

Communication with Governance at the Conclusion of the Audit

November 24, 2024

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

We have audited the financial statements of Hawaiian Paradise Park Owners Association (the Association) for the year ended June 30, 2025, and have issued our report thereon dated November 24, 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 15, 2025 and September 24, 2025. 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, 2025, 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. There were no other new accounting policies adopted, and the application of existing policies was not changed during 2025. 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 receivables which includes consideration of prepayments.

Management's estimate of 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.

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 September 30, 2025.

Management Consultations with Other Independent Accountants

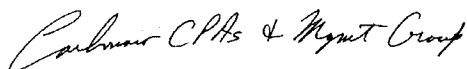
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of 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.

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,



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

AUDITED FINANCIAL STATEMENTS
(With Independent Auditors' Report)

FOR THE YEAR ENDED JUNE 30, 2025
(With Comparative Totals for the Year Ended June 30, 2024)

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, 2025, 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, 2025, 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.

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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.

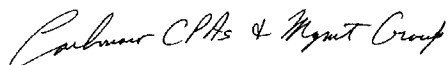
In performing an audit in accordance with generally accepted auditing standards, we:

- 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 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 9, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Hilo, Hawai'i
November 24, 2025

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Statement of Financial Position
As of June 30, 2025
(With Comparative Totals as of June 30, 2024)

	ASSETS				
	General Fund	Roads Maintenance Fund	Property Fund	Totals 2025	Totals 2024
CURRENT ASSETS					
Cash and Cash Equivalents (Note 2)	\$ 326,543	\$ 4,557,499	\$ -	\$ 4,884,042	\$ 4,507,448
Certificates of Deposit (Note 2)	-	2,211,536	-	2,211,536	2,240,818
Restricted Cash (Note 2)	-	-	371,602	371,602	515,664
Accounts Receivable (Note 2)	-	927,410	-	927,410	862,000
Other Prepaid Expenses	-	14,032	-	14,032	8,111
Prepaid Insurance	-	48,732	-	48,732	41,453
Total Current Assets	326,543	7,759,209	371,602	8,457,354	8,175,494
PROPERTY AND EQUIPMENT (Note 2)					
Buildings and Building Improvements	-	-	441,810	441,810	441,810
Road Improvements	-	-	17,218,466	17,218,466	16,757,016
Land Improvements	-	-	977,210	977,210	501,290
Equipment	-	-	1,169,478	1,169,478	1,025,994
Less: Accumulated Depreciation	-	-	(13,973,080)	(13,973,080)	(13,127,447)
Operating Property and Equipment, Net	-	-	5,833,884	5,833,884	5,598,663
Construction in Progress - Mailbox Sites	-	-	5,444	5,444	175,330
Total Property and Equipment	-	-	5,839,328	5,839,328	5,773,993
OTHER NON-CURRENT ASSETS					
Accounts Receivable, Net (Notes 2 and 3)	-	2,347,089	-	2,347,089	2,227,413
Reserve Cash (Note 2)	-	-	505,237	505,237	500,398
Land	-	-	78,731	78,731	78,731
Total Other Non-Current Assets	-	2,347,089	583,968	2,931,057	2,806,542
TOTAL ASSETS	\$ 326,543	\$ 10,106,298	\$ 6,794,898	\$ 17,227,739	\$ 16,756,029
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts Payable	\$ -	\$ 58,279	\$ -	\$ 58,279	\$ 32,968
Credit Card Payable	-	-	-	-	904
Accrued Compensation	-	30,598	-	30,598	20,388
Bond Interest Payable (Note 6)	-	-	30,960	30,960	55,255
Activity Center Deposits	6,322	-	-	6,322	6,125
Deferred Assessment Fees (Note 2)	-	1,896,056	-	1,896,056	1,907,673
Accrued Deed Restriction Amendment Fee	-	-	75,000	75,000	-
Current Portion of Bond Payable, Net (Note 6)	-	-	1,435,636	1,435,636	1,120,451
Total Current Liabilities	6,322	1,984,933	1,541,596	3,532,851	3,143,764
LONG TERM LIABILITIES					
Bond Payable (Note 6)	-	-	-	-	1,440,000
TOTAL LIABILITIES	6,322	1,984,933	1,541,596	3,532,851	4,583,764
NET ASSETS (Note 2)					
Net Assets Without Donor Restrictions	320,221	8,121,365	5,253,302	13,694,888	12,172,265
TOTAL LIABILITIES AND NET ASSETS	\$ 326,543	\$ 10,106,298	\$ 6,794,898	\$ 17,227,739	\$ 16,756,029

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, 2025
 (With Comparative Totals for the Year Ended June 30, 2024)

	General Fund	Roads Maintenance Fund	Property Fund	Totals 2025	Totals 2024
REVENUE					
Road Maintenance Fees (Note 2)	\$ -	\$ 3,802,473	\$ -	\$ 3,802,473	\$ 3,593,231
Late Fee Interest	-	234,700	-	234,700	225,702
Bank and Investment Interest	-	203,531	16,032	219,563	275,702
Transfer Fees (Note 2)	-	175,500	-	175,500	159,600
Lien Fees (Note 2)	-	82,400	-	82,400	105,400
Lease Income (Note 4)	28,637	3,400	-	32,037	40,481
Activities Center Income	44,260	-	-	44,260	41,809
Miscellaneous Income	5,540	3,769	-	9,309	8,263
Unrealized Gains on Certificates of Deposit	-	464	-	464	961
Recovered Foreclosure Legal Costs and Fees	-	560	-	560	419
Total Revenue	<u>78,437</u>	<u>4,506,797</u>	<u>16,032</u>	<u>4,601,266</u>	<u>4,451,568</u>
EXPENSES					
Program Services	-	1,868,468	940,134	2,808,602	2,997,574
Management and General	-	270,041	-	270,041	272,933
Fundraising	-	-	-	-	-
Total Expenses	<u>-</u>	<u>2,138,509</u>	<u>940,134</u>	<u>3,078,643</u>	<u>3,270,507</u>
CHANGES IN NET ASSETS	\$ 78,437	\$ 2,368,288	\$ (924,102)	\$ 1,522,623	\$ 1,181,061
NET ASSETS, BEGINNING OF YEAR	387,521	7,531,664	4,253,080	12,172,265	10,580,173
Allowance Derecognized Due to Adoption of Topic 326	-	-	-	-	411,031
General Fund Compensation (Note 2)	100,000	(100,000)	-	-	-
Transferred Between Funds (Note 2)	(245,737)	(1,678,587)	1,924,324	-	-
NET ASSETS, END OF YEAR	<u>\$ 320,221</u>	<u>\$ 8,121,365</u>	<u>\$ 5,253,302</u>	<u>\$ 13,694,888</u>	<u>\$ 12,172,265</u>

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, 2025
 (With Comparative Totals for the Year Ended June 30, 2024)

	Program Services	Supporting Services		Totals 2025	Totals 2024
		Management and General	Fundraising		
Salaries and Wages	\$ 488,370	\$ 19,356	\$ -	\$ 507,726	\$ 526,206
Payroll Taxes	55,344	2,194	-	57,538	82,613
Employee Benefits	49,919	-	-	49,919	18,685
Total Salaries, Wages and Related Expenses	593,633	21,550	-	615,183	627,504
Direct Road Maintenance (Note 2)	867,856	-	-	867,856	867,090
Depreciation	845,633	-	-	845,633	956,436
Professional Services and Legal Fees	30,615	206,038	-	236,653	303,522
Vehicle and Equipment	110,283	-	-	110,283	95,364
Bond Interest (Note 6)	94,501	-	-	94,501	143,077
Insurance	62,670	22,751	-	85,421	84,119
Office and Supplies	65,700	-	-	65,700	51,759
Credit Loss Expense (Note 3)	45,816	-	-	45,816	75,031
Shoulder Maintenance	33,256	-	-	33,256	15,311
General Excise Tax	31,013	-	-	31,013	-
Shop Supplies	20,455	-	-	20,455	18,102
Activities Center	-	13,035	-	13,035	19,844
Miscellaneous	-	5,066	-	5,066	2,223
Collections	5,005	-	-	5,005	6,932
Property	799	1,601	-	2,400	2,400
Merchant Service and Bank Fees	1,367	-	-	1,367	1,793
Total Expenses	\$ 2,808,602	\$ 270,041	\$ -	\$ 3,078,643	\$ 3,270,507

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, 2025
(With Comparative Totals for the Year Ended June 30, 2024)

	General Fund	Roads Maintenance Fund	Property Fund	Totals 2025	Totals 2024
CASH FLOWS FROM OPERATING ACTIVITIES					
Changes In Net Assets	\$ 78,437	\$ 2,368,288	\$ (924,102)	\$ 1,522,623	\$ 1,181,061
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided By (Used In) Operating Activities:					
Depreciation	-	-	845,633	845,633	956,436
Credit Loss Expense	-	45,816	-	45,816	75,031
Amortization of Debt Issuance Costs	-	-	5,185	5,185	6,599
Unrealized Gains on Certificates of Deposit	-	(464)	-	(464)	(961)
(Increase) Decrease In:					
Accounts Receivable	-	(230,902)	-	(230,902)	(283,174)
Other Prepaid Expenses	-	(5,921)	-	(5,921)	(591)
Prepaid Insurance	-	(7,279)	-	(7,279)	(1,330)
Accounts Payable	-	25,311	-	25,311	(3,779)
Credit Card Payable	-	(904)	-	(904)	(5,232)
Accrued Compensation	-	10,210	-	10,210	7,077
Bond Interest Payable	-	-	(24,295)	(24,295)	(22,898)
Activity Center Deposits	197	-	-	197	1,875
Deferred Assessment Fees	-	(11,617)	-	(11,617)	183,885
Net Cash Provided by (Used in) Operating Activities	78,634	2,192,538	(97,579)	2,173,593	2,093,999
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of Property and Equipment	-	-	(906,604)	(906,604)	(805,822)
Purchases of Construction in Progress - Mailbox Sites	-	-	-	-	(175,330)
Accrued Deed Restriction Amendment Fee	-	-	75,000	75,000	-
Purchases of Certificates of Deposit	-	(2,664,254)	-	(2,664,254)	(3,685,591)
Redemptions from Certificates of Deposit	-	2,694,000	-	2,694,000	2,694,000
Net Cash Provided by (Used in) Investing Activities	-	29,746	(831,604)	(801,858)	(1,972,743)
CASH FLOWS FROM FINANCING ACTIVITIES					
Principal Payments on Bond	-	-	(1,134,364)	(1,134,364)	(1,065,000)
Net Cash Used in Financing Activities	-	-	(1,134,364)	(1,134,364)	(1,065,000)
Net Increase (Decrease) in Cash and Restricted Cash	\$ 78,634	\$ 2,222,284	\$ (2,063,547)	\$ 237,371	\$ (943,744)
TRANSFERRED BETWEEN FUNDS	(145,737)	(1,778,587)	1,924,324	-	-
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	393,646	4,113,802	1,016,062	5,523,510	6,467,254
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF YEAR (Note 2)	\$ 326,543	\$ 4,557,499	\$ 876,839	\$ 5,760,881	\$ 5,523,510
SUPPLEMENTAL CASH FLOW DISCLOSURES					
Bond Interest Paid	\$ -	\$ -	\$ 118,796	\$ 118,796	\$ 165,975
Allowance Derecognized Due to Adoption of Topic 326	\$ -	\$ -	\$ -	\$ -	\$ 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, 2025

Note 1. ORGANIZATION

Hawaiian Paradise Park Owners Association (the Association), formerly known as Paradise Hui Hanalike, is a private nonprofit corporation. The Association 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.

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 to 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, 2025, the above compensation amounted to \$100,000.

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.

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 2025 and 2024, road fees were assessed at \$435.

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.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to the Financial Statements
June 30, 2025

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Roads Maintenance Fund (Continued):

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, 2025, \$1,678,587 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, 2025, the Association spent approximately \$461,000 on road improvements, \$-0- on building and building improvements, \$143,000 on equipment, and \$225,000 on completed and construction in progress land improvements related to mailbox sites.

Revenue Recognition

Road Maintenance 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 Association 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.

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.

Restricted Cash: Cash restricted by debt agreements consists of bond funds, held by a trustee, that are required to be established and maintained in accordance with the 2018 Series Revenue Refunding Bond Agreement.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to the Financial Statements
June 30, 2025

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash (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, 2025:

	General Fund	Roads Maintenance Fund	Property Fund	Totals
Cash and Cash Equivalents	\$ 326,543	\$ 4,557,499	\$ -	\$ 4,884,042
Restricted Cash	-	-	371,602	371,602
Reserve Cash	-	-	505,237	505,237
Total	<u>\$ 326,543</u>	<u>\$ 4,557,499</u>	<u>\$ 876,839</u>	<u>\$ 5,760,881</u>

At June 30, 2025, 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 \$2,727,000 at June 30, 2025.

Certificates of Deposit: Certificates of deposit are recorded as cash and cash equivalents at cost plus accrued interest if less than ninety (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 ninety (90) days. Certificates of deposit with a maturity date greater than one-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 2025 and June 2026, and earn interest at annual rates between 0.4% and 3.1%.

The Association’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, 2025.

Accounts Receivable: 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 Association follows Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326). The ASU requires earlier recognition of credit losses, while also providing additional transparency about credit risk. The Current Expected Credit Losses (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.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to the Financial Statements
June 30, 2025

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses (Continued):

The Association 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.

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, 2025, 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.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to the Financial Statements June 30, 2025

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

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.

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.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to the Financial Statements
June 30, 2025

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, 2025:

	June 30, 2024 Balance	Credit Loss Expense for the Period	Write-offs During the Period	June 30, 2025 Balance
Less Than Two (2) Years Outstanding	\$ 34,467	\$ 22,615	\$ -	\$ 57,082
Liened Property	268,066	(6,151)	(515)	261,400
Property Under Foreclosure	126,149	29,352	(51,983)	103,518
Total	<u>\$ 428,682</u>	<u>\$ 45,816</u>	<u>\$ (52,498)</u>	<u>\$ 422,000</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 ninety-nine (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 lease agreement, and at intervals of ten years thereafter, the rent is subject to renegotiation. The lease expires in May 2079. The Association recognized \$3,663 in lease income for the Malamalama School, Inc. lease for the year ended June 30, 2025.

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 \$28,374 in lease income for these leases for the year ended June 30, 2025. Future minimum lease income under these non-cancelable leases to be received as follows as of June 30:

2026	\$ 24,996
2027	<u>4,166</u>
Total	<u>\$ 29,162</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, 2025

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 \$86,215 for the year ending June 30, 2025. The amortized portion of the debt issuance costs from the Series 2018 revenue bonds amounted to \$4,363 as of June 30, 2025. 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 \$94,501. In accordance with the bond trust agreement, the Association is required to make monthly remittance payments of principal and interest equal to one-twelfth (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.

The Association has notified the lender of its intention to repay in full the outstanding principal balance in the first quarter of 2026 of \$1,440,000, one year ahead of the original maturity schedule. This early repayment will be made without penalty and is part of the Association's management strategy to reduce interest expense. The early repayment is not expected to have a material adverse impact on the Association's liquidity or operations.

HAWAIIAN PARADISE PARK OWNERS ASSOCIATION

Notes to the Financial Statements June 30, 2025

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.

NOTE 8. EMPLOYEE RETIREMENT PLAN

Effective July 2025, the Association established a Savings Incentive Match Plan for Employees (SIMPLE IRA) to provide retirement benefits to eligible employees. Under the plan, employees may contribute a portion of their compensation on a pre-tax basis, subject to annual contribution limits established by the Internal Revenue Service. The Association will make matching contributions of up to 3% of each participating employee's compensation. Employer contributions are fully vested when made.

Note 9. SUBSEQUENT EVENTS

In preparing these financial statements management has evaluated events and transactions for potential recognition or disclosure through November 24, 2025, 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.