

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2022 and 2021  
(WITH INDEPENDENT AUDITOR'S REPORT)

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

Certified Public Accountants & Consultants

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### Independent Auditor's Report

The Board of Directors  
Hawaiian Paradise Park Owners Association:

#### ***Opinion***

We have audited the accompanying financial statements of Hawaiian Paradise Park Owners Association (Association), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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

Management has omitted the information on future repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Taketa, Iwata, Hara & Associates, LLC*

Hilo, Hawaii  
November 29, 2022

## Hawaiian Paradise Park Owners Association

## Statements of Financial Position

At June 30, 2022 and 2021

Assets	2022				2021			
	General	Roads	Property	Total	General	Roads	Property	Total
Currents assets:								
Cash on hand	\$ -	\$ 800	\$ -	\$ 800	\$ -	\$ 800	\$ -	\$ 800
Cash - checking	661,650	472,524	-	1,134,174	488,045	739,017	-	1,227,062
Cash - savings accounts	-	6,042,684	-	6,042,684	-	6,064,525	-	6,064,525
Cash - money market funds & commercial paper	-	34,150	-	34,150	-	126,587	-	126,587
Cash - restricted by debt agreements	-	-	421,906	421,906	-	-	415,363	415,363
Total cash and restricted cash	661,650	6,550,158	421,906	7,633,714	488,045	6,930,929	415,363	7,834,337
Accounts receivable, net of allowance for doubtful accounts of \$830,000 and \$626,239 at June 30, 2022 and 2021, respectively	-	2,123,591	-	2,123,591	-	1,946,593	-	1,946,593
Due from other funds	-	33,623	-	33,623	-	33,476	-	33,476
Other prepaid expense	-	24,313	-	24,313	-	26,744	-	26,744
Prepaid insurance	-	37,959	-	37,959	-	33,538	-	33,538
Total current assets	661,650	8,769,644	421,906	9,853,200	488,045	8,971,280	415,363	9,874,688
Property and equipment:								
Buildings and building improvements	-	-	377,581	377,581	-	-	377,581	377,581
Road improvements	-	-	15,434,037	15,434,037	-	-	14,315,215	14,315,215
Land improvements	-	-	130,571	130,571	-	-	130,571	130,571
Equipment	-	-	757,172	757,172	-	-	661,955	661,955
	-	-	16,699,361	16,699,361	-	-	15,485,322	15,485,322
Less accumulated depreciation	-	-	(11,323,815)	(11,323,815)	-	-	(10,458,268)	(10,458,268)
Net property and equipment	-	-	5,375,546	5,375,546	-	-	5,027,054	5,027,054
Reserves - restricted by debt agreements	-	-	390,805	390,805	-	-	485,596	485,596
Land	-	-	78,731	78,731	-	-	78,731	78,731
Total assets	\$ 661,650	\$ 8,769,644	\$ 6,266,988	\$15,698,282	\$ 488,045	\$ 8,971,280	\$ 6,006,744	\$15,466,069
<u>Liabilities and Fund Balances</u>								
Current liabilities:								
Current portion of loan payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,111	\$ 13,111
Current portion of bond payable	-	-	1,005,000	1,005,000	-	-	945,000	945,000
Accounts payable	-	38,922	-	38,922	-	6,207	-	6,207
Due to other funds	33,623	-	-	33,623	33,476	-	-	33,476
Credit card payable	-	6,001	-	6,001	-	1,523	-	1,523
Accrued payable	-	94,757	-	94,757	-	15,096	-	15,096
Interest payable	-	-	-	-	-	-	120,078	120,078
Activity center deposits	2,020	-	-	2,020	770	-	-	770
Deferred revenues	-	1,734,876	-	1,734,876	-	1,568,970	-	1,568,970
Total current liabilities	35,643	1,874,556	1,005,000	2,915,199	34,246	1,591,796	1,078,189	2,704,231
Noncurrent liabilities:								
Bond payable, net of debt issuance costs of \$36,680 and \$57,718 as of June 30, 2022 and 2021	-	-	3,598,320	3,598,320	-	-	4,582,282	4,582,282
Total liabilities	35,643	1,874,556	4,603,320	6,513,519	34,246	1,591,796	5,660,471	7,286,513
Fund balances:								
Total unrestricted fund balances	626,007	6,895,088	1,663,668	9,184,763	453,799	7,379,484	346,273	8,179,556
Total liabilities and fund balances	\$ 661,650	\$ 8,769,644	\$ 6,266,988	\$15,698,282	\$ 488,045	\$ 8,971,280	\$ 6,006,744	\$15,466,069

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, 2022 and 2021

	2022				2021			
	General	Roads	Property	Total	General	Roads	Property	Total
Revenue:								
Road fees	\$ -	\$ 3,286,030	\$ -	\$ 3,286,030	\$ -	\$ 3,151,681	\$ -	\$ 3,151,681
Transfer fees	-	254,100	-	254,100	-	247,200	-	247,200
Road fee interest	-	220,330	-	220,330	-	152,105	-	152,105
Bank interest and dividend	-	6,679	276	6,955	14	2,641	222	2,877
Lien fees	-	32,800	-	32,800	-	48,000	-	48,000
Activities center income	24,586	-	-	24,586	14,101	-	-	14,101
Recovered foreclosure legal costs and fees	-	285	-	285	-	105	-	105
Miscellaneous income	27,473	10,704	-	38,177	1,074	13,398	-	14,472
Total revenue	52,059	3,810,928	276	3,863,263	15,189	3,615,130	222	3,630,541
Operating expenses:								
Depreciation	-	-	865,547	865,547	-	-	834,582	834,582
Direct road maintenance	-	479,158	-	479,158	-	460,351	-	460,351
Personnel and payroll taxes	13,884	464,718	-	478,602	11,725	398,003	-	409,728
Bond interest expense	-	-	239,096	239,096	-	-	263,935	263,935
Bad debt	-	221,465	-	221,465	-	-	-	-
Professional and legal fees	-	104,461	-	104,461	-	94,284	-	94,284
Litigation loss	-	80,000	-	80,000	-	-	-	-
Vehicle and equipment expense	-	79,561	-	79,561	-	78,148	-	78,148
Insurance	1,779	71,717	-	73,496	2,441	80,570	-	83,011
Shoulder maintenance	-	60,556	-	60,556	-	53,527	-	53,527
Employee benefits	-	59,994	-	59,994	-	56,146	-	56,146
Office expense and supplies	-	33,898	-	33,898	-	30,789	-	30,789
Merchant services and bank fees	-	38,299	-	38,299	-	30,261	-	30,261
Activity center expense	18,939	-	-	18,939	10,557	-	-	10,557
Shop supplies and expenses	-	17,298	-	17,298	-	10,400	-	10,400
Collections expense	-	5,517	-	5,517	-	10,905	-	10,905
Property expense	1,599	145	-	1,744	1,600	4,969	-	6,569
Miscellaneous expense	250	-	-	250	-	1,501	-	1,501
Loan interest expense	-	-	175	175	-	-	1,183	1,183
Total expense	36,451	1,716,787	1,104,818	2,858,056	26,323	1,309,854	1,099,700	2,435,877
Revenues over (under) expenses	15,608	2,094,141	(1,104,542)	1,005,207	(11,134)	2,305,276	(1,099,478)	1,194,664
Interfund transfers	156,600	(2,578,537)	2,421,937	-	156,600	(2,159,727)	2,003,127	-
Fund Balances at beginning of year	453,799	7,379,484	346,273	8,179,556	308,333	7,233,935	(557,376)	6,984,892
Fund Balances at end of year	\$ 626,007	\$ 6,895,088	\$ 1,663,668	\$ 9,184,763	\$ 453,799	\$ 7,379,484	\$ 346,273	\$ 8,179,556

See accompanying notes to financial statements.

Hawaiian Paradise Park Owners Association

Statements of Cash Flows

For the Years Ended June 30, 2022 and 2021

	2022				2021			
	General	Roads	Property	Total	General	Roads	Property	Total
Cash flows from operating activities:								
Revenues over (under) expenses	\$ 15,608	\$ 2,094,141	\$ (1,104,542)	\$ 1,005,207	\$ (11,134)	\$ 2,305,276	\$ (1,099,478)	\$ 1,194,664
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by (used in) operating activities:								
Depreciation	-	-	865,547	865,547	-	-	834,582	834,582
Amortization of debt issuance costs	-	-	21,038	21,038	-	-	22,705	22,705
(Increase) decrease in:								
Accounts receivable	-	(176,998)	-	(176,998)	-	(122,956)	-	(122,956)
Due from other funds	-	(147)	-	(147)	-	(8,305)	-	(8,305)
Other prepaid expenses	-	(1,990)	-	(1,990)	-	19,980	-	19,980
Increase (decrease) in:								
Accounts and credit card payable	-	37,193	-	37,193	-	(152)	-	(152)
Due to other funds	147	-	-	147	8,305	-	-	8,305
Interest payable	-	-	(120,078)	(120,078)	-	-	(36,980)	(36,980)
Activity center deposits	1,250	-	-	1,250	(1,600)	-	-	(1,600)
Deferred revenues	-	165,906	-	165,906	-	(14,682)	-	(14,682)
Accrued payable	-	79,661	-	79,661	-	4,604	-	4,604
Total adjustments	1,397	103,625	766,507	871,529	6,705	(121,511)	820,307	705,501
Net cash provided by (used in) operations	17,005	2,197,766	(338,035)	1,876,736	(4,429)	2,183,765	(279,171)	1,900,165
Cash flows from investing activities:								
Capital expenditures for property and equipment	-	-	(1,214,039)	(1,214,039)	-	-	(800,652)	(800,652)
Net cash used in investing activities	-	-	(1,214,039)	(1,214,039)	-	-	(800,652)	(800,652)
Cash flows from financing activities:								
Loan repayment	-	-	(13,111)	(13,111)	-	-	(25,330)	(25,330)
Repayment of bond	-	-	(945,000)	(945,000)	-	-	(885,000)	(885,000)
Net cash used in financing activities	-	-	(958,111)	(958,111)	-	-	(910,330)	(910,330)
Net increase (decrease) in cash and restricted cash	17,005	2,197,766	(2,510,185)	(295,414)	(4,429)	2,183,765	(1,990,153)	189,183
Interfund transfers	156,600	(2,578,537)	2,421,937	-	156,600	(2,159,727)	2,003,127	-
Cash and restricted cash at beginning of year	488,045	6,930,929	900,959	8,319,933	335,874	6,906,891	887,985	8,130,750
Cash and restricted cash at end of year	\$ 661,650	\$ 6,550,158	\$ 812,711	\$ 8,024,519	\$ 488,045	\$ 6,930,929	\$ 900,959	\$ 8,319,933
Summary of cash accounts:								
Cash and restricted cash	\$ 661,650	\$ 6,550,158	\$ 421,906	\$ 7,633,714	\$ 488,045	\$ 6,930,929	\$ 415,363	\$ 7,834,337
Reserves - restricted by debt agreements	-	-	390,805	390,805	-	-	485,596	485,596
	\$ 661,650	\$ 6,550,158	\$ 812,711	\$ 8,024,519	\$ 488,045	\$ 6,930,929	\$ 900,959	\$ 8,319,933

Supplemental Disclosure of Cash Flow Information

The Association paid interest totaling \$340,090 and \$279,393 for the years ended June 30, 2022 and 2021, respectively.

Supplemental Schedule of Noncash Investing and Financing Activities

There were no non-cash investing and financing activities in 2022 and 2021.

See accompanying notes to financial statements

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to Financial Statements

June 30, 2022 and 2021

### (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, 2022 and 2021 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 \$7,270,000 and \$7,501,000 at June 30, 2022 and 2021, 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, 2022 and 2021 there was approximately \$2,950,000 and \$2,570,000, 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 \$830,000 and \$626,239 as of June 30, 2022 and 2021, 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 \$865,547 and \$834,582 for the years ended June 30, 2022 and 2021, 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 \$1,734,876 and \$1,568,970 as of June 30, 2022 and 2021, 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.

#### (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	\$ 661,650	\$ 6,972,064
Less: current liabilities	<u>(35,643)</u>	<u>(2,879,556)</u>
Total	<u>\$ 626,007</u>	<u>\$ 4,092,508</u>

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to Financial Statements, Continued

### (3) Leases

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.

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 2022 and 2021 was comprised of the following:

	<u>2022</u>	<u>2021</u>
Minimum rent	\$ 33,300	\$ 9,120
Month-to-month rent	27,400	16,039
Contingent rent	<u>1,500</u>	<u>1,231</u>
	<u>\$ 62,200</u>	<u>\$ 26,390</u>

Future minimum rental income under non-cancelable leases to be received as of June 30, 2022 is as follows:

#### Years ending June 30:

2023	\$ 34,000
2024	34,000
2025	27,000
2026	<u>24,000</u>
Total	<u>\$ 119,000</u>

### (4) 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 \$219,838 and \$241,230 for the years ended June 30, 2022 and 2021, respectively. The amortized portion of the debt issuance costs from the Series 2018 revenue bonds amounted to \$19,258 and \$22,705 for the years ended June 30, 2022 and 2021, 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>	
2023	\$ 1,005,000
2024	1,065,000
2025	1,130,000
2026	1,195,000
2027	<u>245,000</u>
Total	<u>\$ 4,640,000</u>

#### (5) Road Maintenance Fund

The Association is responsible for maintenance of approximately 147 miles of roadways in the Hawaiian Paradise Park Subdivision. These activities are funded through the mandatory road maintenance assessments paid by the property owners of the Hawaiian Paradise Park Owners Association. Road fees are assessed in January of each year and are invoiced on a per lot – base fee. For each of the calendar years beginning January 2022 and 2021, road fees were assessed at \$396 and \$360, respectively.

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

#### (6) Transfer of Road Maintenance Fund

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

## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to Financial Statements, Continued

#### (7) Property Fund

The property and equipment fund represents the net investment, at cost, in property and equipment. During the years ended June 30, 2022 and 2021 the Association spent \$1,118,822 and \$709,314 on paving, and \$95,217 and \$91,338 on equipment and improvements, respectively.

#### (8) Litigation

The Association is subject to various legal proceedings and claims that arise in the ordinary course of its activities. In the opinion of management, based upon the opinions of legal counsel, disposition of all such actions of which it is aware, except for the claim noted in the next paragraph, will not have a material effect on the Association's financial statements or results of operations.

As a final result of a dispute that arose between a few board members, the Association, subsequent to year end, went to mediation and approved an \$80,000 settlement offer for reimbursement of legal fees to two former board members. The \$80,000 settlement is reported in the Statement of Revenues, Expenses, and Changes in Fund Balances as litigation loss, and in the Statement of Financial Position as accrued payable.

#### (9) Future Major Repairs and Replacements

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

#### (10) Subsequent events

With the exception of the legal settlement, as more fully described in footnote number 8, the Association did not have any other subsequent events through November 29, 2022, the date the financial statements were available to be issued.