

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

AUDITED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

NANAWALE COMMUNITY ASSOCIATION, INC.

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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. (a nonprofit Organization), which are comprised of the statement of financial position as of December 31, 2018, 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.

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 audit. We conducted our audit 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, 2018, and the activities, changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Carbonaro CPAs & Management Group

Hilo, Hawai'i
May 1, 2019

NANAWALE COMMUNITY ASSOCIATION, INC.

Statement of Financial Position

As of December 31, 2018

	General Fund	Property Fund	Total Fund
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents (Note 2)	\$ 278,990	\$ -	\$ 278,990
Investments in Certificates of Deposit (Note 7)	66,700	-	66,700
Assessments Receivable (Note 2)			
Assessments Receivable	465,571	-	465,571
Allowance for Uncollectible (Note 5)	(346,834)	-	(346,834)
Net Assessments Receivable	<u>118,737</u>		<u>118,737</u>
OTHER ASSETS			
Prepaid Insurance	<u>5,399</u>	-	<u>5,399</u>
Total Current Assets	<u>469,826</u>	-	<u>469,826</u>
PROPERTY AND EQUIPMENT (Note 2)			
Land and Road Improvements	-	612,475	612,475
Machinery and Equipment	-	254,456	254,456
Building and Improvements	-	221,721	221,721
Office Equipment	-	8,486	8,486
Vehicles	-	22,250	22,250
Total Property and Equipment	<u>-</u>	<u>1,119,388</u>	<u>1,119,388</u>
Less Accumulated Depreciation	<u>-</u>	<u>(991,092)</u>	<u>(991,092)</u>
Net Property and Equipment	<u>-</u>	<u>128,296</u>	<u>128,296</u>
TOTAL ASSETS	<u>\$ 469,826</u>	<u>\$ 128,296</u>	<u>\$ 598,122</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accrued Payroll	\$ 10,654	\$ -	\$ 10,654
Mail Box Deposits	7,340		\$ 7,340
Prepaid Assessments (Note 2)	<u>9,211</u>	-	<u>9,211</u>
Total Current Liabilities	27,205	-	27,205
NET ASSETS (Notes 2 and 3)			
Net Assets Without Donor Restriction	375,921	128,296	504,217
Net Assets With Donor Restriction (Note 7)	<u>66,700</u>	-	<u>66,700</u>
Total Net Assets	<u>442,621</u>	<u>128,296</u>	<u>570,917</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 469,826</u>	<u>\$ 128,296</u>	<u>\$ 598,122</u>

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

NANAWALE COMMUNITY ASSOCIATION, INC.

Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2018

	General Fund	Property Fund	Total Fund
REVENUE			
Annual Assessments (Note 2)	\$ 417,968	\$ -	\$ 417,968
Transfer Fees	48,400	-	48,400
Late Fees, Charges and Fines	36,435	-	36,435
Other Miscellaneous Income	19,636	-	19,636
Youth Fund Income	5,912	-	5,912
Interest Income	198	-	198
Total Revenue	<u>528,549</u>	<u>-</u>	<u>528,549</u>
EXPENSES			
Program Services	432,300	22,824	455,124
Management and General	50,509	4,028	54,537
Fundraising	-	-	-
Total Expenses	<u>482,809</u>	<u>26,852</u>	<u>509,661</u>
Net Operating Gain (Loss)	<u>45,740</u>	<u>(26,852)</u>	<u>18,888</u>
Transfer for Purchase of Property and Equipment	<u>(6,577)</u>	<u>6,577</u>	<u>-</u>
Changes in Net Assets	\$ 39,163	\$ (20,275)	\$ 18,888
Beginning Net Assets	336,758	148,571	485,329
Net Assets With Donor Restriction	<u>66,700</u>	<u>-</u>	<u>66,700</u>
Ending Net Assets	<u><u>\$ 442,621</u></u>	<u><u>\$ 128,296</u></u>	<u><u>\$ 570,917</u></u>

NANAWALE COMMUNITY ASSOCIATION, INC.

Statement of Functional Expenses
For the Year Ended December 31, 2018

	Supporting Services			Totals
	Program Services	Management and General	Fundraising	
EXPENSES				
Payroll Expenses and Employee Benefits	\$ 211,005	\$ 37,236	\$ -	\$ 248,241
Bad Debt Expense	73,254	-	-	73,254
Road Maintenance and Equipment	54,648	-	-	54,648
Depreciation	22,824	4,028	-	26,852
Miscellaneous Expense	17,473	3,083	-	20,556
Insurance	15,531	2,741	-	18,272
Utilities	9,845	1,737	-	11,582
Professional Services	8,512	1,502	-	10,014
Printing	6,251	1,103	-	7,354
Maintenance and Repairs	7,186	-	-	7,186
Postage	5,578	984	-	6,562
Pools and Parks	5,967	-	-	5,967
Automobile Expense	4,711	-	-	4,711
Office Expense	3,077	543	-	3,620
Telephone Expense	2,746	485	-	3,231
Property Taxes	2,376	419	-	2,795
Youth Fund Expense	2,344	-	-	2,344
Neighborhood Patrol	1,797	-	-	1,797
Annual Meeting Expense	-	411	-	411
General Excise Tax	-	264	-	264
Total Operating Expenses	<u>\$ 455,124</u>	<u>\$ 54,537</u>	<u>\$ -</u>	<u>\$ 509,661</u>

NANAWALE COMMUNITY ASSOCIATION, INC.

Statement of Cash Flows
For the Year Ended December 31, 2018

	General Fund	Property Fund	Total Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Changes in Fund Balances	\$ 39,163	\$ (20,275)	\$ 18,888
Add in Depreciation	-	26,852	26,852
Add Bad Debt Expense	73,254	-	73,254
Change in Assessments Receivable	(96,142)	-	(96,142)
Change in Prepaid Insurance	4,073	-	4,073
Change in Accounts Payable	(4,289)	-	(4,289)
Change in Accrued Payroll	10,654	-	10,654
Change in Prepaid Assessments	11,066	-	11,066
Net Cash Provided by Operating Activities	37,779	6,577	44,356
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Used for Property and Equipment Purchases	-	(6,577)	(6,577)
Net Cash Used by Investing Activities	-	(6,577)	(6,577)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net Increase in Cash	\$ 37,779	\$ -	\$ 37,779
CASH AT BEGINNING OF YEAR	241,211	-	241,211
CASH AT END OF YEAR	<u>\$ 278,990</u>	<u>\$ -</u>	<u>\$ 278,990</u>

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements December 31, 2018

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

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.

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, 2018, \$198 of interest was earned for this purpose.

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 2018 owners were subject to an annual assessment of \$99 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.

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements
December 31, 2018

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018, 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.

Note 3. NET ASSETS AND NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. Nanawale Community Association, Inc. has adjusted the presentation of its financial statements accordingly. The new standards change the following aspects of the Association's financial statements:

The permanently restricted net asset class has been renamed net assets with donor restrictions. The unrestricted net asset class has been renamed net assets without donor restrictions.

Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

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, 2018, net assets with donor restriction consist of \$66,700 Road Fund that the Planning Department of the County of Hawaii required the developer to establish.

The financial statements include a new 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.

The financial statements include a new disclosure about liquidity and availability of resources (Note 11).

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements
December 31, 2018

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 year 2018.

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 2015.

Note 5. 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 \$118,737 as of December 31, 2018.

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, 2018, the Association recorded total rental revenue of \$6,600, which was used to help fund programs for area youth.

Note 7. 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.

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements
December 31, 2018

Note 7. INVESTMENTS - CERTIFICATES OF DEPOSIT (continued)

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, 2018.

	<u>Fair Value</u>
First Hawaiian Bank - Certificate of Deposit, interest rate .096%, maturity date: 07/2019	\$ 20,650
First Hawaiian Bank - Certificate of Deposit, interest rate .096%, maturity date: 07/2019	\$ 16,400
First Hawaiian Bank - Certificate of Deposit, interest rate .096%, maturity date: 07/2019	\$ 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.

Note 8. 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 November, 2017. This lease has been determined to be an operational lease and has a term of 60 months requiring a monthly payment of \$363. The following is the future non-cancelable portion of the lease obligations of the Association:

2019	\$ 4,356
2020	4,356
2021	4,356
2022	<u>3,630</u>
	<u>\$ 16,698</u>

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements
December 31, 2018

Note 9. RELATED PARTY TRANSACTIONS

Board members provides services for the Organization for fees to be determined as arms length transactions. Total fees paid during 2018 were \$4,895.

Note 10. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through May 1, 2019, the date the financial statements were available for use.

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.

Financial Assets at December 31, 2018	\$ 278,990
Less those unavailable to general expenditures within one year due to:	
Advance Assessments	(9,211)
Mailbox Deposits	(7,340)
Accrued Payroll	<u>(10,654)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 251,785</u>

In addition to those resources, the Organization plans to continue collection efforts on \$118,737, net assessments receivable.

Note 12. RECENT ACCOUNTING PRONOUNCEMENTS

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 the Association's fiscal years beginning after December 15, 2019, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Association's fiscal year ending December 31, 2020. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements, but expects ASU 2016-02 to add significant right-of-use assets and lease liabilities to the statement of financial position.

NANAWALE COMMUNITY ASSOCIATION, INC.

Notes to the Financial Statements
December 31, 2018

Note 13. RECENT ACCOUNTING PRONOUNCEMENTS *(continued)*

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The provisions are effective for the Association's fiscal year ending December 31, 2019. The amendments should be applied using a retrospective transition method to each period presented. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.