

HAWAIIAN SHORES COMMUNITY ASSOCIATION  
(A Hawai'i Nonprofit Corporation)

AUDITED FINANCIAL STATEMENTS  
(With Independent Auditor's Report)

FOR THE YEAR ENDED OCTOBER 31, 2014  
(With Comparative Totals for the Year Ended October 31, 2013)

HAWAIIAN SHORES COMMUNITY ASSOCIATION

TABLE OF CONTENTS

Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Revenue, Expenses and Change in Fund Balances	3
Statement of Cash Flows	4
Notes to the Financial Statements	5

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of  
Hawaiian Shores Community Association  
Pahoa, Hawai'i 96778

We have audited the accompanying statement of financial position of Hawaiian Shores Community Association (a Hawai'i nonprofit corporation) as of October 31, 2014, and the related statement of revenue, expenses and change in fund balances, and cash flows for the year then ended.

**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 Hawaiian Shores Community Association as of October 31, 2014 and the revenue, expenses, change 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 Hawaiian Shores Community Association's financial statements for the year ended October 31, 2013, and our report dated January 10, 2014, 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 October 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Carbonaro CPAs*

Hilo, Hawai'i  
January 15, 2015

Hawaiian Shores Community Association  
Statement of Financial Position  
As of October 31, 2014  
(With Comparative Totals for the Year Ended October 31, 2013)

ASSETS	Operating Fund	Water Fund	Roads Fund	Park and Facilities Fund	Emergency Fund	2014 Total	2013 Totals
<b>CURRENT ASSETS</b>							
Operating Checking/Savings	\$ 59,206	\$ -	\$ -	\$ -	\$ -	\$ 59,206	\$ 167,422
Infrastructure Savings	-	-	156,668	-	-	156,668	143,776
Reserve Checking/Savings	-	-	-	171,968	-	171,968	127,475
Total Cash and Cash Equivalents	59,206	-	156,668	171,968	-	387,842	438,673
Accounts Receivable (Note 4)							
Fee Assessments (Note 2)	202,025	-	-	-	-	202,025	163,953
Attorney Fees	-	-	-	-	-	-	1,964
Water Use	24,451	-	-	-	-	24,451	26,756
Other	5,925	-	-	-	-	5,925	6,036
Allowance for Doubtful Accounts	(100,000)	-	-	-	-	(100,000)	(75,000)
Total Accounts Receivable	132,401	-	-	-	-	132,401	123,709
Prepaid Expenses	30,481	-	-	-	-	30,481	1,975
Total Current Assets	222,088	-	156,668	171,968	-	550,724	564,357
<b>PROPERTY AND EQUIPMENT (Note 2)</b>							
Buildings, Furniture and Equipment	3,222,495	-	-	-	-	3,222,495	3,016,535
Land	2,645,628	-	-	-	-	2,645,628	2,645,628
Vehicles	62,544	-	-	-	-	62,544	38,955
Work in Progress	76,120	-	-	-	-	76,120	250,857
	6,006,787	-	-	-	-	6,006,787	5,951,975
Less Accumulated Depreciation	(2,566,304)	-	-	-	-	(2,566,304)	(2,512,742)
Net Property and Equipment	3,440,483	-	-	-	-	3,440,483	3,439,233
<b>Investments (Note 5)</b>							
Ameriprise Cash Reserve Certificate of Deposit	-	-	-	-	124,511	124,511	124,294
Ameriprise Cash Reserve Certificate of Deposit	-	63,569	-	-	-	63,569	63,569
HNB Collateral Account (Note 11)	-	-	-	60,459	-	60,459	60,504
Ameriprise Strategic Portfolio Service Advantage	-	-	-	-	99,938	99,938	86,933
Ameriprise SPS Advantage	-	204,222	-	-	-	204,222	81,872
Total Investments	-	267,791	-	60,459	224,449	552,699	417,172
<b>TOTAL ASSETS</b>	<b>\$ 3,662,571</b>	<b>\$ 267,791</b>	<b>\$ 156,668</b>	<b>\$ 232,427</b>	<b>\$ 224,449</b>	<b>\$ 4,543,906</b>	<b>\$ 4,420,762</b>
<b>LIABILITIES AND NET ASSETS</b>							
<b>CURRENT LIABILITIES</b>							
Accounts Payable	\$ 1,560	\$ -	\$ -	\$ -	\$ -	\$ 1,560	\$ 2,826
Prepaid Assessments	200	-	-	-	-	200	-
Prepaid Water	7,712	-	-	-	-	7,712	7,203
Payroll Liabilities	2,376	-	-	-	-	2,376	7,128
Tenant Water Deposits (Note 6)	5,917	-	-	-	-	5,917	4,893
Vacation Payable	2,414	-	-	-	-	2,414	1,910
Current Maturity of HNB Promissory Note (Note 11)	11,557	-	-	-	-	11,557	11,362
Total Current Liabilities	31,736	-	-	-	-	31,736	35,322
<b>LONG TERM LIABILITIES</b>							
HNB Promissory Note (Note 11)	19,710	-	-	-	-	19,710	31,263
Total Long Term Liabilities	19,710	-	-	-	-	19,710	31,263
<b>FUND BALANCE (Note 2)</b>							
Unrestricted Net Assets (Note 3)	3,611,125	267,791	156,668	232,427	224,449	4,492,460	4,354,177
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,662,571</b>	<b>\$ 267,791</b>	<b>\$ 156,668</b>	<b>\$ 232,427</b>	<b>\$ 224,449</b>	<b>\$ 4,543,906</b>	<b>\$ 4,420,762</b>

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

Hawaiian Shores Community Association  
Statement of Revenue, Expenses and Change in Fund Balances  
For the Year Ended October 31, 2014  
(With Comparative Totals for the Year Ended October 31, 2013)

	Operating Fund	Water Fund	Roads Fund	Park and Facilities Fund	Emergency Fund	2014 Total	2013 Totals
<b>REVENUE</b>							
Annual Assessments	\$ 315,921	\$ 77,443	\$ 13,320	\$ 44,402	\$ 13,320	\$ 464,406	\$ 411,912
Monthly Water Fees (Note 6)	191,265	629	629	-	-	192,523	226,472
Grants	26,854	-	-	-	-	26,854	16,207
Reimbursable Legal Fees	18,963	-	-	-	-	18,963	4,214
Rental Income	12,641	-	-	-	-	12,641	-
Miscellaneous Income	9,163	-	-	-	-	9,163	611
Transfer Fees	6,260	-	-	-	-	6,260	7,400
Water Hookup Fees	5,000	-	-	-	-	5,000	8,000
Guest Fees	5,000	-	-	-	-	5,000	4,191
Interest and Investment Income	113	877	8	394	776	2,168	4,165
Reimbursable Water System Damage	1,773	-	-	-	-	1,773	626
<b>Total Revenue</b>	<b>592,953</b>	<b>78,949</b>	<b>13,957</b>	<b>44,796</b>	<b>14,096</b>	<b>744,751</b>	<b>683,798</b>
<b>EXPENSES</b>							
Salaries and Wages	261,990	-	-	-	-	261,990	166,276
Maintenance and Repairs	86,194	-	-	-	-	86,194	45,691
Depreciation	53,443	-	-	-	-	53,443	54,492
Utilities	47,838	-	-	-	-	47,838	64,784
Insurance	38,929	-	-	-	-	38,929	35,449
Bad Debt Expense	25,000	-	-	-	-	25,000	-
Office Expense	17,540	-	-	-	-	17,540	9,749
Employee Benefits	17,023	-	-	-	-	17,023	36,178
Payroll Expenses	14,152	-	-	-	-	14,152	33,982
Miscellaneous Expense	8,096	-	-	-	-	8,096	2,380
Professional Services	11,137	-	-	-	-	11,137	9,063
Postage	7,548	-	-	-	-	7,548	6,155
Legal Fees	5,771	-	-	-	-	5,771	969
Printing	4,949	-	-	-	-	4,949	3,045
Board of Directors Expense	3,005	-	-	-	-	3,005	2,928
Subscriptions and Trainings	1,389	-	-	-	-	1,389	2,051
Special Events	1,172	-	-	-	-	1,172	2,019
Property Taxes	650	-	-	-	-	650	684
Interest Expense	642	-	-	-	-	642	777
Loss on Investments	-	-	-	-	-	-	15,622
Loss on Disposal	-	-	-	-	-	-	6,086
<b>Total Expenses</b>	<b>606,468</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>606,468</b>	<b>498,380</b>
<b>Change in Fund Balance</b>	<b>\$ (13,515)</b>	<b>\$ 78,949</b>	<b>\$ 13,957</b>	<b>\$ 44,796</b>	<b>\$ 14,096</b>	<b>\$ 138,283</b>	<b>\$ 185,418</b>
Beginning Fund Balance	3,665,754	145,441	143,776	187,979	211,227	4,354,177	4,168,759
Transfers	(41,114)	43,401	(1,065)	(348)	(874)	-	-
<b>Ending Fund Balance</b>	<b>\$3,611,125</b>	<b>\$ 267,791</b>	<b>\$ 156,668</b>	<b>\$232,427</b>	<b>\$ 224,449</b>	<b>\$4,492,460</b>	<b>\$4,354,177</b>

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

Hawaiian Shores Community Association  
Statement of Cash Flows  
For the Year Ended October 31, 2014  
(With Comparative Totals for the Year Ended October 31, 2013)

	Operating Fund	Water Fund	Roads Fund	Park and Facilities Fund	Emergency Fund	2014 Total	2013 Total
<b>CASH FLOWS FROM OPERATING ACTIVITY</b>							
Change in Fund Balance	\$ (13,515)	\$ 78,949	\$ 13,957	\$ 44,796	\$ 14,096	\$ 138,283	\$ 185,418
Adjustments to reconcile changes in net assets with net cash provided by operating activities:							
Add Depreciation and Disposals	53,443	-	-	-	-	53,443	54,492
Add Bad Debt	25,000	-	-	-	-	25,000	-
Add Unrealized Loss on Investments	-	-	-	-	-	-	15,622
Loss on Sale of Fixed Asset	-	-	-	-	-	-	6,086
Change in Net Accounts Receivable	(33,692)	-	-	-	-	(33,692)	(18,378)
Change in Prepaid Expenses	(28,506)	-	-	-	-	(28,506)	10,606
Change in Accounts Payable	(1,266)	-	-	-	-	(1,266)	(8,644)
Change in Payroll Liabilities	(4,752)	-	-	-	-	(4,752)	(4,571)
Change in Prepaid Water and Assessments	1,733	-	-	-	-	1,733	(3,528)
Change in Vacation Payable	504	-	-	-	-	504	(2,576)
Net Cash Provided (Used) by Operating Activity	(1,051)	78,949	13,957	44,796	14,096	150,747	234,527
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>							
Purchase / Reinvestment of Investments	-	(122,350)	-	45	(13,222)	(135,527)	(372,244)
Proceeds from Sale of Fixed Asset	-	-	-	-	-	-	10,000
Equipment Purchase	(54,693)	-	-	-	-	(54,693)	(185,435)
Net Cash Provided (Used) by Investing Activity	(54,693)	(122,350)	-	45	(13,222)	(190,220)	(547,679)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>							
Borrowings from HNB Promissory Note	-	-	-	-	-	-	-
Payments of HNB Promissory Note	(11,358)	-	-	-	-	(11,358)	(11,177)
Transfers	(41,114)	43,401	(1,065)	(348)	(874)	-	-
Net Cash Provided (Used) by Financing Activity	(52,472)	43,401	(1,065)	(348)	(874)	(11,358)	(11,177)
<b>Net Increase (Decrease) in Cash for the Year</b>	<b>(108,216)</b>	<b>-</b>	<b>12,892</b>	<b>44,493</b>	<b>-</b>	<b>(50,831)</b>	<b>(324,329)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>167,422</b>	<b>-</b>	<b>143,776</b>	<b>127,475</b>	<b>-</b>	<b>438,673</b>	<b>763,002</b>
<b>CASH AT END OF YEAR</b>	<b>\$ 59,206</b>	<b>\$ -</b>	<b>\$ 156,668</b>	<b>\$ 171,968</b>	<b>\$ -</b>	<b>\$ 387,842</b>	<b>\$ 438,673</b>
<b>Supplemental Cash Flow Information</b>							
Cash Paid for Interest	\$ 641	\$ -	\$ -	\$ -	\$ -	\$ 641	\$ 777

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

# HAWAIIAN SHORES COMMUNITY ASSOCIATION

Notes to the Financial Statements  
October 31, 2014

## Note 1. ORGANIZATION

Hawaiian Shores Community Association (the Association) was incorporated as a nonprofit corporation in the State of Hawai'i on July 16, 1971. The Association is located in the Hawaiian Shores Subdivision, District of Puna, County of Hawai'i, comprising 1,294 lots. Each lot owner is subject to covenants, conditions, and restrictions as set forth in the *Declaration of Covenants, Conditions, and Restrictions-Hawaiian Shores Recreational Estates*.

The purpose and activities of the Association are to promote the best interests of the property owners in the subdivision and to promote, strive to 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.

*Property and Equipment:* Real property acquired is reflected on the Association's financial statements. The Association's policy is to capitalize fixed assets with a useful life greater than one year and for which the Association holds title in its name and has a value greater than \$1,000. Capitalized assets are stated at cost, less depreciation, calculated using the straight-line method over the assets' estimated useful lives.

*Member Assessments:* Owners are subject to a yearly assessment of \$350 to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any assessments not paid within two months of its effective date will bear interest, retroactive from the effective date, at the rate of 1% per month, or at such other rate as the Board of Directors establish. The Association's by-laws allow the Association to also establish special assessments. Accounts Receivable – Fee Assessments on the balance sheet represent fees due from lot owners. Prepaid Assessments on the balance sheet represent advance payments by owners for future assessments.

*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:

Operating Fund-This fund is to account for financial resources available for the general operations of the Association.

Water Fund-This fund is to be used exclusively to fund the water system.

Roads Fund-This fund is to be used exclusively to fund road related expenses.

Park and Facilities Fund-This fund is to be used exclusively to fund park related expenses.

Emergency Fund-This fund is to account for financial resources related to any emergencies or extraordinary situations and major projects that may not have been budgeted or planned.

# HAWAIIAN SHORES COMMUNITY ASSOCIATION

Notes to the Financial Statements  
October 31, 2014

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

*Cash and Cash Equivalents:* For the purpose of the Statement of Cash Flows, cash is defined as demand deposits, savings accounts, and certificates of deposit with maturities of three months or less.

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

*Income Taxes:* The Association is exempt from Federal income taxes pursuant to *Section 501(c)(4)* of the Internal Revenue Code and applicable State law.

The accounting standard on accounting 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. Examples of tax positions include the tax-exempt status of the Association and various positions related to the potential sources of unrelated business taxable income (UBIT). 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 2014 and 2013.

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 2010.

## Note 3. NET ASSETS

Hawaiian Shores Community Association 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, Hawaiian Shores Community Association 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 restrictions had not yet been fulfilled as of year end. There were no temporarily restricted net assets at October 31, 2014 and 2013.

There were no permanently restricted funds as of October 31, 2014 and 2013.



HAWAIIAN SHORES COMMUNITY ASSOCIATION

Notes to the Financial Statements  
October 31, 2014

Note 4. ACCOUNTS RECEIVABLE

The Association's policy is to place liens on the properties of owners whose annual assessments are in arrears. Accounts Receivable of \$232,401 at October 31, 2014, and \$198,709 at October 31, 2013, in the Operating Fund were in arrears and subject to lien. Because of foreclosures against certain property owners which cast doubt on the collectability of certain assessments, management has established an allowance for doubtful accounts of \$100,000 and \$75,000 at October 31, 2014 and 2013, respectively, for this uncertainty based on past collection history and the composite of the current balance. Hence, net accounts receivable at October 31, 2014 and 2013, amounted to \$132,401 and \$123,709 respectively. Total Accounts Receivable past due over one year totaled approximately \$143,392 at October 31, 2014, and \$133,590 at October 31, 2013.

Note 5. INVESTMENTS

Hawaiian Shores Community Association has conformed to *FASB's 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.

There are no liabilities or other assets measured at fair value on a recurring or non-recurring basis. Fair values of assets measured on a recurring basis are as follows:

Assets	Total 10/31/2014	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit and Cash funds	<u>\$ 552,699</u>	<u>\$ 552,699</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 552,699</u>	<u>\$ 552,699</u>	<u>\$ -</u>	<u>\$ -</u>

Assets	Total 10/31/2013	Quoted Prices: Level 1	Significant Other Inputs: Level 2	Significant Non- Observable Inputs: Level 3
Certificate of Deposit and Cash funds	<u>\$ 417,172</u>	<u>\$ 417,172</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 417,172</u>	<u>\$ 417,172</u>	<u>\$ -</u>	<u>\$ -</u>

HAWAIIAN SHORES COMMUNITY ASSOCIATION

Notes to the Financial Statements  
October 31, 2014

Note 6. WATER SYSTEM

The Association owns and operates a water system for the subdivision. According to the Association's by-laws, each lot owner must pay a water hookup fee before starting construction or landscaping. During the year, the individual meter system was completed and billing for water usage went from a flat fee of \$50 per month to actual measured usage.

The Association also requires a security deposit of \$150 from tenants (renters/lessees). This deposit is refundable to tenants when they move out of the subdivision. Total water deposits held by the Association amounted to \$5,917 at October 31, 2014, and \$4,893 at October 31, 2013.

Note 7. SIMPLIFIED EMPLOYEE PENSION PLAN (SEP)

The Association established a Simplified Employee Pension Plan for all eligible employees. As of November 15, 1999, employees are eligible to participate in the Plan upon attaining the age of 21 years and having performed services for the Association for at least three years. All amounts contributed to the employee's SEP Plan will be immediately 100% vested. Contributions by the Association were \$0 in fiscal year 2014, and \$1,608 in fiscal year 2013, respectively for eligible employees.

Note 8. RADIO-READ WATERING SYSTEM

The Association purchased a radio-read water metering system to monitor and assess the water usage of homeowners in the Association. The costs associated with the meters were \$19,001 in the fiscal year ending October 31, 2014 and \$36,217 in the fiscal year ending October 31, 2013 which have been capitalized.

Note 9. FUTURE LEASE PAYMENTS

The Association renewed a non-cancelable operating lease with Pitney Bowes Global Financial Services LLC in August 2013. The extended lease agreement is for 51 monthly payments of \$197. The following is the non-cancelable portion of this lease for the year ending October 31:

2015	\$ 2,360
2016	2,360
2017	2,360
2018	590
	<u>\$ 7,670</u>

Note 10. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 15, 2015 the date the financial statements were available for use.

HAWAIIAN SHORES COMMUNITY ASSOCIATION

Notes to the Financial Statements  
October 31, 2014

NOTE 11. HAWAII NATIONAL BANK PROMISSORY NOTE

In May 2012 the Association took out a loan with Hawaii National Bank (HNB) to fund the purchase and installation of a solar system to offset the average monthly electric bill for operating the pool pump. The 5 year loan bears interest at a rate of 1.7 percent at October 31, 2014. Monthly payments of \$1,000 are required based on a five year amortization period, with the final payment due in May 2017. The loan is secured by a 5 year certificate of deposit at .03 percent interest held with the financial institution. The principal maturities of the debt are as follows:

2015	11,557
2016	11,755
2017	7,955
	<u>\$ 31,267</u>

Note 12. RENTAL INCOME

During the year, the Association executed a 5 year lease with Vista Towers, LLC for the use of Association property for the purpose of a cellular transmission tower. The Association receives monthly payments of \$1,200 per month plus applicable General Excise taxes. At the end of the five year term, there is a renewal option for another five years. There are four consecutive, five year renewal terms available for a total of 20 years of extensions possible under the current lease term.