

**NANAWALE COMMUNITY ASSOCIATION, INC.**  
**(A Hawai'i Nonprofit Corporation)**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**(With comparative totals for the year ended December 31, 2014)**

NANAWALE COMMUNITY ASSOCIATION, INC.

*Contents*

Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Changes in Fund Balances	4
Statement of Cash Flows	5
Notes to the Financial Statements	6

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Nanawale Community Association, Inc.  
Pahoa, Hawai'i 96778

***Report on the Financial Statements***

We have audited the accompanying financial statements of Nanawale Community Association, Inc., which are comprised of the statement of financial position as of December 31, 2015, and the related statements of activities and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Nanawale Community Association, Inc. as of December 31, 2015, and the statement of activities and changes in fund balances and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Report on Summarized Comparative Information*

We have previously audited Nanawale Community Association, Inc. financial statements, and in our report dated May 1, 2015, we expressed an unmodified opinion on those audited financial statements. In our opinion the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent in all material respects, with the audited financial statements from which it has been derived.



Hilo, Hawai'i  
April 14, 2016

NANAWALE COMMUNITY ASSOCIATION, INC.

Statement of Financial Position  
As of December 31, 2015  
(With comparative totals as of December 31, 2014)

	2015			2014
	General Fund	Property Fund	Total Fund	Total Fund
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents (Note 2)	\$ 135,588	\$ -	\$ 135,588	\$ 88,378
Investments in Certificates of Deposit (Note 4)	66,700	-	66,700	66,700
Assessments Receivable (Note 3)				
Assessments Receivable	302,191	-	302,191	242,888
Allowance for Uncollectible	(224,535)	-	(224,535)	(175,956)
Net Assessments Receivable	<u>77,656</u>		<u>77,656</u>	<u>66,932</u>
OTHER ASSETS				
Prepaid Insurance	<u>9,472</u>	<u>-</u>	<u>9,472</u>	<u>9,472</u>
Total Current Assets	<u>289,416</u>	<u>-</u>	<u>289,416</u>	<u>231,482</u>
PROPERTY AND EQUIPMENT (Note 2)				
Land and Road Improvements	-	612,475	612,475	612,475
Machinery and Equipment	-	245,634	245,634	235,109
Building and Improvements	-	221,721	221,721	221,721
Office Equipment	-	13,784	13,784	13,784
Vehicles	-	38,250	38,250	38,250
Total Property and Equipment	<u>-</u>	<u>1,131,864</u>	<u>1,131,864</u>	<u>1,121,339</u>
Less Accumulated Depreciation	<u>-</u>	<u>(931,713)</u>	<u>(931,713)</u>	<u>(901,288)</u>
Net Property and Equipment	<u>-</u>	<u>200,151</u>	<u>200,151</u>	<u>220,051</u>
TOTAL ASSETS	<u>\$ 289,416</u>	<u>\$ 200,151</u>	<u>\$ 489,567</u>	<u>\$ 451,533</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accrued Payroll	\$ 7,487	\$ -	\$ 7,487	\$ 7,133
Accounts Payable	2,949	-	2,949	271
Prepaid Assessments (Note 2)	<u>13,059</u>	<u>-</u>	<u>13,059</u>	<u>18,160</u>
Total Current Liabilities	<u>23,495</u>	<u>-</u>	<u>23,495</u>	<u>25,564</u>
NET ASSETS (Note 2)				
Unrestricted Net Assets	199,221	200,151	399,372	359,269
Permanently Restricted Net Assets (Note 4)	<u>66,700</u>	<u>-</u>	<u>66,700</u>	<u>66,700</u>
Total Net Assets	<u>265,921</u>	<u>200,151</u>	<u>466,072</u>	<u>425,969</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 289,416</u>	<u>\$ 200,151</u>	<u>\$ 489,567</u>	<u>\$ 451,533</u>

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



NANAWALE COMMUNITY ASSOCIATION, INC.

Statement of Activities and Changes in Fund Balances

For the Year Ended December 31, 2015

(With comparative totals as of December 31, 2014)

	2015			2014	
	General Fund	Property Fund	Total	Fund	Total
REVENUE					
Annual Assessments (Note 2)	\$ 378,875	\$ -	\$ 378,875	\$ 379,236	
Transfer Fees	24,400	-	24,400	24,800	
Late Fees, Charges and Fines	27,886	-	27,886	15,284	
Youth Fund Income (Note 6)	21,137	-	21,137	8,917	
Other Miscellaneous Income (Note 7)	12,504	-	12,504	2,119	
Gain on Sale	10,000	-	10,000	1,634	
Interest Income (Note 2)	188	-	188	1,363	
Total Revenue	474,990	-	474,990	433,353	
EXPENSES					
Payroll Expenses and Employee Benefits	227,495	-	227,495	234,754	
Bad Debt Expense	50,000	-	50,000	29,987	
Depreciation	-	30,425	30,425	38,586	
Road Maintenance and Equipment	19,705	-	19,705	24,466	
Professional Services	16,182	-	16,182	16,829	
Insurance	16,147	-	16,147	16,017	
Youth Fund Expense	14,253	-	14,253	4,533	
Utilities	8,794	-	8,794	10,837	
Postage	7,991	-	7,991	5,415	
Pools and Parks	7,559	-	7,559	7,846	
Miscellaneous Expense	7,090	-	7,090	9,020	
Printing	6,481	-	6,481	6,948	
Office Expense	4,861	-	4,861	2,787	
Maintenance & Repairs	4,403	-	4,403	4,677	
Automobile Expense	3,818	-	3,818	6,315	
Telephone Expense	3,395	-	3,395	2,910	
Neighborhood Patrol	2,522	-	2,522	3,860	
Property Taxes	1,852	-	1,852	3,176	
General Excise Tax	1,079	-	1,079	551	
Annual Meeting Expense	835	-	835	1,757	
Total Operating Expenses	404,462	30,425	434,887	431,271	
Net Operating Gain (Loss)	70,528	(30,425)	40,103	2,082	
Transfer for Purchase of Property and Equipment	(10,525)	10,525	-	-	
<b>Changes in Fund Balances</b>	<b>\$ 60,003</b>	<b>\$ (19,900)</b>	<b>\$ 40,103</b>	<b>\$ 2,082</b>	
Beginning Net Assets	139,218	220,051	359,269	357,187	
Permanently Restricted Net Assets	66,700	-	66,700	66,700	
Ending Net Assets	<u>\$ 265,921</u>	<u>\$ 200,151</u>	<u>\$ 466,072</u>	<u>\$ 425,969</u>	

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

NANAWALE COMMUNITY ASSOCIATION, INC.

Statement of Cash Flows  
For the Year Ended December 31, 2015  
(With comparative totals as of December 31, 2014)

	2015			2014
	General Fund	Property Fund	Total Fund	Total Fund
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>				
Changes in Fund Balances	\$ 60,003	\$ (19,900)	\$ 40,103	\$ 2,082
Add in Depreciation	-	30,425	30,425	38,586
Less Gain on Sale	(10,000)		(10,000)	(1,634)
Add Bad Debt Expense	50,000	-	50,000	29,987
Change in Assessments Receivable	(60,724)	-	(60,724)	(45,361)
Change in Prepaid Insurance	-	-	-	1
Change in Accounts Payable	2,678	-	2,678	271
Change in Accrued Payroll	354	-	354	792
Change in Prepaid Assessments	(5,101)	-	(5,101)	1,973
Net Cash Provided by Operating Activities	37,210	10,525	47,735	26,697
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>				
Proceeds from Sale of Property and Equipment	10,000	-	10,000	3,000
Cash Used for Fixed Asset Purchases	-	(10,525)	(10,525)	-
Cash Used for Capital Project	-	-	-	(74,502)
Net Cash Used by Investing Activities	10,000	(10,525)	(525)	(71,502)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>	-	-	-	-
<b>Net Increase (Decrease) in Cash</b>	<b>\$ 47,210</b>	<b>\$ -</b>	<b>\$ 47,210</b>	<b>\$ (44,805)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>88,378</b>	<b>-</b>	<b>88,378</b>	<b>133,183</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 135,588</b>	<b>\$ -</b>	<b>\$ 135,588</b>	<b>\$ 88,378</b>

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

# NANAWALE COMMUNITY ASSOCIATION, INC.

## Notes to the Financial Statements December 31, 2015

### Note 1. ORGANIZATION

Nanawale Community Association, Inc. (the Association) is a nonprofit Organization incorporated in the State of Hawai'i on November 14, 1960, for the purpose of improving and maintaining the Nanawale Subdivision as a desirable residential community. The Association is committed to promoting the social welfare of the residents residing in the Subdivision. The Subdivision consists of 4,290 lots with approximately 600 residences located in Pahoa, Hawai'i, District of Puna, County of Hawai'i. The Association relies primarily on assessments from property owners within the Subdivision to fund its operations.

The purpose and the activities of the Association is to promote the best interests of the property owners in the subdivision and to promote, improve, maintain, and manage all common and community facilities within the subdivision.

### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Method of Accounting:* The Association uses the accrual method of accounting for both financial statement reporting and tax return preparation. Under this method of accounting, revenue is recognized when earned rather than when received, and expenses are recognized when incurred rather than when paid.

*Net Assets:* Nanawale Community Association, Inc. has conformed to *FASB ASC 958-210-45-9*, "Not-for-Profit Entities, Classifications of Net Assets," and the *Statement of Financial Accounting Standards formerly (SFAS) No 117*, "Financial Statement of Not-for-Profit Organization." Accordingly, Nanawale Community Association, Inc. is required to report information regarding its financial position and activities according to the following three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent those assets whose usage is neither temporarily nor permanently restricted by donors. These revenues are used for the general operating expenditures of the Association or for such purposes as determined by the Board of Directors.

Temporarily restricted net assets represent restricted grants and funds received from foundations and donors for which the restriction had not yet been fulfilled as of year end. At December 31, 2015 and 2014, there were no temporarily restricted net assets.

Permanently restricted net assets represent funds received from the developer to establish road maintenance escrow funds for three increments required by the Planning Department, County of Hawai'i. The principal is to be maintained intact and with only the investment income to be used for road improvements.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) applies to nonprofit organizations in Hawaii. UPMIFA updates the prudence standard for the management and investment of charitable funds, and it amends the provisions governing the release and modification of restrictions on charitable funds. Management has evaluated the provisions of the standard and has concluded that the adoption of UPMIFA in fiscal year 2013 did not have a significant effect on the Association's financial statements. Permanently restricted net assets consisted of \$66,700 at both December 31, 2015 and 2014.



NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements  
December 31, 2015

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fund Balances:* To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

General Fund – The General Fund account resources are available for the general operations of the Association. This fund also includes the Road Fund that the Planning Department of the County of Hawai‘i required the developer to establish. The funds are segregated and held in three Certificates of Deposit. The \$66,700 principal amount of the Certificates of Deposit may not be withdrawn by the Association without prior approval from the County of Hawai‘i. However, interest earned on these funds may be utilized by the Association for improvements for road maintenance. As of December 31, 2015 and 2014, \$188 and \$1,363 of interest was earned for this purpose, respectively.

Property Fund – The Property Fund is used to account for the acquisition of equipment and property to be used for the benefit of the community as well as the management of the common property within the development.

*Assessments:* In 2015 and 2014, owners were subject to an annual assessment of \$89 per lot for residences, and for vacant land, to provide for the Association’s operating expenses, future capital acquisitions, and major repairs. The Association’s policy is to retain legal counsel if necessary, and place liens on the properties of homeowners whose assessments are delinquent thirty days or more. Any excess assessments at year end are retained for use in the subsequent year. Accounts receivable represents assessments earned but not yet received. Prepaid Assessments represent advance payments by owners for future assessments.

*Cash and Cash Equivalents:* For the purposes 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. At December 31, 2015 and 2014, the Association had account balances at two banking institutions that were insured by the Federal Deposit Insurance Corporation (FDIC).

*Property and Equipment:* Property and equipment are stated at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation on all property and equipment is recorded on the straight-line basis over the estimated useful lives of the respective assets. The Association capitalizes items with a useful life greater than one year and a cost greater than \$500.

*Use of Estimates:* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

# NANAWALE COMMUNITY ASSOCIATION, INC.

## Notes to the Financial Statements December 31, 2015

### Note 3. ALLOWANCE FOR UNCOLLECTIBLE

Nanawale Community Association, Inc. charges an assessment fee for each lot annually. However the probability for collecting 100% of all assessments may not always be realized. This can be due in part to the current economic climate, historical data, and actual amounts that have been overdue for long periods of time. The allowance for uncollectible accounts is management's estimate of outstanding accounts receivable that has a high probability of not being collected based on past history and the current accounts receivable balance. However, this is an estimated amount that could change in the near term. Management intends to place a lien on the properties of those owners who do not bring their accounts current. Due to the real estate market, lack of lien enforcement, difficulty in locating owners, and cost to collect, the allowance for uncollectible accounts was adjusted to bring assessments receivable to a realizable value of \$77,656 and \$66,932 as of December 31, 2015 and 2014, respectively.

### Note 4. INVESTMENTS - CERTIFICATES OF DEPOSIT

The Association has implemented *FASB ASC 820-10-50-1* which establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. This fair value hierarchy consists of three broad levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets, such as stock exchanges, for identical assets and have the highest priority.
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly for substantially the full term of the financial instrument.
- Level 3 inputs consist of significant unobservable inputs and include situations where there is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals.

The only assets or liabilities measured at fair value on a recurring or non-recurring basis are investments measured at fair value on a recurring basis, and consisting of long-term certificates of deposit which are valued using Level 1 inputs. Below are total investments measured at level 1 fair value at December 31, 2015.

		Fair Value
First Hawaiian Bank - Certificate of Deposit, interest rate .096%, maturity date:	07/2015	\$ 20,650
First Hawaiian Bank - Certificate of Deposit, interest rate .096%, maturity date:	07/2015	\$ 16,400
First Hawaiian Bank - Certificate of Deposit, interest rate .096%, maturity date:	07/2015	\$ 29,650
		<u>\$ 66,700</u>

As stated in Note 2, the Planning Department, County of Hawai'i, required the developer to establish road maintenance escrow funds for three increments; Units III-A, III-B, and IV. These roads were County approved subject to the creation of escrow funds.



# NANAWALE COMMUNITY ASSOCIATION, INC.

## Notes to the Financial Statements December 31, 2015

### Note 5. LEASES

On April 16, 1999, the Association signed an agreement with the County of Hawai'i to lease undeveloped land for the purpose of developing a ball field. The Association received a one-time rent payment in the amount of \$10,000 for the term of the ten-year lease. The Association is responsible for all maintenance, repairs, and operating expenses associated with the property.

In addition, the Association entered into a non-cancelable lease agreement with Xerox Corporation in September, 2013. This lease has been determined to be an operational lease and has a term of 60 months requiring a monthly payment of \$407. The following is the future non-cancelable portion of the lease obligations of the Association:

2016	\$ 4,884
2017	4,884
2018	<u>4,070</u>
	<u>\$ 13,838</u>

### Note 6. CELL TOWER AGREEMENTS

The Association entered into an agreement with SBA Monarch Towers to maintain a T-Mobile cell phone tower on the main property. During the years ended December 31, 2015 and 2014, the Association recorded total rental revenue of \$6,300 and \$6,000, respectively, which was used to fund programs for area youth.

The Association also entered into an agreement with Sprint to maintain a cell phone tower on the main property, with payments beginning in January 2015. During the year ended December 31, 2015, the Association recorded total rental revenue of \$21,100 of which \$12,100 was determined by the Board of Directors to be used to fund area youth programs.

### Note 7. PUNA GEOTHERMAL VENTURE, LP CONTRACT

During 2012, the Association and Puna Geothermal Venture, LP renewed a lease agreement for an additional five years allowing Puna Geothermal Venture, LP use of the Association's property. During the years ended December 31, 2015 and 2014, the Association recorded earned revenue of \$1,500 each year.

### Note 8. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through April 14, 2016, the date the financial statements were available for use.

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements  
December 31, 2015

Note 9. INCOME TAXES

The Association is determined to be a tax exempt Organization under *Section 501(c)(4)* of the U.S. Internal Revenue Code and is classified as other than a private foundation. The Association is recognized to be exempt from Federal and State income taxes.

The accounting standard for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2015 and 2014.

The Association files its *Forms 990* in the U.S. Federal jurisdiction and the office of the State's Attorney General for the State of Hawai'i. The Association is generally no longer subject to examination by the Internal Revenue Service for years before 2012.