

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

AUDITED FINANCIAL STATEMENTS  
(With Independent Auditor's Report)

FOR THE YEAR ENDED OCTOBER 31, 2016  
(With Comparative Totals for the Year Ended October 31, 2015)

HAWAIIAN SHORES COMMUNITY ASSOCIATION

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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, 2016, and the related statements 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, 2016, 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, 2015, and our report dated January 15, 2016, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Carbonaro CPAs*

Hilo, Hawai'i  
January 15, 2017

Hawaiian Shores Community Association  
Statement of Financial Position  
As of October 31, 2016  
(With Comparative Totals for the Year Ended October 31, 2015)

| ASSETS   | Operating<br>Fund   | Water Fund        | Roads Fund        | Park and<br>Facilities<br>Fund | Emergency<br>Fund | 2016<br>Total       | 2015 Totals         |
|--|---------------------|-------------------|-------------------|--------------------------------|-------------------|---------------------|---------------------|
| <b>CURRENT ASSETS</b>                              |                     |                   |                   |                                |                   |                     |                     |
| Operating Checking Savings                         | \$ 104,822          | \$ -              | \$ -              | \$ -                           | \$ -              | \$ 104,822          | \$ 156,312          |
| Infrastructure Savings                             | -                   | -                 | 219,836           | -                              | -                 | 219,836             | 169,581             |
| Reserve Checking Savings                           | -                   | -                 | -                 | 260,655                        | -                 | 260,655             | 217,029             |
| Total Cash and Cash Equivalents                    | 104,822             | -                 | 219,836           | 260,655                        | -                 | 585,313             | 542,922             |
| Accounts Receivable (Note 4)                       |                     |                   |                   |                                |                   |                     |                     |
| Fee Assessments (Note 2)                           | 196,644             | -                 | -                 | -                              | -                 | 196,644             | 230,471             |
| Water Use  | 19,764              | -                 | -                 | -                              | -                 | 19,764              | 18,621              |
| Other  | 13,642              | -                 | -                 | -                              | -                 | 13,642              | 16,887              |
| Allowance for Doubtful Accounts                    | (100,000)           | -                 | -                 | -                              | -                 | (100,000)           | (100,000)           |
| Total Accounts Receivable                          | 130,050             | -                 | -                 | -                              | -                 | 130,050             | 145,979             |
| Prepaid Expenses                                   | 3,898               | -                 | -                 | -                              | -                 | 3,898               | 19,271              |
| Interfund Due to Due From                          | 12,590              | (15,000)          | (5,840)           | 1,780                          | 6,470             | -                   | -                   |
| Total Current Assets                               | 251,360             | (15,000)          | 213,996           | 262,435                        | 6,470             | 719,261             | 708,172             |
| <b>PROPERTY AND EQUIPMENT (Note 2)</b>             |                     |                   |                   |                                |                   |                     |                     |
| Buildings, Furniture and Equipment                 | 3,261,208           | -                 | -                 | -                              | -                 | 3,261,208           | 3,227,594           |
| Land   | 2,645,628           | -                 | -                 | -                              | -                 | 2,645,628           | 2,645,628           |
| Vehicles   | 73,002              | -                 | -                 | -                              | -                 | 73,002              | 62,544              |
| Work in Progress                                   | 249,668             | -                 | -                 | -                              | -                 | 249,668             | 76,120              |
|  | 6,229,506           | -                 | -                 | -                              | -                 | 6,229,506           | 6,011,886           |
| Less Accumulated Depreciation                      | (2,682,736)         | -                 | -                 | -                              | -                 | (2,682,736)         | (2,631,721)         |
| Net Property and Equipment                         | 3,546,770           | -                 | -                 | -                              | -                 | 3,546,770           | 3,380,165           |
| <b>Investments (Note 5)</b>                        |                     |                   |                   |                                |                   |                     |                     |
| Ameriprise Cash Reserve Certificate of Deposit     | -                   | -                 | -                 | -                              | 162,824           | 162,824             | 149,448             |
| Ameriprise Cash Reserve Certificate of Deposit     | -                   | 375,139           | -                 | -                              | -                 | 375,139             | 188,930             |
| HNB Collateral Account (Note 11)                   | -                   | -                 | -                 | 60,550                         | -                 | 60,550              | 60,323              |
| Ameriprise Strategic Portfolio Service Advantage   | -                   | 81,572            | -                 | -                              | -                 | 81,572              | 173,103             |
| Ameriprise SPS Advantage                           | -                   | -                 | -                 | -                              | 77,471            | 77,471              | 89,365              |
| Total Investments                                  | -                   | 456,711           | -                 | 60,550                         | 240,295           | 757,556             | 661,169             |
| <b>TOTAL ASSETS</b>                                | <b>\$ 3,798,130</b> | <b>\$ 441,711</b> | <b>\$ 213,996</b> | <b>\$ 322,985</b>              | <b>\$ 246,765</b> | <b>\$ 5,023,587</b> | <b>\$ 4,749,506</b> |
| <b>LIABILITIES AND NET ASSETS</b>                  |                     |                   |                   |                                |                   |                     |                     |
| <b>CURRENT LIABILITIES</b>                         |                     |                   |                   |                                |                   |                     |                     |
| Accounts Payable                                   | \$ 1,918            | \$ -              | \$ -              | \$ -                           | \$ -              | \$ 1,918            | \$ 23,900           |
| Prepaid Water and Assessments                      | 13,292              | -                 | -                 | -                              | -                 | 13,292              | 9,886               |
| Payroll Liabilities                                | 15,312              | -                 | -                 | -                              | -                 | 15,312              | 2,312               |
| Tenant Water Deposits (Note 6)                     | 6,505               | -                 | -                 | -                              | -                 | 6,505               | 6,205               |
| Vacation Payable                                   | 2,414               | -                 | -                 | -                              | -                 | 2,414               | 2,414               |
| Current Maturity of HNB Promissory Note (Note 11)  | 8,935               | -                 | -                 | -                              | -                 | 8,935               | 11,755              |
| Current Maturity of USDA Promissory Note (Note 12) | 37,967              | -                 | -                 | -                              | -                 | 37,967              | -                   |
| Total Current Liabilities                          | 86,343              | -                 | -                 | -                              | -                 | 86,343              | 56,472              |
| <b>LONG TERM LIABILITIES</b>                       |                     |                   |                   |                                |                   |                     |                     |
| USDA Promissory Note (Note 12)                     | 82,041              | -                 | -                 | -                              | -                 | 82,041              | -                   |
| HNB Promissory Note (Note 11)                      | -                   | -                 | -                 | -                              | -                 | -                   | 8,120               |
| Total Long Term Liabilities                        | 82,041              | -                 | -                 | -                              | -                 | 82,041              | 8,120               |
| <b>FUND BALANCE (Note 2)</b>                       |                     |                   |                   |                                |                   |                     |                     |
| Unrestricted Net Assets (Note 3)                   | 3,629,746           | 441,711           | 213,996           | 322,985                        | 246,765           | 4,855,203           | 4,684,914           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>            | <b>\$ 3,798,130</b> | <b>\$ 441,711</b> | <b>\$ 213,996</b> | <b>\$ 322,985</b>              | <b>\$ 246,765</b> | <b>\$ 5,023,587</b> | <b>\$ 4,749,506</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, 2016  
(With Comparative Totals for the Year Ended October 31, 2015)

|                                   | Operating Fund     | Water Fund        | Roads Fund        | Park and Facilities Fund | Emergency Fund    | 2016 Total         | 2015 Totals        |
|-----------------------------------|--------------------|-------------------|-------------------|--------------------------|-------------------|--------------------|--------------------|
| <b>REVENUE</b>                    |                    |                   |                   |                          |                   |                    |                    |
| Annual Assessments                | \$ 313,598         | \$ 77,700         | \$ 19,430         | \$ 45,325                | \$ 6,470          | \$ 462,523         | \$ 483,413         |
| Monthly Water Fees (Note 6)       | 243,183            | -                 | -                 | -                        | -                 | 243,183            | 215,638            |
| Rental Income                     | 21,250             | -                 | -                 | -                        | -                 | 21,250             | 21,250             |
| Transfer Fees                     | 11,700             | -                 | -                 | -                        | -                 | 11,700             | 4,600              |
| Guest Fees                        | 6,308              | -                 | -                 | -                        | -                 | 6,308              | 5,186              |
| Interest and Investment Income    | 49                 | 1,978             | 261               | 409                      | 1,482             | 4,179              | 3,424              |
| Water Hookup Fees                 | 4,000              | -                 | -                 | -                        | -                 | 4,000              | 1,000              |
| Miscellaneous Income              | 2,893              | -                 | -                 | -                        | -                 | 2,893              | 4,683              |
| Reimbursable Legal Fees           | 384                | -                 | -                 | -                        | -                 | 384                | 794                |
| Grants                            | -                  | -                 | -                 | -                        | -                 | -                  | 21,200             |
| Reimbursable Water System Damage  | -                  | -                 | -                 | -                        | -                 | -                  | 763                |
| <b>Total Revenue</b>              | <b>603,365</b>     | <b>79,678</b>     | <b>19,691</b>     | <b>45,734</b>            | <b>7,952</b>      | <b>756,420</b>     | <b>761,951</b>     |
| <b>EXPENSES</b>                   |                    |                   |                   |                          |                   |                    |                    |
| Salaries and Wages                | 271,437            | -                 | -                 | -                        | -                 | 271,437            | 227,657            |
| Maintenance and Repairs           | 69,812             | -                 | -                 | -                        | -                 | 69,812             | 122,528            |
| Depreciation                      | 55,624             | -                 | -                 | -                        | -                 | 55,624             | 65,416             |
| Insurance                         | 39,735             | -                 | -                 | -                        | -                 | 39,735             | 20,822             |
| Utilities                         | 37,820             | -                 | -                 | -                        | -                 | 37,820             | 40,994             |
| Payroll Expenses                  | 24,711             | -                 | -                 | -                        | -                 | 24,711             | 5,769              |
| Office Expense                    | 22,312             | -                 | -                 | -                        | -                 | 22,312             | 16,729             |
| Employee Benefits                 | 19,337             | -                 | -                 | -                        | -                 | 19,337             | 17,428             |
| Loss on Disposal                  | 4,434              | -                 | -                 | -                        | -                 | 4,434              | -                  |
| Professional Services             | 16,409             | -                 | -                 | -                        | -                 | 16,409             | 13,423             |
| Printing                          | 6,785              | -                 | -                 | -                        | -                 | 6,785              | 6,407              |
| Legal Fees                        | 5,137              | -                 | -                 | -                        | -                 | 5,137              | 5,871              |
| Miscellaneous Expense             | 4,718              | -                 | -                 | -                        | -                 | 4,718              | 944                |
| Subscriptions and Trainings       | 2,763              | -                 | -                 | -                        | -                 | 2,763              | 3,175              |
| Board of Directors Expense        | 2,603              | -                 | -                 | -                        | -                 | 2,603              | 2,578              |
| Property Taxes                    | 1,700              | -                 | -                 | -                        | -                 | 1,700              | 1,664              |
| Postage                           | 734                | -                 | -                 | -                        | -                 | 734                | 2,844              |
| Interest Expense                  | 60                 | -                 | -                 | -                        | -                 | 60                 | 608                |
| <b>Total Expenses</b>             | <b>586,131</b>     | <b>-</b>          | <b>-</b>          | <b>-</b>                 | <b>-</b>          | <b>586,131</b>     | <b>554,857</b>     |
| <b>Change in Fund Balance</b>     | <b>\$ 17,234</b>   | <b>\$ 79,678</b>  | <b>\$ 19,691</b>  | <b>\$ 45,734</b>         | <b>\$ 7,952</b>   | <b>\$ 170,289</b>  | <b>\$ 207,094</b>  |
| Beginning Fund Balance            | 3,637,135          | 362,033           | 169,581           | 277,352                  | 238,813           | 4,684,914          | 4,492,460          |
| Transfers                         | (24,623)           | -                 | 24,724            | (101)                    | -                 | -                  | -                  |
| Prior Period Adjustment (Note 13) | -                  | -                 | -                 | -                        | -                 | -                  | (14,640)           |
| <b>Ending Fund Balance</b>        | <b>\$3,629,746</b> | <b>\$ 441,711</b> | <b>\$ 213,996</b> | <b>\$322,985</b>         | <b>\$ 246,765</b> | <b>\$4,855,203</b> | <b>\$4,684,914</b> |

Hawaiian Shores Community Association  
Statement of Cash Flows  
For the Year Ended October 31, 2016  
(With Comparative Totals for the Year Ended October 31, 2015)

|   | Operating<br>Fund | Water<br>Fund | Roads<br>Fund     | Park and<br>Facilities<br>Fund | Emergency<br>Fund | 2016<br>Total     | 2015<br>Total     |
|---|-------------------|---------------|-------------------|--------------------------------|-------------------|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITY</b>           |                   |               |                   |                                |                   |                   |                   |
| Change in Fund Balance                              | \$ 17,234         | \$ 79,678     | \$ 19,691         | \$ 45,734                      | \$ 7,952          | \$ 170,289        | \$ 207,094        |
| Adjustments to Reconcile Changes in Net Assets      |                   |               |                   |                                |                   |                   |                   |
| With Net Cash Provided by Operating Activities:     |                   |               |                   |                                |                   |                   |                   |
| Add Depreciation                                    | 55,624            | -             | -                 | -                              | -                 | 55,624            | 65,416            |
| Prior Period Adjustment (Note 13)                   | -                 | -             | -                 | -                              | -                 | -                 | 14,640            |
| Loss on Disposal                                    | 4,434             | -             | -                 | -                              | -                 | 4,434             | -                 |
| Change in Net Accounts Receivable                   | 15,929            | -             | -                 | -                              | -                 | 15,929            | (13,578)          |
| Change in Interfund Due to Due from                 | (12,590)          | 15,000        | 5,840             | (1,780)                        | (6,470)           | -                 | -                 |
| Change in Prepaid Expenses                          | 15,373            | -             | -                 | -                              | -                 | 15,373            | 11,210            |
| Change in Accounts Payable                          | (21,982)          | -             | -                 | -                              | -                 | (21,982)          | (6,940)           |
| Change in Payroll Liabilities                       | 13,000            | -             | -                 | -                              | -                 | 13,000            | (64)              |
| Change in Prepaid Water and Assessments             | 3,706             | -             | -                 | -                              | -                 | 3,706             | 2,262             |
| Net Cash Provided by Operating Activity             | 90,728            | 94,678        | 25,531            | 43,954                         | 1,482             | 256,373           | 280,040           |
| <b>CASH FLOWS FROM INVESTING ACTIVITY</b>           |                   |               |                   |                                |                   |                   |                   |
| Purchase / Reinvestment of Investments              | -                 | (94,678)      | -                 | (227)                          | (1,482)           | (96,387)          | (108,470)         |
| Purchase of Property and Equipment                  | (226,663)         | -             | -                 | -                              | -                 | (226,663)         | (5,098)           |
| Net Cash Used by Investing Activity                 | (226,663)         | (94,678)      | -                 | (227)                          | (1,482)           | (323,050)         | (113,568)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITY</b>           |                   |               |                   |                                |                   |                   |                   |
| Borrowings from USDA Promissory Note (Note 12)      | 169,550           | -             | -                 | -                              | -                 | 169,550           | -                 |
| Payments of USDA Promissory Note (Note 12)          | (49,542)          | -             | -                 | -                              | -                 | (49,542)          | -                 |
| Payments of HNB Promissory Note (Note 11)           | (10,940)          | -             | -                 | -                              | -                 | (10,940)          | (11,392)          |
| Transfers   | (24,623)          | -             | 24,724            | (101)                          | -                 | -                 | -                 |
| Net Cash Provided (Used) by Financing Activity      | 84,445            | -             | 24,724            | (101)                          | -                 | 109,068           | (11,392)          |
| <b>Net Increase (Decrease) in Cash for the Year</b> | <b>(51,490)</b>   | <b>-</b>      | <b>50,255</b>     | <b>43,626</b>                  | <b>-</b>          | <b>42,391</b>     | <b>155,080</b>    |
| <b>CASH AT BEGINNING OF YEAR</b>                    | <b>156,312</b>    | <b>-</b>      | <b>169,581</b>    | <b>217,029</b>                 | <b>-</b>          | <b>542,922</b>    | <b>387,842</b>    |
| <b>CASH AT END OF YEAR</b>                          | <b>\$ 104,822</b> | <b>\$ -</b>   | <b>\$ 219,836</b> | <b>\$ 260,655</b>              | <b>\$ -</b>       | <b>\$ 585,313</b> | <b>\$ 542,922</b> |
| <b>Supplemental Cash Flow Information</b>           |                   |               |                   |                                |                   |                   |                   |
| Cash Paid for Interest                              | \$ 60             | \$ -          | \$ -              | \$ -                           | \$ -              | \$ 60             | \$ 608            |

## HAWAIIAN SHORES COMMUNITY ASSOCIATION

Notes to the Financial Statements  
October 31, 2016

### 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 \$5,000. 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, 2016

### 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 2016 and 2015.

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 2013.

### 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, 2016 and 2015.

There were no permanently restricted funds as of October 31, 2016 and 2015.



HAWAIIAN SHORES COMMUNITY ASSOCIATION

Notes to the Financial Statements  
October 31, 2016

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 \$230,050 at October 31, 2016, and \$245,979 at October 31, 2015, 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 at October 31, 2016 and 2015, for this uncertainty based on past collection history and the composite of the current balance. Hence, net accounts receivable at October 31, 2016 and 2015, amounted to \$130,050 and \$145,979 respectively. Total Accounts Receivable past due over one year totaled approximately \$174,222 at October 31, 2016, and \$170,481 at October 31, 2015.

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<br>10/31/2016 | Quoted<br>Prices:<br>Level 1 | Significant<br>Other Inputs:<br>Level 2 | Significant Non-<br>Observable Inputs:<br>Level 3 |
|---------------------------------------|---------------------|------------------------------|---|---|
| Certificate of Deposit and Cash funds | <u>\$ 757,556</u>   | <u>\$ 757,556</u>            | <u>\$ -</u>                             | <u>\$ -</u>                                       |
| Total                                 | <u>\$ 757,556</u>   | <u>\$ 757,556</u>            | <u>\$ -</u>                             | <u>\$ -</u>                                       |

| Assets                                | Total<br>10/31/2015 | Quoted<br>Prices:<br>Level 1 | Significant<br>Other Inputs:<br>Level 2 | Significant Non-<br>Observable Inputs:<br>Level 3 |
|---------------------------------------|---------------------|------------------------------|---|---|
| Certificate of Deposit and Cash funds | <u>\$ 661,169</u>   | <u>\$ 661,169</u>            | <u>\$ -</u>                             | <u>\$ -</u>                                       |
| Total                                 | <u>\$ 661,169</u>   | <u>\$ 661,169</u>            | <u>\$ -</u>                             | <u>\$ -</u>                                       |

HAWAIIAN SHORES COMMUNITY ASSOCIATION

Notes to the Financial Statements  
October 31, 2016

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. The individual meter system has been completed and billings are based on actual measured usage.

The Association also requires a security deposit of \$200 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 \$6,505 at October 31, 2016, and \$6,205 at October 31, 2015.

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 \$3,303 in fiscal year 2016, and \$364 in fiscal year 2015, respectively, for eligible employees.

Note 8. RENTAL INCOME

In the fiscal year ending October 31, 2014, the Association entered into a five year lease with Vista Towers, LLC, for the use of Association property for the purpose of a cellular transmission tower. The Association received monthly payments of \$1,200 per month plus applicable General Excise taxes during that time. A second carrier was added to the tower during the year ending October 31, 2015, raising the rental income to \$1,700 per month. Additional carriers added will increase rental income by \$500 per carrier. At the end of the five-year term there is a renewal option for another five years with a 10% increase in rental income. There are four consecutive, five-year, 10% escalator renewal terms available for a total of 20 years of extensions possible under the current lease term.

The Association also entered into a five year lease with Kamehameha Schools during the year ended October 31, 2014. This lease allows Kamehameha Schools access to their property through the Association's property. Annual payments of \$2,000 are recorded as income from this lease agreement.

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:

|      |                 |
|------|-----------------|
| 2017 | \$ 2,360        |
| 2018 | 590             |
|      | <u>\$ 2,950</u> |

## HAWAIIAN SHORES COMMUNITY ASSOCIATION

### Notes to the Financial Statements October 31, 2016

#### Note 10. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 15, 2017, the date the financial statements were available for use.

#### 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 five year loan bears interest at a rate of 1.7 percent at October 31, 2015. 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 five year certificate of deposit at .03 percent interest held with the financial institution. The principal due in full during the year ending October 31, 2017 is \$8,935.

#### NOTE 12. USDA PROMISSORY NOTE

During the year ending October 31, 2016, the Association secured funding in the form of a loan and grant from the United States Department of Agriculture (USDA) to upgrade the existing water infrastructure. The costs associated with the project are to be billed to the USDA when incurred. The full value of the potential loan is \$1,037,000, of which \$169,500 was spent and billed to the USDA during the year. The loan bears interest at 2.5% and calls for monthly payments of \$3,423 and matures in 2056. The Association has been making accelerated payments since inception of the loan. Once the full value of the loan is drawn, the USDA will issue a grant for \$864,880 to finish the project. Maturity of the loan is as follows:

|      |    |        |
|------|----|--------|
| 2017 | \$ | 37,967 |
| 2018 | \$ | 38,927 |
| 2019 | \$ | 39,911 |
| 2020 | \$ | 3,203  |

#### Note 13. PRIOR PERIOD ADJUSTMENTS

In 2016, a prior period adjustment was recorded to properly record the accounts payable and insurance expense. These adjusting entries had the following effects on the October 31, 2015 financial statements:

- Decrease unrestricted net assets and changes in net assets by \$14,640.
- Increase accounts payable by \$14,640.

