

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2021 and 2020  
(WITH INDEPENDENT AUDITOR'S REPORT)

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## 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 (Association), which comprise the statements of financial position as of June 30, 2021 and 2020, 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, 2021 and 2020, 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.

*Takuta, Iwata, Hara & Associates, LLC*

Hilo, Hawaii  
December 22, 2021

Hawaiian Paradise Park Owners Association

Statements of Financial Position

At June 30, 2021 and 2020

Assets	2021				2020			
	General	Roads	Property	Total	General	Roads	Property	Total
Currents assets:								
Cash on hand	\$ -	\$ 800	\$ -	\$ 800	\$ -	\$ 800	\$ -	\$ 800
Cash - checking	488,045	739,017	-	1,227,062	335,874	772,447	-	1,108,321
Cash - savings accounts	-	6,064,525	-	6,064,525	-	6,007,222	-	6,007,222
Cash - money market funds & commercial paper	-	126,587	-	126,587	-	126,422	-	126,422
Cash - restricted by debt agreements	-	-	415,363	415,363	-	-	407,996	407,996
Total cash and restricted cash	488,045	6,930,929	415,363	7,834,337	335,874	6,906,891	407,996	7,650,761
Accounts receivable, net of allowance for doubtful accounts of \$626,239 and \$646,627 at June 30, 2021 and 2020, respectively	-	1,946,593	-	1,946,593	-	1,823,637	-	1,823,637
Due from other funds	-	33,476	-	33,476	-	25,171	-	25,171
Other prepaid expense	-	26,744	-	26,744	-	35,258	-	35,258
Prepaid insurance	-	33,538	-	33,538	-	45,004	-	45,004
Total current assets	488,045	8,971,280	415,363	9,874,688	335,874	8,835,961	407,996	9,579,831
Property and equipment:								
Buildings and building improvements	-	-	377,581	377,581	-	-	368,171	368,171
Road improvements	-	-	14,315,215	14,315,215	-	-	13,605,901	13,605,901
Land improvements	-	-	130,571	130,571	-	-	54,087	54,087
Equipment	-	-	661,955	661,955	-	-	656,511	656,511
	-	-	15,485,322	15,485,322	-	-	14,684,670	14,684,670
Less accumulated depreciation	-	-	(10,458,268)	(10,458,268)	-	-	(9,623,686)	(9,623,686)
Net property and equipment	-	-	5,027,054	5,027,054	-	-	5,060,984	5,060,984
Reserves - restricted by debt agreements	-	-	485,596	485,596	-	-	479,989	479,989
Land	-	-	78,731	78,731	-	-	78,731	78,731
Total assets	\$ 488,045	\$ 8,971,280	\$ 6,006,744	\$15,466,069	\$ 335,874	\$ 8,835,961	\$ 6,027,700	\$15,199,535
<u>Liabilities and Fund Balances</u>								
Current liabilities:								
Current portion of loan payable	\$ -	\$ -	\$ 13,111	\$ 13,111	\$ -	\$ -	\$ 25,305	\$ 25,305
Current portion of bond payable	-	-	945,000	945,000	-	-	885,000	885,000
Accounts payable	-	6,207	-	6,207	-	6,737	-	6,737
Due to other funds	33,476	-	-	33,476	25,171	-	-	25,171
Credit card payable	-	1,523	-	1,523	-	1,145	-	1,145
Accrued payable	-	15,096	-	15,096	-	10,492	-	10,492
Interest payable	-	-	120,078	120,078	-	-	157,058	157,058
Activity center deposits	770	-	-	770	2,370	-	-	2,370
Deferred revenues	-	1,568,970	-	1,568,970	-	1,583,652	-	1,583,652
Total current liabilities	34,246	1,591,796	1,078,189	2,704,231	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 \$57,718 and \$80,423 as of June 30, 2021 and 2020	-	-	4,582,282	4,582,282	-	-	5,504,577	5,504,577
Total liabilities	34,246	1,591,796	5,660,471	7,286,513	27,541	1,602,026	6,585,076	8,214,643
Fund balances:								
Total unrestricted fund balances	453,799	7,379,484	346,273	8,179,556	308,333	7,233,935	(557,376)	6,984,892
Total liabilities and fund balances	\$ 488,045	\$ 8,971,280	\$ 6,006,744	\$15,466,069	\$ 335,874	\$ 8,835,961	\$ 6,027,700	\$15,199,535

See accompanying notes to financial statements.

Hawaiian Paradise Park Owners Association

Statements of Revenues, Expenses, and Changes in Fund Balances

For the Years Ended June 30, 2021 and 2020

	2021				2020			
	General	Roads	Property	Total	General	Roads	Property	Total
Revenue:								
Road fees	\$ -	\$ 3,151,681	\$ -	\$ 3,151,681	\$ -	\$ 3,123,084	\$ -	\$ 3,123,084
Transfer fees	-	247,200	-	247,200	-	179,400	-	179,400
Road fee interest	-	152,105	-	152,105	-	138,802	-	138,802
Bank interest and dividend	14	2,641	222	2,877	54	46,199	4,623	50,876
Lien fees	-	48,000	-	48,000	-	26,800	-	26,800
Activites center income	14,101	-	-	14,101	18,346	-	-	18,346
Recovered foreclosure, legal costs and fees	-	105	-	105	-	976	-	976
Miscellaneous income	1,074	13,398	-	14,472	5,955	58,917	-	64,872
Total revenue	15,189	3,615,130	222	3,630,541	24,355	3,574,178	4,623	3,603,156
Operating expenses:								
Depreciation	-	-	834,582	834,582	-	-	828,747	828,747
Direct road maintenance	-	460,351	-	460,351	-	429,740	-	429,740
Personnel and payroll taxes	11,725	398,003	-	409,728	16,855	372,642	-	389,497
Bond interest expense	-	-	263,935	263,935	-	-	340,059	340,059
Professional and legal fees	-	94,284	-	94,284	-	60,523	-	60,523
Insurance	2,441	80,570	-	83,011	1,922	50,192	-	52,114
Vehicle and equipment expense	-	78,148	-	78,148	-	70,982	-	70,982
Employee benefits	-	56,146	-	56,146	-	46,355	-	46,355
Shoulder maintenance	-	53,527	-	53,527	-	42,379	-	42,379
Office expense and supplies	-	30,789	-	30,789	-	28,237	-	28,237
Merchant services and bank fees	-	30,261	-	30,261	-	24,904	-	24,904
Collections expense	-	10,905	-	10,905	-	11,725	-	11,725
Activity center expense	10,557	-	-	10,557	14,477	-	-	14,477
Shop supplies and expenses	-	10,400	-	10,400	-	7,934	-	7,934
Property expense	1,600	4,969	-	6,569	1,613	1,061	-	2,674
Miscellaneous expense	-	1,501	-	1,501	120	-	-	120
Loan interest expense	-	-	1,183	1,183	-	-	2,272	2,272
Total expense	26,323	1,309,854	1,099,700	2,435,877	34,987	1,146,674	1,171,078	2,352,739
Revenues (under) over expenses	(11,134)	2,305,276	(1,099,478)	1,194,664	(10,632)	2,427,504	(1,166,455)	1,250,417
Interfund transfers	156,600	(2,159,727)	2,003,127	-		(1,501,826)	1,501,826	-
Fund Balances at beginning of year	308,333	7,233,935	(557,376)	6,984,892	318,965	6,308,257	(892,747)	5,734,475
Fund Balances at end of year	\$ 453,799	\$ 7,379,484	\$ 346,273	\$ 8,179,556	\$ 308,333	\$ 7,233,935	\$ (557,376)	\$ 6,984,892

See accompanying notes to financial statements.

Hawaiian Paradise Park Owners Association

Statements of Cash Flows

For the Years Ended June 30, 2021 and 2020

	2021				2020			
	General	Roads	Property	Total	General	Roads	Property	Total
Cash flows from operating activities:								
Revenues (under) over expenses	\$ (11,134)	\$ 2,305,276	\$ (1,099,478)	\$ 1,194,664	\$ (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	-	-	834,582	834,582	-	-	828,747	828,747
Amortization of debt issuance costs	-	-	22,705	22,705	-	-	25,944	25,944
(Increase) decrease in:								
Accounts receivable	-	(122,956)	-	(122,956)	-	(210,549)	-	(210,549)
Due from other funds	-	(8,305)	-	(8,305)	-	(9,411)	-	(9,411)
Other prepaid expenses	-	19,980	-	19,980	-	(22,141)	-	(22,141)
Increase (decrease) in:								
Accounts and credit card payable	-	(152)	-	(152)	-	(25,062)	-	(25,062)
Due to other funds	8,305	-	-	8,305	9,411	-	-	9,411
Interest payable	-	-	(36,980)	(36,980)	-	-	-	-
Activity center deposits	(1,600)	-	-	(1,600)	(880)	-	-	(880)
Deferred revenues	-	(14,682)	-	(14,682)	-	16,032	-	16,032
Accrued payable	-	4,604	-	4,604	-	3,690	-	3,690
Total adjustments	6,705	(121,511)	820,307	705,501	8,531	(247,441)	854,691	615,781
Net cash (used in) provided by operations	(4,429)	2,183,765	(279,171)	1,900,165	(2,101)	2,180,063	(311,764)	1,866,198
Cash flows from investing activities:								
Capital expenditures for property and equipment	-	-	(800,652)	(800,652)	-	-	(318,042)	(318,042)
Net cash used in investing activities	-	-	(800,652)	(800,652)	-	-	(318,042)	(318,042)
Cash flows from financing activities:								
Loan repayment	-	-	(25,330)	(25,330)	-	-	(24,241)	(24,241)
Repayment of bond	-	-	(885,000)	(885,000)	-	-	(835,000)	(835,000)
Net cash used in financing activities	-	-	(910,330)	(910,330)	-	-	(859,241)	(859,241)
Net (decrease) increase in cash and restricted cash	(4,429)	2,183,765	(1,990,153)	189,183	(2,101)	2,180,063	(1,489,047)	688,915
Interfund transfers	156,600	(2,159,727)	2,003,127	-	-	(1,501,826)	1,501,826	-
Cash and restricted cash at beginning of year, as restated as of June 30, 2020	335,874	6,906,891	887,985	8,130,750	337,975	6,228,654	875,206	7,441,835
Cash and restricted cash at end of year, as restated as of June 30, 2020	<u>\$ 488,045</u>	<u>\$ 6,930,929</u>	<u>\$ 900,959</u>	<u>\$ 8,319,933</u>	<u>\$ 335,874</u>	<u>\$ 6,906,891</u>	<u>\$ 887,985</u>	<u>\$ 8,130,750</u>
Summary of cash accounts:								
Cash and restricted cash	\$ 488,045	\$ 6,930,929	\$ 415,363	\$ 7,834,337	\$ 335,874	\$ 6,906,891	\$ 407,996	\$ 7,650,761
Reserves - restricted by debt agreements	-	-	485,596	485,596	-	-	479,989	479,989
	<u>\$ 488,045</u>	<u>\$ 6,930,929</u>	<u>\$ 900,959</u>	<u>\$ 8,319,933</u>	<u>\$ 335,874</u>	<u>\$ 6,906,891</u>	<u>\$ 887,985</u>	<u>\$ 8,130,750</u>

Supplemental Disclosure of Cash Flow Information

The Association paid interest totaling \$279,393 and \$316,387 for the years ended June 30, 2021 and 2020, respectively.

Supplemental Schedule of Noncash Investing and Financing Activities

There were no non-cash investing and financing activities in 2021 and 2020.

See accompanying notes to financial statements.

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to Financial Statements

June 30, 2021 and 2020

### (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.

#### 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, 2021 and 2020 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 \$7,501,000 and \$7,300,200 at June 30, 2021 and 2020, 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.

#### 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.



## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to Financial Statements, Continued

#### 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. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its assessments is satisfied over time on a daily pro-rata basis using the input method. Accounts receivable on the balance sheet represent assessments due from owners and other trade receivables.

As of June 30, 2021 and 2020 there was approximately \$2,570,000 and \$2,470,000, 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 \$626,239 and \$646,627 as of June 30, 2021 and 2020, 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 \$834,582 and \$828,747 for the years ended June 30, 2021 and 2020, respectively.

#### Deferred Revenues

The Association recognizes revenue from association members as the related performance obligations are satisfied. Deferred revenues consist primarily of association assessments which were collected but not earned during the year. The deferred revenues balance was \$1,568,970 and \$1,583,652 as of June 30, 2021 and 2020, 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.

#### Accounting Pronouncements Adopted

During the year ended June 30, 2021 the Association adopted the requirements of Financial Accounting Standards Board's Accounting Standards Update No. 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.

The amendments to ASU 2014-09 were applied on a retrospective basis to all periods presented. The adoption of the ASU did not have a significant impact on the financial statements.

## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to Financial Statements, Continued

#### Accounting Standards Pending Adoption

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize on the balance sheet a right-of-use asset, representing their right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. ASU 2016-02 requires the use of a modified retrospective basis, with lessees and lessors being required to recognize and measure leases at the beginning of the earliest period presented. This update is effective for the Association for fiscal years beginning after December 15, 2021. The Association is currently evaluating the impact this guidance will have on its financial statements.

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 Topic 842 by one year. The effective date has been updated for the effects of ASU 2020-05 as described in the description of the ASU.

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

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	\$ 488,045	\$ 7,346,292
Less: current liabilities	<u>(34,246)</u>	<u>(2,669,985)</u>
Total	<u>\$ 453,799</u>	<u>\$ 4,676,307</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.

A new operating lease for a postage machine replaced the prior lease which had a term of 63 months and a monthly payment of \$207. The terms of the new operating lease include monthly payments of \$182 for 63 months with payments beginning June 1, 2021.

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>2021</u>	<u>2020</u>
Minimum rent	\$ 1,261	\$ 2,485
Month-to-month rent	-	-
	<u>\$ 1,261</u>	<u>\$ 2,485</u>

At June 30, 2021 the future minimum non-cancelable lease commitments are as follows:

<u>Years ending June 30:</u>	
2022	\$ 2,100
2023	2,100
2024	2,100
2025	2,100
2026	2,100
Thereafter	<u>400</u>
Total minimum lease payments	<u>\$ 10,900</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. 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 with Malamalama School, Inc. 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

The Association has several other agreements to lease land for periods of five years. In addition, other real property is leased on a month-to-month basis. Revenues received from these lease agreements is reported in the Statement of Revenues, Expenses, and Changes in Fund Balances as activities center income and miscellaneous income. Rental income in 2021 and 2020 was comprised of the following:

	<u>2021</u>	<u>2020</u>
Minimum rent	\$ 9,120	\$ 6,000
Month-to-month rent	16,039	21,118
Contingent rent	<u>1,231</u>	<u>2,779</u>
	<u>\$ 26,390</u>	<u>\$ 29,987</u>

Future minimum rental income under non-cancelable leases to be received as of June 30, 2021 is as follows:

### Years ending June 30:

2022	\$ 33,300
2023	33,500
2024	33,700
2025	27,200
2026	<u>24,000</u>
Total	<u>\$ 151,700</u>

### (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 principal and interest. The imputed interest rate is 4.25% per annum.

Annual principal maturities on the loan payable are as follows:

### Year ending June 30:

2022	<u>\$ 13,111</u>
Total	<u>\$ 13,111</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.

## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to Financial Statements, Continued

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 \$241,230 and \$314,115 for the years ended June 30, 2021 and 2020, respectively. The amortized portion of the debt issuance costs from the Series 2018 revenue bonds amounted to \$22,705 and \$25,944 for the years ended June 30, 2021 and 2020, 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 bond 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.

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>	
2022	\$ 945,000
2023	1,005,000
2024	1,065,000
2025	1,130,000
2026	1,195,000
Thereafter	<u>245,000</u>
Total	<u>\$ 5,585,000</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 2021 and 2020, 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.

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to Financial Statements, Continued

### (8) Property Fund

The property and equipment fund represents the net investment, at cost, in property and equipment. During the years ended June 30, 2021 and 2020 the Association spent \$709,314 and \$318,042 on paving, and \$91,338 and \$0 on equipment and improvements, 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.

### (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) Prior Period Adjustment

Management recorded a reclassifying adjustment to cash and restricted cash causing the restatement of certain line items under the Property Fund in the accompanying statement of cash flows as of June 30, 2020. The following adjustments are summarized below.

#### Changes to bond reserves:

Changes to bond reserves at June 30, 2020	\$ (3,802)
Adjustment to changes to bond reserves	<u>3,802</u>

Changes to bond reserves at June 30, 2020, as restated	<u>\$ -</u>
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#### Net cash used in financing activities:

Net cash used in financing activities at June 30, 2020	\$ (863,043)
Adjustment to net cash used in financing activities	<u>3,802</u>

Net cash used in financing activities at June 30, 2020, as restated	<u>\$ (859,241)</u>
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#### Net (decrease) increase in cash and restricted cash:

Net (decrease) increase in cash and restricted cash at June 30, 2020	\$ (1,492,849)
Adjustment to net (decrease) increase in cash and restricted cash	<u>3,802</u>

Net (decrease) increase in cash and restricted cash at June 30, 2020, as restated	<u>\$ (1,489,047)</u>
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## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to Financial Statements, Continued

Cash and restricted cash at beginning of year:

Cash and restricted cash at beginning of year at June 30, 2020	\$ 399,019
Adjustment to cash and restricted cash	<u>476,187</u>

Cash and restricted cash at beginning of year at June 30, 2020, as restated

\$ 875,206

Cash and restricted cash at end of year:

Cash and restricted cash at end of year at June 30, 2020	\$ 407,996
Adjustment to cash and restricted cash	<u>479,989</u>

Cash and restricted cash at end of year at June 30, 2020, as restated

\$ 887,985

(12) Subsequent events

The Association's management has evaluated subsequent events through December 22, 2021, 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.