 800
Cash - checking	335,874	772,447	-	1,108,321
Cash - savings accounts	-	6,007,222	-	6,007,222
Cash - money market funds & commercial paper	-	126,422	-	126,422
Cash - restricted by debt agreements	-	-	407,996	407,996
Total cash and restricted cash	335,874	6,906,891	407,996	7,650,761
Accounts receivable, net of allowance for doubtful accounts of \$646,627 at June 30, 2020	-	1,823,637	-	1,823,637
Due from other funds	-	25,171	-	25,171
Other prepaid expense	-	35,258	-	35,258
Prepaid insurance	-	45,004	-	45,004
Total current assets	335,874	8,835,961	407,996	9,579,831
Property and equipment:				
Buildings and building improvements	-	-	368,171	368,171
Road improvements	-	-	13,605,901	13,605,901
Land improvements	-	-	54,087	54,087
Equipment	-	-	656,511	656,511
	-	-	14,684,670	14,684,670
Less accumulated depreciation	-	-	(9,623,686)	(9,623,686)
Net property and equipment	-	-	5,060,984	5,060,984
Reserves - restricted by debt agreements	-	-	479,989	479,989
Land	-	-	78,731	78,731
Total assets	\$ 335,874	\$ 8,835,961	\$ 6,027,700	\$15,199,535
<u>Liabilities and Fund Balances</u>				
Current liabilities:				
Current portion of loan payable	\$ -	\$ -	\$ 25,305	\$ 25,305
Current portion of bond payable	-	-	885,000	885,000
Accounts payable	-	6,737	-	6,737
Due to other funds	25,171	-	-	25,171
Credit card payable	-	1,145	-	1,145
Accrued payable	-	10,492	-	10,492
Interest payable	-	-	157,058	157,058
Activity center deposits	2,370	-	-	2,370
Deferred revenues	-	1,583,652	-	1,583,652
Total current liabilities	27,541	1,602,026	1,067,363	2,696,930
Noncurrent liabilities:				
Loan payable - long term	-	-	13,136	13,136
Bond payable, net of debt issuance costs of \$80,423 as of June 30, 2020	-	-	5,504,577	5,504,577
Total liabilities	27,541	1,602,026	6,585,076	8,214,643
Fund balances:				
Total unrestricted fund balances	308,333	7,233,935	(557,376)	6,984,892
Total liabilities and fund balances	\$ 335,874	\$ 8,835,961	\$ 6,027,700	\$15,199,535

See accompanying notes to financial statements.

Hawaiian Paradise Park Owners Association

Statements of Financial Position

At June 30, 2019

<u>Assets</u>	<u>General</u>	<u>Roads</u>	<u>Property</u>	<u>Total</u>
Currents assets:				
Cash on hand	\$ -	\$ 800	\$ -	\$ 800
Cash - checking	337,975	559,654	-	897,629
Cash - savings accounts	-	5,542,321	-	5,542,321
Cash - money market funds & commercial paper	-	125,879	-	125,879
Cash - restricted by debt agreements	-	-	399,019	399,019
Total cash and restricted cash	337,975	6,228,654	399,019	6,965,648
Accounts receivable, net of allowance for doubtful accounts of \$736,152 at June 30, 2019	-	1,613,088	-	1,613,088
Due from other funds	-	15,760	-	15,760
Other prepaid expense	-	23,357	-	23,357
Prepaid insurance	-	34,764	-	34,764
Total current assets	337,975	7,915,623	399,019	8,652,617
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	-	-	656,511	656,511
	-	-	14,366,628	14,366,628
Less accumulated depreciation	-	-	(8,794,939)	(8,794,939)
Net property and equipment	-	-	5,571,689	5,571,689
Reserves - restricted by debt agreements	-	-	476,187	476,187
Land	-	-	78,731	78,731
Total assets	<u>\$ 337,975</u>	<u>\$ 7,915,623</u>	<u>\$ 6,525,626</u>	<u>\$14,779,224</u>
<u>Liabilities and Fund Balances</u>				
Current liabilities:				
Current portion of loan payable	\$ -	\$ -	\$ 22,194	\$ 22,194
Current portion of bond payable	-	-	835,000	835,000
Accounts payable	-	26,358	-	26,358
Due to other funds	15,760	-	-	15,760
Credit card payable	-	6,586	-	6,586
Accrued payable	-	6,802	-	6,802
Interest payable	-	-	157,058	157,058
Activity center deposits	3,250	-	-	3,250
Deferred revenues	-	1,567,620	-	1,567,620
Total current liabilities	19,010	1,607,366	1,014,252	2,640,628
Noncurrent liabilities:				
Loan payable - long term	-	-	40,488	40,488
Bond payable, net of debt issuance costs of \$106,367 as of June 30, 2019	-	-	6,363,633	6,363,633
Total liabilities	19,010	1,607,366	7,418,373	9,044,749
Fund balances:				
Total unrestricted fund balances	318,965	6,308,257	(892,747)	5,734,475
Total liabilities and fund balances	<u>\$ 337,975</u>	<u>\$ 7,915,623</u>	<u>\$ 6,525,626</u>	<u>\$14,779,224</u>

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, 2020

	General	Roads	Property	Total
Revenue:				
Road fees	\$ -	\$ 3,123,084	\$ -	\$ 3,123,084
Transfer fees	-	179,400	-	179,400
Road fee interest	-	138,802	-	138,802
Bank interest and dividend	54	46,199	4,623	50,876
Lien fees	-	26,800	-	26,800
Activities center income	18,346	-	-	18,346
Recovered foreclosure, legal costs and fees	-	976	-	976
Miscellaneous income	5,955	58,917	-	64,872
Total revenue	24,355	3,574,178	4,623	3,603,156
Operating expenses:				
Depreciation	-	-	828,747	828,747
Direct road maintenance	-	429,740	-	429,740
Personnel and payroll taxes	16,855	372,642	-	389,497
Bond interest expense	-	-	340,059	340,059
Vehicle and equipment expense	-	70,982	-	70,982
Professional and legal fees	-	60,523	-	60,523
Insurance	1,922	50,192	-	52,114
Employee benefits	-	46,355	-	46,355
Shoulder maintenance	-	42,379	-	42,379
Office expense and supplies	-	28,237	-	28,237
Merchant services and bank fees	-	24,904	-	24,904
Activity center expense	14,477	-	-	14,477
Collections expense	-	11,725	-	11,725
Shop supplies and expenses	-	7,934	-	7,934
Loan interest expense	-	-	2,272	2,272
Property expense	1,613	1,061	-	2,674
Miscellaneous expense	120	-	-	120
Total expense	34,987	1,146,674	1,171,078	2,352,739
Revenues (under) over expenses	(10,632)	2,427,504	(1,166,455)	1,250,417
Interfund transfers		(1,501,826)	1,501,826	-
Fund Balances at beginning of year	318,965	6,308,257	(892,747)	5,734,475
Fund Balances at end of year	\$ 308,333	\$ 7,233,935	\$ (557,376)	\$ 6,984,892

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, 2019

	General	Roads	Property	Total
Revenue:				
Road fees	\$ -	\$ 2,989,478	\$ -	\$ 2,989,478
Transfer fees	-	206,900	-	206,900
Road fee interest	-	125,870	-	125,870
Bank interest and dividend	37	33,239	5,944	39,220
Lien fees	-	37,152	-	37,152
Activities center income	26,996	-	-	26,996
Recovered foreclosure, legal costs and fees	-	3,807	-	3,807
Miscellaneous income	3,865	9,347	-	13,212
Total revenue	30,898	3,405,793	5,944	3,442,635
Operating expenses:				
Depreciation	-	-	850,149	850,149
Direct road maintenance	-	473,990	-	473,990
Personnel and payroll taxes	13,030	423,868	-	436,898
Bond interest expense	-	-	363,020	363,020
Vehicle and equipment expense	-	97,130	-	97,130
Insurance	1,850	70,020	-	71,870
Professional and legal fees	-	58,228	-	58,228
Employee benefits	-	49,664	-	49,664
Office supplies and expense	-	32,818	-	32,818
Shoulder maintenance	-	31,651	-	31,651
Merchant services and bank fees	-	21,874	-	21,874
Bad debt	-	21,424	-	21,424
Settlement refund to multiple lot owners	-	17,356	-	17,356
Activity center expense	14,062	-	-	14,062
Shop supplies and expenses	-	11,419	-	11,419
Collections expense	-	9,698	-	9,698
Loan interest expense	-	-	3,612	3,612
Property expense	1,600	412	-	2,012
Miscellaneous expense	117	-	-	117
Total expense	30,659	1,319,552	1,216,781	2,566,992
Revenues over (under) expenses	239	2,086,241	(1,210,837)	875,643
Interfund transfers	137,350	(1,319,276)	1,181,926	-
Fund Balances at beginning of year	181,376	5,541,292	(863,836)	4,858,832
Fund Balances at end of year	\$ 318,965	\$ 6,308,257	\$ (892,747)	\$ 5,734,475

See accompanying notes to financial statements.



Hawaiian Paradise Park Owners Association

Statements of Cash Flows

For the Year Ended June 30, 2020

	General	Roads	Property	Total
Cash flows from operating activities:				
Revenues (under) over expenses	\$ (10,632)	\$ 2,427,504	\$(1,166,455)	\$ 1,250,417
Adjustments to reconcile excess of revenues (under) over expenses to net cash (used in) provided by operating activities:				
Depreciation	-	-	828,747	828,747
Amortization of debt issuance costs	-	-	25,944	25,944
(Increase) decrease in:				
Accounts receivable	-	(210,549)	-	(210,549)
Due from other funds	-	(9,411)	-	(9,411)
Other prepaid expenses	-	(22,141)	-	(22,141)
Increase (decrease) in:				
Accounts and credit card payable	-	(25,062)	-	(25,062)
Due to other funds	9,411	-	-	9,411
Interest payable	-	-	-	-
Activity center deposits	(880)	-	-	(880)
Deferred revenues	-	16,032	-	16,032
Accrued payable	-	3,690	-	3,690
Total adjustments	8,531	(247,441)	854,691	615,781
Net cash (used in) provided by operations	(2,101)	2,180,063	(311,764)	1,866,198
Cash flows from investing activities:				
Capital expenditures for paving	-	-	(318,042)	(318,042)
Net cash used in investing activities	-	-	(318,042)	(318,042)
Cash flows from financing activities:				
Loan repayment	-	-	(24,241)	(24,241)
Changes to bond reserves	-	-	(3,802)	(3,802)
Repayment of bond	-	-	(835,000)	(835,000)
Net cash used in financing activities	-	-	(863,043)	(863,043)
Net (decrease) increase in cash and restricted cash	(2,101)	2,180,063	(1,492,849)	685,113
Interfund transfers		(1,501,826)	1,501,826	-
Cash and restricted cash at beginning of year	337,975	6,228,654	399,019	6,965,648
Cash and restricted cash at end of year	\$ 335,874	\$ 6,906,891	\$ 407,996	\$ 7,650,761

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest amounted to \$316,387

Supplemental Schedule of Noncash Investing and Financing Activities

There were no non-cash investing and financing activities in 2020.

See accompanying notes to financial statements.

Hawaiian Paradise Park Owners Association

Statements of Cash Flows

For the Year Ended June 30, 2019

	General	Roads	Property	Total
Cash flows from operating activities:				
Revenues over (under) expenses	\$ 239	\$ 2,086,241	\$(1,210,837)	\$ 875,643
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by (used in) operating activities:				
Depreciation	-	-	850,149	850,149
Bad debt expense	-	21,424	-	21,424
Amortization of debt issuance costs	-	-	29,005	29,005
(Increase) decrease in:				
Accounts receivable	-	(17,197)	-	(17,197)
Due from other funds	-	(6,690)	-	(6,690)
Other prepaid expenses	-	106,353	-	106,353
Increase (decrease) in:				
Accounts and credit card payable	-	(40,331)	-	(40,331)
Due to other funds	6,690	-	-	6,690
Interest payable	-	-	(12,633)	(12,633)
Activity center deposits	(1,175)	-	-	(1,175)
Deferred revenues	-	134,759	-	134,759
Accrued payable	-	(24,611)	-	(24,611)
Total adjustments	5,515	173,707	866,521	1,045,743
Net cash provided by (used in) operations	5,754	2,259,948	(344,316)	1,921,386
Cash flows from investing activities:				
Capital expenditures for equipment	-	-	(5,045)	(5,045)
Net cash used in investing activities	-	-	(5,045)	(5,045)
Cash flows from financing activities:				
Loan repayment	-	-	(25,111)	(25,111)
Changes to bond reserves	-	-	(287,590)	(287,590)
Repayment of bond	-	-	(789,999)	(789,999)
Net cash used in financing activities	-	-	(1,102,700)	(1,102,700)
Net increase (decrease) in cash and restricted cash	5,754	2,259,948	(1,452,061)	813,641
Interfund transfers	137,350	(1,319,276)	1,181,926	-
Cash and restricted cash at beginning of year	194,871	5,287,982	669,154	6,152,007
Cash and restricted cash at end of year	\$ 337,975	\$ 6,228,654	\$ 399,019	\$ 6,965,648

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest amounted to \$342,994

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, 2020 and 2019

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

#### Organization

Hawaiian Paradise Park Owners Association (Association), formerly known as Paradise Hui Hanalike, 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, 2020 and 2019 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 \$7,300,200 and \$6,581,000 at June 30, 2020 and 2019, respectively.

#### 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 the 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.

As of June 30, 2020 and 2019 there was approximately \$2,470,000 and \$2,349,000, respectively, 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 \$646,626 and \$736,152 as of June 30, 2020 and 2019, respectively.

#### 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. The estimated useful life of land improvements and buildings is between 0-40 years. The 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 \$828,747 and \$850,149 for the years ended June 30, 2020 and 2019, respectively.

#### 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 deferred revenues balance was \$1,583,652 and \$1,567,620 as of June 30, 2020 and 2019, respectively.

#### Fund Balances

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

## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to Financial Statements, Continued

#### Functional Allocation of Expense

Expense incurred while providing project and management and general activities are charged directly and are presented on a functional basis in the Statements of Revenues, Expenses, and Changes in Fund Balances. Project expenses are related to road maintenance and consists of costs from both Road and Property Funds. Management and general activities are related to non-road expenses and consists of costs from the General Fund.

#### 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.

#### 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.

#### New Accounting Pronouncement

During the year ended June 30, 2020 the Association adopted the requirements of Financial Accounting Standards Board's Accounting Standards Update No. 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

The amendments to ASU 2016-18 were applied on a retrospective basis to all periods presented. Other than the changes to the financial statement presentation and disclosures described above, adoption of the ASU did not have a significant impact on the financial statements.

During the year ended June 30, 2019 the Association adopted the requirements of Financial Accounting Standards Board's Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements in Not-for-Profit Entities* (ASU 2016-14). This update addresses the complexity and understanding of net asset classification, deficiencies in information about liquidity, and the lack of consistency in the type of information provided about expense and investments return between not-for-profit entities.

Then amendments to ASU 2016-14 were applied on a retrospective basis to all periods presented.

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to Financial Statements, Continued

### Accounting Pronouncements Issued but Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update, along with ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, establishes a comprehensive revenue recognition standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In June 2020, FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, deferring the effective date of all Topic 606 related ASU's until annual periods beginning after December 15, 2019. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of these ASUs on their financial statements.

### (2) Liquidity and Availability of Net Assets

The Association's working capital and cash flows are consistent as road fee income is collected annually. The Association has the following financial assets available within one year of the balance sheet date to meet cash needs for general expenditures:

	<u>General</u>	<u>Roads and Property</u>
Cash and cash – restricted by debt agreements	\$ 335,874	\$ 7,314,887
Less: current liabilities	<u>(27,541)</u>	<u>(2,696,930)</u>
Total	<u>\$ 308,333</u>	<u>\$ 4,617,957</u>

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to Financial Statements, Continued

### (3) 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

Equipment lease expense is reported in the Statement of Revenues, Expenses, and Changes in Fund Balances as office expense and supplies. The components of equipment lease expense are summarized below:

	<u>2020</u>	<u>2019</u>
Minimum rent	\$ 2,485	\$ 2,485
Month-to-month rent	-	75
	<u>\$ 2,485</u>	<u>\$ 2,560</u>

At June 30, 2020 the future minimum non-cancelable lease commitments are as follows:

<u>Years ending June 30:</u>	
2021	<u>\$ 414</u>
Total minimum lease payments	<u>\$ 414</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 years ended June 30, 2020 and 2019 the rents received under this lease were \$2,772 and \$3,132, respectively. After the twenty-fifth year of this lease agreement, and at intervals of every ten years thereafter, the rent is subject to negotiation. The lease expires in May 2079. Revenues received from this agreement is reported in the Statement of Revenues, Expenses, and Changes in Fund Balances as road fee income.

## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to Financial Statements, Continued

#### (4) 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>	
2021	\$ 25,305
2022	<u>13,136</u>
Total	<u>\$ 38,441</u>

#### (5) Bond Payable

On June 21, 2007, the Association issued \$12,085,000 in revenue bonds (Series 2007 Revenue Bonds) to fund the construction of major improvements (primarily paving) to the 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 the Association issued \$8,095,000 in revenue refunding bonds (Series 2018 Revenue Refunding Bonds) to pay off and redeem the previous bond agreement.

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. The Association recorded bond interest expense of \$314,115 and \$326,749 for the years ended June 30, 2020 and 2019, respectively. The amortized portion of the debt issuance costs from the Series 2018 revenue bonds amounted to \$25,944 and \$29,005 for the years ended June 30, 2020 and 2019, respectively. Bond interest expense and the amortized portion of debt issuance cost were reported in the Statement of Revenues, Expenses, and Changes in Fund Balances 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 each annual maturity date. These payments are recorded as cash – restricted by debt agreements on the Statement of Financial Position.



## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to Financial Statements, Continued

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, 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.

Annual principal maturities of the bond payable are as follows:

<u>Year ending June 30:</u>	
2021	\$ 885,000
2022	945,000
2023	1,005,000
2024	1,065,000
2025	1,130,000
Thereafter	<u>1,440,000</u>
Total	<u>\$ 6,470,000</u>

#### (6) 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 are assessed in January of each year and are invoiced on a per lot -base fee. For each of the calendar years beginning January 2020 and 2019, road fees were assessed at \$360.

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.

#### (7) 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.

#### (8) Property Fund

The property and equipment fund represents the net investment, at cost, in property and equipment. During the years ended June 30, 2020 and 2019 the Association spent \$318,042 and \$5,045 on paving and equipment, respectively.

#### (9) 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.

## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to Financial Statements, Continued

#### (10) 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.

#### (11) Subsequent events

In March 2020 the World Health Organization declared that a novel coronavirus outbreak (COVID-19) had reached the level of a pandemic based on the rapid increase in exposure globally. The United States followed by declaring a state of emergency, implementing social distancing guidelines, and introducing other measures to slow the spread of the virus. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Given the daily changes caused by the COVID-19 outbreak, management is not able to estimate the effects on its results of operations, financial condition, or liquidity.

The Association did not have any other subsequent events through December 22, 2020, the date the financial statements were available to be issued.