

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

**AUDITED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT**

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NANAWALE COMMUNITY ASSOCIATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To Management and the Board of Directors of
Nanawale Community Association, Inc.
RR2 Box 2250
Pahoa, Hawai'i 96778-9703

We have audited the accompanying financial statements of Nanawale Community Association, Inc. (a nonprofit Organization), which are comprised of the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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, 2020 and 2019, and the activities, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Carbonaro CPAs & Management Group

Hilo, Hawai‘i
June 2, 2022

NANAWALE COMMUNITY ASSOCIATION, INC.
 Statements of Financial Position
 As of December 31, 2020 and 2019

ASSETS						
	General Fund	Property Fund	Total 2020	General Fund	Property Fund	Total 2019
CURRENT ASSETS						
Cash and Cash Equivalents (Notes 2 and 13)	\$ 308,668	\$ -	\$ 308,668	\$ 298,611	\$ -	\$ 298,611
Investments in Certificates of Deposit (Note 5)	66,700	-	66,700	66,700	-	66,700
Assessments Receivable (Note 2)						
Assessments Receivable	597,677	-	597,677	508,407	-	508,407
Allowance for Uncollectible	(479,584)	-	(479,584)	(383,476)	-	(383,476)
Net Assessments Receivable	118,093	-	118,093	124,931	-	124,931
PROPERTY AND EQUIPMENT (Note 2)						
Land and Road Improvements	-	612,475	612,475	-	612,475	612,475
Machinery and Equipment	-	305,937	305,937	-	300,773	300,773
Building and Improvements	-	221,721	221,721	-	221,721	221,721
Office Equipment	-	8,486	8,486	-	8,486	8,486
Vehicles	-	22,250	22,250	-	22,250	22,250
Total Property and Equipment	-	1,170,869	1,170,869	-	1,165,705	1,165,705
Less Accumulated Depreciation	-	(1,043,815)	(1,043,815)	-	(1,015,496)	(1,015,496)
Net Property and Equipment	-	127,054	127,054	-	150,209	150,209
TOTAL ASSETS	\$ 493,461	\$ 127,054	\$ 620,515	\$ 490,242	\$ 150,209	\$ 640,451

The accompanying notes are an integral part of these financial statements.
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NANAWALE COMMUNITY ASSOCIATION, INC.
 Statements of Financial Position
 As of December 31, 2020 and 2019

LIABILITIES AND NET ASSETS

	General Fund	Property Fund	Total 2020	General Fund	Property Fund	Total 2019
CURRENT LIABILITIES						
Accounts Payable and Accrued Payroll	\$ 4,010	\$ -	\$ 4,010	\$ 1,736	\$ -	\$ 1,736
Mail Box Deposits	7,340	-	7,340	7,340	-	7,340
Prepaid Assessments	15,001	-	15,001	11,766	-	11,766
Current Portion of Long-Term Debt (Note 7)	-	3,864	3,864	-	3,864	3,864
Total Current Liabilities	26,351	3,864	30,215	20,842	3,864	24,706
LONG-TERM LIABILITIES						
Long-Term Debt (Note 7)	-	9,640	9,640	-	13,520	13,520
NET ASSETS (Note 3)						
Net Assets Without Donor Restriction	400,410	113,550	513,960	402,700	132,825	535,525
Net Assets With Donor Restriction	66,700	-	66,700	66,700	-	66,700
Total Net Assets	467,110	113,550	580,660	469,400	132,825	602,225
TOTAL LIABILITIES AND NET ASSETS	\$ 493,461	\$ 127,054	\$ 620,515	\$ 490,242	\$ 150,209	\$ 640,451

The accompanying notes are an integral part of these financial statements.
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NANAWALE COMMUNITY ASSOCIATION, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2020 and 2019

	General Fund	Property Fund	Total 2020	General Fund	Property Fund	Total 2019
REVENUE						
Member Assessments (Note 2)	\$ 442,702	\$ -	\$ 442,702	\$ 410,715	\$ -	\$ 410,715
Transfer Fees	41,200	-	41,200	36,400	-	36,400
Other Miscellaneous Income	13,902	-	13,902	20,656	-	20,656
Late Fees, Charges and Fines	7,861	-	7,861	34,880	-	34,880
Rental Income (Note 6)	6,455	-	6,455	7,150	-	7,150
Youth Fund Income	3,944	-	3,944	192	-	192
Interest Income	139	-	139	212	-	212
Total Revenue	516,203	-	516,203	510,205	-	510,205
EXPENSES						
Program Services	457,018	24,071	481,089	402,089	20,744	422,833
Management and General	52,431	4,248	56,679	52,403	3,661	56,064
Fundraising	-	-	-	-	-	-
Total Expenses	509,449	28,319	537,768	454,492	24,405	478,897
Net Operating Gain (Loss)	6,754	(28,319)	(21,565)	55,713	(24,405)	31,308
Transfer for Loan Payments	(3,880)	3,880	-	-	-	-
Transfer for Purchase of Property and Equipment	(5,164)	5,164	-	(28,934)	28,934	-
Changes in Net Assets	\$ (2,290)	\$ (19,275)	\$ (21,565)	\$ 26,779	\$ 4,529	\$ 31,308
Net Assets, Beginning of Year	402,700	132,825	535,525	375,921	128,296	504,217
Net Assets With Donor Restriction	66,700	-	66,700	66,700	-	66,700
Net Assets, End of Year	<u>\$ 467,110</u>	<u>\$ 113,550</u>	<u>\$ 580,660</u>	<u>\$ 469,400</u>	<u>\$ 132,825</u>	<u>\$ 602,225</u>

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

NANAWALE COMMUNITY ASSOCIATION, INC.
Statements of Functional Expenses
For the Years Ended December 31, 2020 and 2019

	Program Services	Supporting Services		Total 2020	Program Services	Supporting Services		Total 2019
		Management and General	Fundraising			Management and General	Fundraising	
EXPENSES								
Payroll Expenses and Employee Benefits	\$ 221,410	\$ 39,072	\$ -	\$ 260,482	\$ 214,702	\$ 37,889	\$ -	\$ 252,591
Bad Debt Expense	99,876	-	-	99,876	54,566	-	-	54,566
Road Maintenance and Equipment	30,089	-	-	30,089	37,124	-	-	37,124
Insurance	25,477	4,496	-	29,973	27,916	4,926	-	32,842
Depreciation	24,071	4,248	-	28,319	20,744	3,661	-	24,405
Professional Services	14,974	2,642	-	17,616	16,487	2,909	-	19,396
Utilities	9,732	1,718	-	11,450	10,665	1,882	-	12,547
Youth Fund Expense	10,273	-	-	10,273	3,716	-	-	3,716
Maintenance and Repairs	9,999	-	-	9,999	3,090	-	-	3,090
Automobile Expense	7,345	-	-	7,345	5,080	-	-	5,080
Printing	5,644	996	-	6,640	5,157	910	-	6,067
Postage	4,702	830	-	5,532	3,450	609	-	4,059
Office Expense	4,190	739	-	4,929	3,491	616	-	4,107
Pools and Parks	4,453	-	-	4,453	4,798	-	-	4,798
Miscellaneous Expense	3,605	636	-	4,241	6,909	1,219	-	8,128
Telephone Expense	2,676	472	-	3,148	2,376	419	-	2,795
Property Taxes	2,469	436	-	2,905	2,529	446	-	2,975
General Excise Tax	104	264	-	368	-	264	-	264
Annual Meeting Expense	-	130	-	130	-	314	-	314
Neighborhood Patrol	-	-	-	-	33	-	-	33
Total Operating Expenses	<u>\$ 481,089</u>	<u>\$ 56,679</u>	<u>\$ -</u>	<u>\$ 537,768</u>	<u>\$ 422,833</u>	<u>\$ 56,064</u>	<u>\$ -</u>	<u>\$ 478,897</u>

The accompanying notes are an integral part of these financial statements.
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NANAWALE COMMUNITY ASSOCIATION, INC.

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

	General Fund	Property Fund	Total 2020	General Fund	Property Fund	Total 2019
CASH FLOWS FROM OPERATING ACTIVITIES						
Changes in Fund Balances	\$ (2,290)	\$ (19,275)	\$ (21,565)	\$ 26,779	\$ 4,529	\$ 31,308
Add Depreciation	-	28,319	28,319	-	24,405	24,405
Add Bad Debt Expense	99,876	-	99,876	54,566	-	54,566
Change in Assessments Receivable	(93,038)	-	(93,038)	(60,760)	-	(60,760)
Change in Prepaid Insurance	-	-	-	5,399	-	5,399
Change in Accounts Payable and Accrued Payroll	2,274	-	2,274	(8,918)	-	(8,918)
Change in Prepaid Assessments	3,235	-	3,235	2,555	-	2,555
Net Cash Provided by Operating Activities	10,057	9,044	19,101	19,621	28,934	48,555
CASH FLOWS FROM INVESTING ACTIVITIES						
Cash Used for Property and Equipment Purchases	-	(5,164)	(5,164)	-	(28,934)	(28,934)
Net Cash Used by Investing Activities	-	(5,164)	(5,164)	-	(28,934)	(28,934)
CASH FLOWS FROM FINANCING ACTIVITIES						
Principal Payments on Loan (Note 7)	-	(3,880)	(3,880)	-	-	-
Net Cash Used by Financing Activities	-	(3,880)	(3,880)	-	-	-
Net Increase in Cash	\$ 10,057	\$ -	\$ 10,057	\$ 19,621	\$ -	\$ 19,621
CASH AND CASH EQUIVALENT, BEGINNING OF YEAR	298,611	-	298,611	278,990	-	278,990
CASH AND CASH EQUIVALENT, END OF YEAR	<u>\$ 308,668</u>	<u>\$ -</u>	<u>\$ 308,668</u>	<u>\$ 298,611</u>	<u>\$ -</u>	<u>\$ 298,611</u>

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

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019

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 Pahoā, 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

Revenue and Expense Recognition: The Association uses the accrual method of accounting. Under this method of accounting, revenue is recognized when earned, contributions are recognized when received and expenses are recognized when incurred. Advance assessments represent funds received by the Association in advance for the member assessments for the subsequent year.

The Association has analyzed the provisions of ASU 2014-09, *Revenue from Contracts with Customers*, and has concluded that no changes are necessary to conform to the new standard. Performance obligations related to member assessments is the maintenance and management of the common area property and is generally believed to be met on a periodic basis throughout the fiscal year. Plan review fees, transfer fees, late fees and construction fines do not have a specific performance obligation and are generally earned when received.

Member Assessments: In both 2020 and 2019, owners were subject to an annual assessment of \$104 and \$99 per lot for residences, and vacant land respectively, to provide for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. 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 is retained for use in the subsequent year.

Assessments Receivable: Management reviews Assessments Receivable on a periodic basis to determine if an allowance for doubtful accounts is necessary. At December 31, 2020 and 2019, management has determined an allowance for doubtful accounts of \$479,584 and \$383,476, respectively, based on past collection history and the current composition of the assessments receivable balance. During the pandemic, from 2020 to 2022, management has not been actively pursuing outstanding assessments receivable and liens were not placed on assessments receivable since May 2021. Management will continue to place liens on delinquent assessments receivable in July 2022.

Cash and Cash Equivalents: For the purposes of the Statements of Cash Flows, the Association considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents. At December 31, 2020 and 2019, the Association had account balances at two banking institutions that were insured by the Federal Deposit Insurance Corporation (FDIC). In 2020, the Organization analyzed ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Management believes that the adoption of the new accounting standard had no effect on the statements of cash flows as they do not have any restricted cash and cash equivalents.

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 live of the respective asset, which range from four to twenty years. 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.

Functional Expenses: The financial statements include a statement of functional expenses. Functional expenses are allocated to program related and administrative functions. Expense allocations are generally computed based on the number of employees or contractors performing program or administrative functions.

Note 3. NET ASSETS

In accordance with ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, the Association is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions include all resources that are not subject to donor-imposed stipulations or contributions with donor-imposed restrictions that are met during the same year as the contribution is made. Net assets without donor restrictions denoted as property and equipment represent equity in such property and equipment.

Net assets with donor restriction include amounts that the donor subjects to restrictions in perpetuity and amounts subject to legal or donor-imposed stipulations that may or will be met either by actions of the Association and/or passage of time. At December 31, 2020 and 2019, net assets with donor restriction consisted of \$66,700 in the Road Fund that the Planning Department of the County of Hawaii required the developer to establish.

Note 4. 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 years ended December 31, 2020 and 2019.

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements For the Years Ended December 31, 2020 and 2019

Note 4. INCOME TAXES (continued)

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 2017.

Note 5. INVESTMENTS - CERTIFICATES OF DEPOSIT

As stated in Note 3, 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. The fair value of the funds was as follows:

	2020
First Hawaiian Bank – Certificate of Deposit, interest rate .046%, maturity date: 07/2021	\$ 16,400
First Hawaiian Bank – Certificate of Deposit, interest rate .046%, maturity date: 07/2021	29,650
First Hawaiian Bank – Certificate of Deposit, interest rate .046%, maturity date: 07/2021	20,650
	<u>\$ 66,700</u>
	2019
First Hawaiian Bank – Certificate of Deposit, interest rate .076%, maturity date: 07/2020	\$ 16,400
First Hawaiian Bank – Certificate of Deposit, interest rate .076%, maturity date: 07/2020	29,650
First Hawaiian Bank – Certificate of Deposit, interest rate .076%, maturity date: 07/2020	20,650
	<u>\$ 66,700</u>

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.

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements For the Years Ended December 31, 2020 and 2019

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, 2020 and 2019, the Association recorded total rental revenue of \$6,455 and \$7,150, respectively, which was used to help fund programs for area youth.

Note 7. TRACTOR LOAN

During the year ending December 31, 2019, the Association entered into a purchase agreement with Kubota Credit Corporation for a tractor. The loan is non-interest bearing and due in 60 monthly installments of \$322 through June 2024. The future scheduled maturities of the debt are as follows:

Years ending December 31:	
2021	\$ 3,864
2022	3,864
2023	3,864
2024	1,912
Total	<u>\$ 13,504</u>

Note 8. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 2, 2022, 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 balance sheet date, or non-recognized subsequent events, or events that provide evidence about conditions that did not exist at the balance sheet date, which are necessary to disclose to keep the financial statements from being misleading.

Subsequent to year end, the COVID-19 pandemic was still ongoing. The United States economy was negatively affected and the financial markets have experienced significant losses due to the outbreak. At the time these financial statements were available to be issued, the situation remained very volatile and the full effect of the pandemic on the operations of the Association could not be determined.

Note 9. CONTINGENCIES

The Association is being pursued by a member for possible litigation that has not been brought before the courts. Currently, there are no amounts the Association owes the member. The Association believes it has meritorious defenses and intends to vigorously contest any such claim or litigation. The Association believes that resolution of this will not have a material adverse effect on its financial position.

Note 10. RELATED PARTY TRANSACTIONS

A Board member provided services for the Association for fees which were determined to be arms-length transactions. The total fees paid during 2020 and 2019 were \$1,250 and \$1,331, respectively.

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements For the Years Ended December 31, 2020 and 2019

Note 11. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management's policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

	<u>2020</u>	<u>2019</u>
Financial Assets at December 31,	\$ 308,668	\$ 298,611
Less those unavailable to general expenditures within one year due to:		
Restricted by donor with purpose restrictions	<u>(66,700)</u>	<u>(66,700)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 241,968</u>	<u>\$ 231,911</u>

Note 12. RECENT ACCOUNTING PRONOUNCEMENT

In February 2016, the FASB issued ASU 2016-02, *Leases*, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02, requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures. ASU 2016-02 is effective for entity fiscal years beginning after December 15, 2020 (as amended in November 2019 by ASU 2019-10), but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Association's fiscal year ending December 31, 2022. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 985): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, effective for annual periods beginning after June 15, 2021 with early application permitted. The provisions are effective for the Association's fiscal year ending December 31, 2022. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.

Note 13. DEPOSITS WITH FINANCIAL INSTITUTIONS

The Association maintains its cash balances at different financial institutions. These balances at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit per financial institution. Management acknowledges possibility of risk in this arrangement; however, the size and the longevity of depository institution minimize such risk. The following represents a summary of cash balances as of December 31:

	<u>2020</u>	<u>2019</u>
Fully Insured	\$ 308,564	\$ 298,611
Uninsured and Uncollateralized	<u>104</u>	<u>-</u>
	<u>\$ 308,668</u>	<u>\$ 298,611</u>