

Communication with Governance at the Conclusion of the Audit

December 10, 2024

The Board of Directors and Management of  
Hawaiian Paradise Park Owners Association  
Keaau HI 96749

We have audited the financial statements of Hawaiian Paradise Park Owners Association (the Association) for the year ended June 30, 2024, and have issued our report thereon dated December 9, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letters to you dated April 23, 2024 and October 10, 2024. Professional standards also require that we communicate to you the following information related to our audit.

In planning and performing our audit of the financial statements of Hawaiian Paradise Park Owners Association for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America, we considered Hawaiian Paradise Park Owners Association's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Significant Audit Matters

*Qualitative Aspects of Accounting Practice*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hawaiian Paradise Park Owners Association are described in Note 2 to the financial statements.

The Association adopted ASC 326 Financial Instruments - Credit Losses (Topic 326): *Measurements of Credit Losses on Financial Instruments* (ASC 326), which replaces the existing incurred loss model with a current expected credit loss (CECL) model that requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Association adopted ASC 326 on July 1, 2023, which had a material impact on its financial statements and accounting policies. The Association now utilizes a forward-looking current expected credit loss model for trade accounts receivable.

We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of accounts receivable are carried at invoice less allowance for credit losses which approximates amortized value to present the net amount expected to be collected as of the statement of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of prepayments.

Management's estimate of the depreciation is based on the straight line method. We evaluated the key factors and assumptions used to develop depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Association's financial statements relate to the bond payable, accounts receivable and the related allowance for credit losses.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Misstatements detected as a result of audit procedures and corrected by management were material to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 9, 2024.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Business Advisory Comments

#### *List of approved vendors*

During our testing of disbursements, we noted the Association does not maintain a master file of approved vendors.

Recommend the Association maintain a master file of approved vendors to address the risk of purchases being made from unauthorized vendors.

#### *Board-approved recurring expenditure list or controls*

During our testing of cash disbursements, it was noted that the Association was unable to provide approval on invoice and purchase orders for certain recurring expenditures, these included payments for legal services, the internal revenue service, and reimbursements for activity center usage and deposits.

Recommend the adoption of a board approved recurring list of expenditures.

#### *Investment policy*

During our testing of investment certificates of deposit and communication with management, it was noted the Association lacks a written investment policy.

Recommend the Association develop a written investment policy covering at least the following topics:

- A formal definition of investments that are acceptable or not acceptable to the Association.
- Seeking guidance on any alternative investments made from experts.
- Using independent investment advisors.
- Setting formal limits on the amount of permissible alternative investments for the Association.
- Determining the marketability of investments.
- Formally notifying the entity in which it is investing that it is tax-exempt.

#### *Cash reconciliations*

During our testing of Association's cash accounts, we noted the bank reconciliation for First Hawaiian Bank x4790 as of June 30, 2024 did not reconcile to the trial balance by approximately \$9,000. Upon inquiries of the variance, we discovered that the Association had some items booked and some voided checks after the bank reconciliation was completed which resulted in certain uncleared transactions from being included in the cash reconciliation.

Recommend that any checks needing to be voided after the reconciliation is completed be processed by a journal entry to avoid this recurrence. We further recommend that the bank reconciliation not be finalized till all monthly transactions have been booked.

#### *Cash reconciliation review and approval*

During our testing of Association's cash accounts, we noted no annotation that the bank reconciliation for UMPQUA x3386 as of June 30, 2024 had been reviewed.

Recommend the Association is consistent with documented annotation of bank reconciliation review and approval.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Association personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This information is intended solely for the use of the Board of Directors and Management of Hawaiian Paradise Park Owners Association and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Carlson CPHs & Mgmt Group*

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

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

**FOR THE YEAR ENDED JUNE 30, 2024**  
(With Comparative Totals for the Year Ended June 30, 2023)

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

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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 Association), which comprise the statement of financial position as of June 30, 2024, 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, 2024, 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.

***Emphasis of Matter***

As discussed in Notes 2 and 3 to the financial statements, during the year ended June 30, 2024, the Association adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326). The Association has not restated comparative information for 2023 and, therefore, the comparative information for 2023 is reported under the old model and is not comparable to the information presented for 2024.

***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.

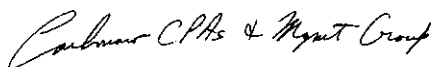
In performing an audit in accordance with generally accepted auditing standards, we:

- 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.

### ***Report on Summarized Comparative Information***

We have previously audited Hawaiian Paradise Park Owners Association's 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 12, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Hilo, Hawai'i  
December 9, 2024



# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Statement of Financial Position As of June 30, 2024 (With Comparative Totals as of June 30, 2023)

	ASSETS				
	General Fund	Roads Maintenance Fund	Property Fund	2024 Totals	2023 Totals
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents (Note 2)	\$ 393,646	\$ 4,113,802	\$ -	\$ 4,507,448	\$ 5,544,999
Certificates of Deposit (Note 2)	-	2,240,818	-	2,240,818	1,248,266
Restricted Cash (Note 2)	-	-	515,664	515,664	427,295
Accounts Receivable (Note 2)	-	862,000	-	862,000	400,000
Other Prepaid Expenses	-	8,111	-	8,111	7,520
Prepaid Insurance	-	41,453	-	41,453	40,123
Interfund (Payable) Receivable	-	-	-	-	-
Total Current Assets	393,646	7,266,184	515,664	8,175,494	7,668,203
<b>PROPERTY AND EQUIPMENT (Note 2)</b>					
Buildings and Building Improvements	-	-	441,810	441,810	392,287
Road Improvements	-	-	16,757,016	16,757,016	16,530,687
Land Improvements	-	-	501,290	501,290	130,571
Equipment	-	-	1,025,994	1,025,994	865,655
Less: Accumulated Depreciation	-	-	(13,127,447)	(13,127,447)	(12,169,923)
Operating Property and Equipment, Net	-	-	5,598,663	5,598,663	5,749,277
Construction in Progress - Mailbox Sites	-	-	175,330	175,330	-
Total Property and Equipment	-	-	5,773,993	5,773,993	5,749,277
<b>OTHER NON-CURRENT ASSETS</b>					
Accounts Receivable, Net (Notes 2 and 3)	-	2,227,413	-	2,227,413	2,070,239
Reserve Cash (Note 2)	-	-	500,398	500,398	494,960
Land	-	-	78,731	78,731	78,731
Total Other Non-Current Assets	-	2,227,413	579,129	2,806,542	2,643,930
<b>TOTAL ASSETS</b>	<b>\$ 393,646</b>	<b>\$ 9,493,597</b>	<b>\$ 6,868,786</b>	<b>\$ 16,756,029</b>	<b>\$ 16,061,410</b>
	<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>					
Accounts Payable	\$ -	\$ 32,968	\$ -	\$ 32,968	\$ 36,747
Credit Card Payable	-	904	-	904	6,136
Accrued Liabilities	-	20,388	-	20,388	13,311
Bond Interest Payable	-	-	55,255	55,255	78,153
Activity Center Deposits	6,125	-	-	6,125	4,250
Deferred Assessment Fees (Note 2)	-	1,907,673	-	1,907,673	1,723,788
Current Portion of Bond Payable (Note 6)	-	-	1,130,000	1,130,000	1,065,000
Total Current Liabilities	6,125	1,961,933	1,185,255	3,153,313	2,927,385
<b>LONG TERM LIABILITIES</b>					
Bond Payable (Note 6). Net of Debt Issuance Costs of \$9,549 (Note 4)	-	-	1,430,451	1,430,451	2,553,852
<b>TOTAL LIABILITIES</b>	<b>6,125</b>	<b>1,961,933</b>	<b>2,615,706</b>	<b>4,583,764</b>	<b>5,481,237</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 7)</b>					
<b>NET ASSETS (Note 2)</b>					
Net Assets Without Donor Restrictions	387,521	7,531,664	4,253,080	12,172,265	10,580,173
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 393,646</b>	<b>\$ 9,493,597</b>	<b>\$ 6,868,786</b>	<b>\$ 16,756,029</b>	<b>\$ 16,061,410</b>

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, 2024 (With Comparative Totals for the Year Ended June 30, 2023)

	General Fund	Roads Maintenance Fund	Property Fund	Totals 2024	Totals 2023
<b>REVENUE</b>					
Road Maintenance Fees	\$ -	\$ 3,593,231	\$ -	\$ 3,593,231	\$ 3,462,183
Late Fee Interest	-	225,702	-	225,702	207,064
Bank and Investment Interest	-	255,477	20,225	275,702	171,843
Transfer Fees	-	159,600	-	159,600	155,400
Lien Fees	-	105,400	-	105,400	40,800
Lease Income (Note 4)	30,347	10,134	-	40,481	39,003
Activities Center Income	41,809	-	-	41,809	31,101
Miscellaneous Income	3,547	4,716	-	8,263	6,327
Gain on Sale of Equipment	-	-	-	-	5,500
Unrealized Gains on Certificates of Deposit	-	961	-	961	4,143
Recovered Foreclosure Legal Costs and Fees	-	419	-	419	440
Total Revenue	75,703	4,355,640	20,225	4,451,568	4,123,804
<b>EXPENSES</b>					
Program Services	-	1,898,061	1,099,513	2,997,574	2,498,131
Management and General Fundraising	(13,065)	248,498	37,500	272,933	230,263
Total Expenses	(13,065)	2,146,559	1,137,013	3,270,507	2,728,394
<b>CHANGES IN NET ASSETS</b>					
NET ASSETS, BEGINNING OF YEAR	\$ 88,768	\$ 2,209,081	\$ (1,116,788)	\$ 1,181,061	\$ 1,395,410
Allowance Derecognized Due to Adoption of Topic 326 (Note 3)	822,983	6,703,932	3,053,258	10,580,173	9,184,763
General Fund Compensation (Note 2)	-	411,031	-	411,031	-
Transferred Between Funds (Note 2)	166,187	(166,187)	-	-	-
	(690,417)	(1,626,193)	2,316,610	-	-
NET ASSETS, END OF YEAR	\$ 387,521	\$ 7,531,664	\$ 4,253,080	\$ 12,172,265	\$ 10,580,173

The accompanying notes are an integral part of these financial statements  
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# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Statement of Functional Expenses For the Year Ended June 30, 2024 (With Comparative Totals for the Year Ended June 30, 2023)

	Supporting Services				Totals 2023
	Program Services	Management and General	Fundraising	Totals 2024	
Salaries and Wages	\$ 506,145	\$ 20,061	\$ -	\$ 526,206	\$ 356,626
Payroll Taxes	79,463	3,150	-	82,613	47,074
Employee Benefits	18,685	-	-	18,685	37,464
Total Salaries, Wages and Related Expenses	604,293	23,211	-	627,504	441,164
Depreciation	956,436	-	-	956,436	918,606
Direct Road Maintenance	867,090	-	-	867,090	479,786
Professional Services and Legal Fees	104,766	198,756	-	303,522	264,578
Bond Interest (Note 6)	143,077	-	-	143,077	201,444
Vehicle and Equipment	95,364	-	-	95,364	120,370
Insurance	56,779	27,340	-	84,119	82,229
Credit Loss Expense (Note 3)	75,031	-	-	75,031	83,618
Office and Supplies	51,759	-	-	51,759	41,011
Activity Center	-	19,844	-	19,844	14,892
Shop Supplies	18,102	-	-	18,102	18,180
Shoulder Maintenance	15,311	-	-	15,311	50,620
Collections	6,932	-	-	6,932	4,507
Property	841	1,559	-	2,400	2,465
Miscellaneous	-	2,223	-	2,223	573
Merchant Service and Bank Fees	1,793	-	-	1,793	4,351
Total Expenses	\$ 2,997,574	\$ 272,933	\$ -	\$ 3,270,507	\$ 2,728,394

The accompanying notes are an integral part of these financial statements.  
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# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Statement of Cash Flows For the Year Ended June 30, 2024 (With Comparative Totals for the Year Ended June 30, 2023)

	General Fund	Roads Maintenance Fund	Property Fund	Totals 2024	Totals 2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Changes In Net Assets	\$ 88,768	\$ 2,209,081	\$ (1,116,788)	\$ 1,181,061	\$ 1,395,410
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By (Used In) Operating Activities:					
Depreciation	-	-	956,436	956,436	918,606
Credit Loss Expense	-	75,031	-	75,031	83,613
Amortization of Debt Issuance Costs	-	-	6,599	6,599	20,532
Unrealized Gains on Certificates of Deposit	-	(961)	-	(961)	(4,143)
Gain on Sale of Equipment	-	-	-	-	(5,500)
(Increase) Decrease In:					
Accounts Receivable	-	(283,174)	-	(283,174)	(430,261)
Interfund (Payable) Receivable	(11,988)	11,988	-	-	-
Other Prepaid Expenses	-	(591)	-	(591)	16,793
Prepaid Insurance	-	(1,330)	-	(1,330)	(2,164)
Accounts Payable	-	(3,779)	-	(3,779)	(2,175)
Credit Card Payable	-	(5,232)	-	(5,232)	135
Accrued Liabilities	-	7,077	-	7,077	(81,446)
Bond Interest Payable	-	-	(22,898)	(22,898)	78,153
Activity Center Deposits	1,875	-	-	1,875	2,230
Deferred Assessment Fees	-	183,885	-	183,885	(11,088)
Net Cash Provided by (Used in) Operating Activities	78,655	2,191,995	(176,651)	2,093,999	1,978,695
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from Sale of Equipment	-	-	-	-	5,500
Purchases of Property and Equipment	-	-	(805,822)	(805,822)	(1,292,337)
Purchases of Construction in Progress - Mailbox Sites	-	-	(175,330)	(175,330)	-
Purchases of Certificates of Deposit	-	(3,685,591)	-	(3,685,591)	(1,250,000)
Redemptions from Certificates of Deposit	-	2,694,000	-	2,694,000	5,877
Net Cash Used in Investing Activities	-	(991,591)	(981,152)	(1,972,743)	(2,530,960)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Principal Payments on Bond	-	-	(1,065,000)	(1,065,000)	(1,005,000)
Net Cash Used in Financing Activities	-	-	(1,065,000)	(1,065,000)	(1,005,000)
<b>Net Increase (Decrease) in Cash and Restricted Cash</b>	<b>\$ 78,655</b>	<b>\$ 1,200,404</b>	<b>\$ (2,222,803)</b>	<b>\$ (943,744)</b>	<b>\$ (1,557,265)</b>
<b>TRANSFERRED BETWEEN FUNDS</b>	<b>(524,230)</b>	<b>(1,792,380)</b>	<b>2,316,610</b>	<b>-</b>	<b>-</b>
<b>CASH AND RESTRICTED CASH, BEGINNING OF YEAR</b>	<b>839,221</b>	<b>4,705,778</b>	<b>922,255</b>	<b>6,467,254</b>	<b>8,024,519</b>
<b>CASH AND RESTRICTED CASH, END OF YEAR (Note 2)</b>	<b>\$ 393,646</b>	<b>\$ 4,113,802</b>	<b>\$ 1,016,062</b>	<b>\$ 5,523,510</b>	<b>\$ 6,467,254</b>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>					
Bond Interest Paid	\$ -	\$ -	\$ 165,975	\$ 165,975	\$ 123,291
Allowance Derecognized Due to Adoption of Topic 326	\$ -	\$ 411,031	\$ -	\$ 411,031	\$ -

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

## HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

### Notes to the Financial Statements June 30, 2024

#### 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, 2024, the above compensation amounted to \$166,187.

*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, 2024

#### 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 the calendar years beginning January 2024 and 2023, road fees were assessed at \$435 and \$396 per year, 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.

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, 2024, \$1,647,469 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, 2024, the Association spent approximately \$370,000 on road improvements, \$50,000 on building and building improvements, \$160,000 on equipment, and \$546,000 on completed and construction in progress land improvements related to mailbox sites.

#### *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 obligations 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, 2024

### 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, 2024:

	General Fund	Roads Maintenance Fund	Property Fund	Totals
Cash and Cash Equivalents	\$ 393,646	\$ 4,113,802	\$ -	\$ 4,507,448
Restricted Cash	-	-	515,664	515,664
Reserve Cash	-	-	500,398	500,398
Total	<u>\$ 393,646</u>	<u>\$ 4,113,802</u>	<u>\$ 1,016,062</u>	<u>\$ 5,523,510</u>

At June 30, 2024, 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 \$4,482,000 at June 30, 2024.

*Certificates of Deposit:* Certificates of deposit are recorded as cash and cash equivalents at cost plus accrued interest if less than 90 days duration to the maturity date at the purchase date, and has its own line item in the statement of financial position if the duration to the maturity date at the time of purchase is greater than 90 days. Certificates of deposit with a maturity date greater than 1-year from the date of purchase are classified as other non-current assets. Due to their short-term nature, the carrying amounts of the Association's certificates of deposit approximate their fair value. The certificates mature on various dates between July 2024 and January 2025, and earn interest at annual rates between 4.70% and 5.45%.

The Organization's certificates of deposit are maintained in a brokerage account purchased with several financial institutions. No certificates of deposit exceeded FDIC insured levels as of June 30, 2024.

*Accounts Receivables:* 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 statement of financial position represent assessments due from owners for road fees, road fee interest on past accounts, transfer fees, and lien fees.

#### *Allowance for Credit Losses*

The Company recognizes an allowance for credit losses for accounts receivable at invoice less allowance for credit losses which approximates the amortized value to present the net amount expected to be collected as of the statement of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of prepayments. Accounts receivable are written off when the property is foreclosed on and deemed uncollectible. Write-offs are recognized as a deduction from the allowance for credit losses.



# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to the Financial Statements June 30, 2024

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

The Association pools its accounts receivable based on the following similar risk characteristics: accounts receivable less than two (2) years outstanding, property under lien placed by the Association, and property under foreclosure, in estimating its expected credit losses. In situations where receivables do not share the same risk characteristics with other receivables, the Association measures those individually. The Association also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change. See Note 3.

*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 property and equipment is as follows:

Buildings and Building Improvements	7-32 years
Road Improvements	15 years
Certain Land Improvements	15 years
Equipment	5-7 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 \$5,000 or greater and with a useful life greater than one year. Cost and related accumulated depreciation of property and equipment retired or otherwise 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.

*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, 2024, 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.

*Leases:* The Association follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 2016-02 Topic 842, *Leases*. 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.

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to the Financial Statements June 30, 2024

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

*Use of Estimates:* The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting periods. Actual results could differ from those estimates.

*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.

#### *Adoption of New Accounting Standard*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326). The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for trade receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current Generally Accepted Accounting Principles (GAAP), which require that a loss be incurred before it is recognized.

On July 1, 2023, the Association adopted the guidance prospectively with a cumulative adjustment to net assets without donor restrictions. The Association has not restated comparative information for 2023 and, therefore, the comparative information for 2024 is reported under the old model and is not comparable to the information presented for 2023.

At adoption, the Association derecognized an incremental allowance for credit losses on its accounts receivables of approximately \$411,000, and an increase in net assets without donor restrictions associated with the decreased estimated credit losses. See Note 3.

*Reclassifications:* Certain 2023 amounts have been reclassified to conform with the 2024 financial statement presentation. These reclassifications have no effect on previously reported results of operations and net assets.

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to the Financial Statements June 30, 2024

### Note 3. ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

The past due status of all accounts receivable is determined based on the due dates for payment. A receivable is deemed past due when payment has not been received thirty (30) days after the due date. The Association files liens on property with outstanding balances over two (2) years old, and renewed every three (3) years. The following table presents information related to the allowance for credit losses during the year ending June 30, 2024:

	June 30, 2023 Balance	Allowance Derecognized Due to Adoption of Topic 326	Credit Loss Expense for the Period	Writeoffs During the Period	June 30, 2024 Balance
Less Than Two (2) Years Outstanding	\$ 456,337	\$ (411,031)	\$ (10,839)	\$ -	\$ 34,467
Liened Property	224,495	-	43,571	-	268,066
Property Under Foreclosure	193,168	-	42,299	(109,318)	126,149
Total	<u>\$ 874,000</u>	<u>\$ (411,031)</u>	<u>\$ 75,031</u>	<u>\$ (109,318)</u>	<u>\$ 428,682</u>

### Note 4. 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 \$3,849 in lease income for the Malamalama School, Inc. lease for the year ended June 30, 2024.

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 three (3) to twenty (20) years. The Association recognized \$36,633 in lease income for these leases for the year ended June 30, 2024. Future minimum lease income under these non-cancelable leases to be received as follows as of June 30:

2025	\$ 27,546
2026	24,996
2027	<u>4,166</u>
Total	<u>\$ 56,708</u>

#### *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.

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to the Financial Statements June 30, 2024

### Note 5. CONCENTRATION ON SOURCE OF SUPPLIERS

The Association maintains a procurement policy applicable to all directors, officers, employees, and agents of the Association. Nevertheless, the Association is subject to concentrations in the volume of business transacted with suppliers and the availability of materials and services due to its geographic location on the Big Island of Hawai'i. The Association does not expect that the suppliers of its materials and services will be lost in the near term.

### Note 6. 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 and July 1 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 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 \$133,408 for the year ending June 30, 2024. The amortized portion of the debt issuance costs from the Series 2018 revenue bonds amounted to \$9,669 as of June 30, 2024. Bond interest expense and the amortized portion of debt issuance cost were reported in the statement of functional expenses as bond interest expense in the amount of \$143,077. In accordance with the bond trust agreement, the Association is required to make monthly remittance payments of principle and interest equal to one-twelfth (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 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 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 follows on January 1:

2025	\$ 1,130,000
2026	1,195,000
2027	<u>245,000</u>
	\$ 2,570,000
Less Amortized Debt Issuance Costs:	<u>(9,549)</u>
	<u>\$ 2,560,451</u>

# HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

## Notes to the Financial Statements June 30, 2024

### Note 7. 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 it 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.

In May 2024, the Association received a notice of delinquency in filing from the State of Hawai'i – Department of Taxation for General Excise Tax (GET) tax returns for the years 2011 through 2022. A 25% late file penalty, a 25% negligence penalty, and interest at the rate of 2/3 of 1 percent a month on the unpaid tax and penalties can be assessed under Hawai'i Revised Statutes. The Association is unable to estimate a loss or range of loss associated with filing these tax returns as of the date these financial statements were available to be issued.

### Note 8. SUBSEQUENT EVENTS

In preparing these financial statements management has evaluated events and transactions for potential recognition or disclosure through December 9, 2024, 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.