

**HAWAIIAN PARADISE PARK OWNERS ASSOCIATION**  
(A Hawai'i Nonprofit Corporation)

**AUDITED FINANCIAL STATEMENTS**  
(With Independent Auditors' Report)

**FOR THE YEAR ENDED JUNE 30, 2023**

## *Table of Contents*

Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management of  
Hawaiian Paradise Park Owners Association  
Keaau, Hawai'i 96749

### ***Opinion***

We have audited the accompanying financial statements of Hawaiian Paradise Park Owners Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 Hawaiian Paradise Park Owners Association as of June 30, 2023, and the changes in its net assets and its cash flows for the year 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hawaiian Paradise Park Owners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Hawaiian Paradise Park Owners Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

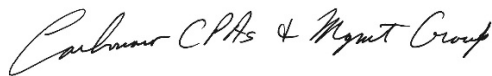
### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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 auditors' 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 Hawaiian Paradise Park Owners 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 Hawaiian Paradise Park Owners 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.



Hilo, Hawai'i  
December 12, 2023

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Statement of Financial Position

As of June 30, 2023

	ASSETS			
	General Fund	Roads Maintenance Fund	Property Fund	Total
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents (Note 2)	\$ 839,221	\$ 4,705,778	\$ -	\$ 5,544,999
Certificates of Deposit (Note 2)	-	1,248,266	-	1,248,266
Restricted Cash (Note 2)	-	-	427,295	427,295
Accounts Receivable	-	400,000	-	400,000
Other Prepaid Expenses	-	7,520	-	7,520
Prepaid Insurance	-	40,123	-	40,123
Interfund (Payable) Receivable	(11,988)	11,988	-	-
Total Current Assets	827,233	6,413,675	427,295	7,668,203
<b>PROPERTY AND EQUIPMENT (Note 2)</b>				
Buildings and Building Improvements	-	-	392,287	392,287
Road Improvements	-	-	16,530,687	16,530,687
Land Improvements	-	-	130,571	130,571
Equipment	-	-	865,655	865,655
Less: Accumulated Depreciation	-	-	(12,169,923)	(12,169,923)
Net Property and Equipment	-	-	5,749,277	5,749,277
<b>OTHER NONCURRENT ASSETS</b>				
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$874,000 (Note 2)	-	2,070,239	-	2,070,239
Reserve Cash (Note 2)	-	-	494,960	494,960
Land	-	-	78,731	78,731
<b>TOTAL ASSETS</b>	<u>\$ 827,233</u>	<u>\$ 8,483,914</u>	<u>\$ 6,750,263</u>	<u>\$ 16,061,410</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable	\$ -	\$ 36,747	\$ -	\$ 36,747
Credit Card Payable	-	6,136	-	6,136
Accrued Liabilities	-	13,311	-	13,311
Interest Payable	-	-	78,153	78,153
Activity Center Deposits	4,250	-	-	4,250
Deferred Assessment Fees (Note 2)	-	1,723,788	-	1,723,788
Current Portion of Bond Payable (Note 4)	-	-	1,065,000	1,065,000
Total Current Liabilities	4,250	1,779,982	1,143,153	2,927,385
<b>LONG TERM LIABILITIES</b>				
Bond Payable, Net of Debt Issance Costs of \$16,148 (Note 4)	-	-	2,553,852	2,553,852
<b>TOTAL LIABILITIES</b>	4,250	1,779,982	3,697,005	5,481,237
<b>COMMITMENTS AND CONTINGENCIES (Note 5)</b>				
<b>NET ASSETS (Note 2)</b>				
Net Assets Without Donor Restrictions	822,983	6,703,932	3,053,258	10,580,173
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 827,233</u>	<u>\$ 8,483,914</u>	<u>\$ 6,750,263</u>	<u>\$ 16,061,410</u>

The accompanying notes are an integral part of these financial statements.

**HAWAIIAN PARADISE PARK OWNERS ASSOCIATION**

**Statement of Activities and Changes in Net Assets**

For the Year Ended June 30, 2023

	General Fund	Roads Maintenance Fund	Property Fund	Total
<b>REVENUE</b>				
Road Fees	\$ -	\$ 3,462,183	\$ -	\$ 3,462,183
Road Fee Interest	-	207,064	-	207,064
Bank Interest and Dividends	-	162,029	9,814	171,843
Transfer Fees	-	155,400	-	155,400
Lien Fees	-	40,800	-	40,800
Lease Income (Note 4)	29,885	9,118	-	39,003
Activities Center Income	31,101	-	-	31,101
Miscellaneous Income	2,491	3,836	-	6,327
Gain on Sale of Equipment	-	-	5,500	5,500
Unrealized Gains on Certificates of Deposit	-	4,143	-	4,143
Recovered Foreclosure Legal Costs and Fees	-	440	-	440
Total Revenue	63,477	4,045,013	15,314	4,123,804
<b>EXPENSES</b>				
Program Services	-	1,378,081	1,120,050	2,498,131
Management and General	28,501	201,762	-	230,263
Fundraising	-	-	-	-
Total Expenses	28,501	1,579,843	1,120,050	2,728,394
<b>CHANGES IN NET ASSETS</b>	<b>\$ 34,976</b>	<b>\$ 2,465,170</b>	<b>\$ (1,104,736)</b>	<b>\$ 1,395,410</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	626,007	6,895,088	1,663,668	9,184,763
Transferred Between Funds (Note 2)	162,000	(2,656,326)	2,494,326	-
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 822,983</b>	<b>\$ 6,703,932</b>	<b>\$ 3,053,258</b>	<b>\$ 10,580,173</b>

The accompanying notes are an integral part of these financial statements

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

**Statement of Functional Expenses**

For the Year Ended June 30, 2023

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and Wages	\$ 321,541	\$ 35,085	\$ -	\$ 356,626
Payroll Taxes	39,432	7,642	-	47,074
Employee Benefits	37,464	-	-	37,464
Total Salaries, Wages and Related Expenses	398,437	42,727	-	441,164
Depreciation	918,606	-	-	918,606
Direct Road Maintenance	479,786	-	-	479,786
Professional Services and Legal Fees	120,833	143,745	-	264,578
Bond Interest Expense	201,444	-	-	201,444
Vehicle and Equipment Expense	120,370	-	-	120,370
Bad Debt Expense (Recovery)	83,618	-	-	83,618
Insurance	55,503	26,726	-	82,229
Shoulder Maintenance	50,620	-	-	50,620
Office Expense and supplies	41,011	-	-	41,011
Shop Supplies and Expenses	18,180	-	-	18,180
Activity Center Expense	-	14,892	-	14,892
Collections expense	4,507	-	-	4,507
Merchant Service and Bank Fees	4,351	-	-	4,351
Property Expense	865	1,600	-	2,465
Miscellaneous Expense	-	573	-	573
Total Expenses	\$ 2,498,131	\$ 230,263	\$ -	\$ 2,728,394

The accompanying notes are an integral part of these financial statements.

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Statement of Cash Flows

For the Year Ended June 30, 2023

	General Fund	Roads Maintenance Fund	Property Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change In Net Assets	\$ 34,976	\$ 2,465,170	\$ (1,104,736)	\$ 1,395,410
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:				
Depreciation	-	-	918,606	918,606
Bad Debt Expense	-	83,613	-	83,613
Amortization of Debt Issuance Costs	-	-	20,532	20,532
Unrealized Gains on Certificates of Deposit	-	(4,143)	-	(4,143)
Gain on Sale of Equipment	-	-	(5,500)	(5,500)
(Increase) Decrease In:				
Accounts Receivable, Net	-	(430,261)	-	(430,261)
Interfund (Payable) Receivable	(21,635)	21,635	-	-
Other Prepaid Expenses	-	16,793	-	16,793
Prepaid Insurance	-	(2,164)	-	(2,164)
(Increase) Decrease In:				
Accounts Payable	-	(2,175)	-	(2,175)
Credit Card Payable	-	135	-	135
Accrued Liabilities	-	(81,446)	-	(81,446)
Interest Payable	-	-	78,153	78,153
Activity Center Deposits	2,230	-	-	2,230
Deferred Assessment Fees	-	(11,088)	-	(11,088)
Net Cash Provided by (Used in) Operating Activities	15,571	2,056,069	(92,945)	1,978,695
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Equipment	-	-	5,500	5,500
Capital Expenditures for Property and Equipment	-	-	(1,292,337)	(1,292,337)
Purchases of Certificates of Deposit	-	(1,250,000)	-	(1,250,000)
Proceeds from Certificates of Deposit	-	5,877	-	5,877
Net Cash Used in Investing Activities	-	(1,244,123)	(1,286,837)	(2,530,960)
CASH FLOWS FROM FINANCING ACTIVITIES				
Principal Payments on Bond	-	-	(1,005,000)	(1,005,000)
Net Cash (Used) Provided by Financing Activities	-	-	(1,005,000)	(1,005,000)
<b>Net Increase (Decrease) in Cash and Restricted Cash</b>	<b>\$ 15,571</b>	<b>\$ 811,946</b>	<b>\$ (2,384,782)</b>	<b>\$ (1,557,265)</b>
TRANSFERRED BETWEEN FUNDS	162,000	(2,656,326)	2,494,326	-
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	661,650	6,550,158	812,711	8,024,519
CASH AND RESTRICTED CASH, END OF YEAR (Note 2)	<u>\$ 839,221</u>	<u>\$ 4,705,778</u>	<u>\$ 922,255</u>	<u>\$ 6,467,254</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES				
Bond Interest Paid	\$ -	\$ -	\$ 123,291	\$ 123,291

The accompanying notes are an integral part of these financial statements.



## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to the Financial Statements

June 30, 2023

#### Note 1. ORGANIZATION

Hawaiian Paradise Park Owners Association (the 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 Hawai‘i. The Association, located in the Puna District of the County of Hawai‘i, State of Hawai‘i, is responsible for maintaining, managing and preserving 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.

During the year ending June 30, 2023, following a review of the Association’s Articles of Incorporation and Bylaws by legal counsel, the Association was advised that it was not previously in compliance with state statutes. The Association was further determined to be governed by Hawai‘i Revised Statutes (HRS) Chapter 414D: Hawai‘i Nonprofit Corporation Act for its non-profit status, and Chapter 421-J: Planned Community Associations as the Association owns the roads that are for the common good of the community, and the Association is required to maintain those common roads and collect dues for the costs of the road maintenance. At the time this report was available to be issued, the Association was in the process of amending its bylaws.

#### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation:* The Association uses the accrual method of accounting for financial statement reporting according to generally accepted accounting principles. Under this method of accounting, revenue is 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. The Association bylaws, amended and restated as of June 22, 2010, allows for a portion of road maintenance funds shall be used to compensate the general fund for the use of the Association’s non-road maintenance assets for road maintenance purposes. The amount of compensation shall be determined annually by the board and shall not exceed 5% of road maintenance funds collected in any given year. For the year ending June 30, 2023, the above compensation amounted to \$162,000.

*Roads Maintenance Fund:* The fund is used to accumulate financial resources available for the road operations of the Association. Any money collected for road maintenance activities including, but not limited to, any late penalties, interest paid on road maintenance assessments, lien fees, transfer fees, and interest and dividends paid by banks or other financial institutions on road maintenance funds are restricted funds.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to the Financial Statements

June 30, 2023

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Association. Road fees are assessed in January of each year and are invoiced on a per lot base fee. For both calendar years beginning January 2023 and 2022, road fees were assessed at \$396.

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.

Funds are transferred from the roads maintenance fund to the property fund to cover principal and interest bond payments and capital expenditures for property and equipment. For the year ending June 30, 2023, \$2,494,326 was transferred to cover these items.

*Property Fund:* This fund represents the net investment in property and equipment for the Association. During the year ended June 30, 2023, the Association spent \$1,096,650 on paving and \$195,687 on equipment and improvements, respectively.

Additionally, since 2018, for a 5-year period, 5% of non-roads maintenance funds collected are to go towards a mailbox installment project. As of June 30, 2023, there was \$610,000 collected to go towards the mailbox installment project.

*Revenue Recognition*

*Road Fees:* The Association members are subject to annual assessments to provide funds for operating expenses, including road maintenance and repairs. Assessment fees under this arrangement are recognized as revenue when the related performance obligations are satisfied over a monthly basis recorded as assessment fees in the roads maintenance fund in the accompanying statement of activities and changes in net assets. Payment received in advance of satisfying the performance obligations are recorded as deferred assessment fees in the accompanying statement of financial position.

*Finance Charges, Late Fees, Transfer of Ownership Fees, and Lien Fees:* The Association applies finance charges and late fees on delinquent assessment fees. The Organization also charges transfer of ownership fees and lien fees if applied to a member's property. Performance obligation related to these fees are met on a periodic basis throughout the year as the fees are applied.

*Cash and Cash Equivalents:* For the purpose of the statement of cash flows, the Association considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents.

*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 principle and interest payments as described in the 2018 Series Revenue Refunding Bond Agreement.

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to the Financial Statements

June 30, 2023

### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Association follows ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. As a result, restricted cash is included with cash and cash equivalents when reconciling the beginning-of-year and end-of-year total amounts reported on the statement of cash flows. The following table provides a reconciliation of cash and restricted cash reported within the statement of financial position that sum to the totals of the same such amounts in the statement of cash flows at June 30, 2023:

	General Fund	Roads Maintenance Fund	Property Fund	Total
Cash and Cash Equivalents	\$ 839,221	\$ 4,705,778	\$ -	\$ 5,544,999
Restricted Cash	-	-	427,295	427,295
Reserve Cash	-	-	494,960	494,960
Total	<u>\$ 839,221</u>	<u>\$ 4,705,778</u>	<u>\$ 922,255</u>	<u>\$ 6,467,254</u>

At June 30, 2023, 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 were approximately \$5,455,773 at June 30, 2023.

*Certificates of Deposit:* As of June 30, 2023, the Association had \$1,248,266 invested in certificates of deposit all with original maturities of greater than three (3) months. Due to their short-term nature, the carrying amounts of the Association's certificates of deposit approximate their fair value. Interest income on the certificates of deposit is recorded as income when earned. The certificates mature and automatically renew on various dates between August and December 2023, and earn interest at annual rates between 4.65% and 5.35%. These certificates of deposit are protected by the FDIC up to \$250,000. The Organization's certificates of deposit do not exceed FDIC insured levels.

*Accounts Receivables 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 are satisfied over time on a monthly basis. Accounts receivable on the balance sheet represent assessments due from owners and other trade receivables.

As of June 30, 2023, there was approximately \$2,390,000 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. As of June 30, 2023, there was approximately \$2,245,000 in liens.

An allowance for doubtful accounts has been established 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 uncollectable. The Association established an allowance for doubtful accounts of \$874,000 as of June 30, 2023.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

**Notes to the Financial Statements**

June 30, 2023

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*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 estimate 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 other disposed of 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 \$918,606 for the year ended June 30, 2023.

*Impairment of Property and Equipment:* The Association reviews its property and equipment for impairment whenever events or changes indicate that the carrying value of an asset may not be recoverable. The Association compares the carrying value to its fair value in order to determine whether an impairment loss has occurred. For the year ended June 30, 2023, no impairment loss has been recognized.

*Deferred Assessment Fees:* The Association recognized revenue from association members as the related performance obligations are satisfied. Deferred assessment fees consist primarily of association assessments which were collected but not earned during the year. The deferred assessment fees balance was \$1,723,788 as of June 30, 2023.

*Leases:* The Association adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 2016-02 Topic 842, *Leases*, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. FASB ASC 2016-02 Topic 842 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the statement of financial position via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures.

Beginning on July 1, 2022, operating lease assets and liabilities are measured and recorded at the present value of the future minimum lease payments. The determination of whether an arrangement is a lease is made at the lease's inception. An arrangement is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. If the interest rate implicit in its leases is not readily determinable, the Association uses its bond interest borrowing rate to determine the present value of lease payments. Leases with an initial term of twelve (12) months or less are not recorded on the statement of financial position.

The Association adopted these ASUs effective July 1, 2022 and utilized all of the available practical expedients. The adoption had no impact on the Association's statement of financial position or statement of activities and changes in net assets.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to the Financial Statements

June 30, 2023

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

*Functional Allocation of Expense:* Expenses incurred while providing project and management and general activities are charged directly and are presented on a functional basis in the statement of functional expenses. 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:* The 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 fall 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 the 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 are the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. LEASES

*The Association as Lessor*

*Malamalama School, Inc.:* The Association leases 20-acres of land to Malamalama School, Inc. under the terms of a 99-year operating 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 year lease agreement, and at intervals of ten years thereafter, the rent is subject to renegotiation. The lease expires in May 2079. The Association recognized \$3,387 in lease income for the Malamalama School, Inc. lease for the year ended June 30, 2023.

Additionally, the Association has several other agreements to lease land under operating leases for cellular tower usage and cable, utility and communications lines for initial periods of five years. These leases contain a range of lessor options to renew from 3 to 20 years. The Association recognized \$35,616 in lease income for these leases for the year ended June 30, 2023. Future minimum lease income under these non-cancelable leases to be received as of June 30, 2023 is as follows:

2024	\$ 35,147
2025	27,546
2026	24,996
2027	4,166
Total	<u>\$ 91,855</u>

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to the Financial Statements

June 30, 2023

Note 3. LEASES (Concluded)

*The Association as Lessee*

The Association leases telephones and a postage meter for which the remaining lease term is less than one year or the present value of future lease payments is de minimis.

Note 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 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 Homeowner Assessment Revenue Refunding Bonds) to pay off and redeem the previous bond agreement.

The Series 2018 Homeowner Assessment Revenue Refunding Bonds, UMPQUA Bank as registered owner, 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> each year, with a maturity date of January 1, 2027, and are secured by the gross revenues of the Association, including road maintenance assessments, and funds held by UMPQUA Bank. The trustee of the bond issue was Union Bank of California. The Association recorded bond interest expense of \$177,913 for the year ending June 30, 2023. The amortized portion of the debt issuance costs from the Series 2018 revenue bonds amounted to \$20,532 for the year ending June 30, 2023. Bond interest expense and the amortized portion of debt issuance cost were reported in the statement of functional expenses as bond interest expense.

In accordance with the bond trust agreement, the Association is required to make monthly remittance payments of principle and interest equal to 1/12 of the principle amount plus accrued interest at each annual maturity date. These payments are recorded as cash – restricted by debt agreements on the Statements 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 principle amount to be redeemed. Optional redemption on or after January 1, 2021, has a redemption price of 100% of the principle amount to be redeemed.

Annual principle maturities of the bond payable are as follow:

2024	\$	1,065,000
2025		1,130,000
2026		1,195,000
2027		245,000
Total	\$	<u>3,635,000</u>

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION  
**Notes to the Financial Statements**  
June 30, 2023

Note 5. COMMITMENTS AND CONTINGENCIES

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 is aware, will not have a material effect on the Association's financial statements or results of operations.

The Association has been notified by the State of Hawai'i Department of Health that it is responsible to take reasonable precautions to control visible fugitive dust from becoming airborne. Violations of allowing fugitive dust to discharge beyond the Association's property line on which the fugitive dust originates is a violation of Hawai'i Administrative Rules and includes penalties not to exceed \$25,000 per day of each violation observed.

Note 6. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326), *Measurement of Credit Losses on Financial Instruments*. The standard's main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. For entities that have adopted the amendments in ASU 2016-13, the amendments in this update are effective for fiscal years beginning after December 15, 2022. The provisions are effective for the Association's fiscal year ending June 30, 2024. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

Note 7. SUBSEQUENT EVENTS

In preparing these financial statements management has evaluated events and transactions for potential recognition or disclosure through December 12, 2023, the date the financial statements were available for use. There are no recognized subsequent events, events that provide additional evidence about conditions that existed at the statement of financial position date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the statement of financial position date, which are necessary to disclose to keep the financial statements from being misleading.