HAWAIIAN SHORES COMMUNITY ASSOCIATION

FINANCIAL STATEMENTS

YEAR ENDED OCTOBER 31, 2018

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hawaiian Shores Community Association
Pahoa, Hawaii

We have audited the accompanying financial statements of Hawaiian Shores Community Association, which comprise the balance sheet as of October 31, 2018, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Omission of Report on Supplementary Information about Future Repairs and Maintenance

Management has omitted the schedule of future repairs and maintenance that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2019, on our consideration of Hawaiian Shores Community Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hawaiian Shores Community Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hawaiian Shores Community Association's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen, LLP

Owatonna, Minnesota
February 21, 2019

HAWAIIAN SHORES COMMUNITY ASSOCIATION
BALANCE SHEET
OCTOBER 31, 2018

	Operating Fund	Water Fund	Roads Fund	Parks and Facilities Fund	Emergency Fund	Total
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	$ 134,372	$ 410,231	$ 337,258	$ 271,289	$ 165,376	$ 1,318,526
Accounts Receivable, Net	150,593	-	-	-	-	150,593
Prepaid Expenses	5,490	-	-	-	-	5,490
Total Current Assets	290,455	410,231	337,258	271,289	165,376	1,474,609
PROPERTY AND EQUIPMENT						
Land	2,645,628	-	-	-	-	2,645,628
Buildings, Furniture, and Equipment	3,408,171	-	-	-	-	3,408,171
Vehicles	81,739	-	-	-	-	81,739
Work in Progress	951,751	-	-	-	-	951,751
Less: Accumulated Depreciation and Amortization	(2,795,446)	-	-	-	-	(2,795,446)
Net Property and Equipment	4,291,843	-	-	-	-	4,291,843
CERTIFICATES OF DEPOSIT	-	81,174	-	-	78,110	159,284
Total Assets	$ 4,582,298	$ 491,405	$ 337,258	$ 271,289	$ 243,486	$ 5,925,736
LIABILITIES AND FUND BALANCES						
CURRENT LIABILITIES						
Accounts Payable	$ 42,790	$ -	$ -	$ -	$ -	$ 42,790
Prepaid Water and Assessments	16,204	-	-	-	-	16,204
Accrued Payroll Liabilities	18,617	-	-	-	-	18,617
Current Portion of Long-Term Debt	24,214	-	-	-	-	24,214
Total Current Liabilities	101,825	-	-	-	-	101,825
LONG-TERM DEBT	661,308	-	-	-	-	661,308
Total Liabilities	763,133	-	-	-	-	763,133
FUND BALANCES	3,819,165	491,405	337,258	271,289	243,486	5,162,603
Total Liabilities and Fund Balances	$ 4,582,298	$ 491,405	$ 337,258	$ 271,289	$ 243,486	$ 5,925,736

See accompanying Notes to Financial Statements.

HAWAIIAN SHORES COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED OCTOBER 31, 2018

	Operating Fund	Water Fund	Roads Fund	Parks and Facilities Fund	Emergency Fund	Total
REVENUES						
Annual Assessments	$ 520,309	$ -	$ -	$ -	$ -	$ 520,309
Water Fees	228,307	-	-	-	-	228,307
Rental Income	21,250	-	-	-	-	21,250
Transfer Fees	35,700	-	-	-	-	35,700
Guest Fees	8,261	-	-	-	-	8,261
Interest and Investment Income	42	4,458	2,630	3,175	1,362	11,667
Water Hookup Fees	8,000	-	-	-	-	8,000
Other Revenue	10,131	-	-	-	-	10,131
Reimbursable Legal Fees	1,800	-	-	-	-	1,800
Total Revenues	833,800	4,458	2,630	3,175	1,362	845,425
EXPENSES						
Salaries and Wages	256,653	-	-	-	-	256,653
Board of Directors Expense	1,664	-	-	-	-	1,664
Depreciation	71,951	-	-	-	-	71,951
Employee Benefits	52,462	-	-	-	-	52,462
Insurance	45,786	-	-	-	-	45,786
Interest Expense	11,971	-	-	-	-	11,971
Legal Fees	8,901	-	-	-	-	8,901
Maintenance and Repairs	64,394	-	-	-	-	64,394
Miscellaneous Expense	3,621	-	65	65	-	3,751
Office Expenses	8,803	-	-	-	-	8,803
Payroll Expenses	31,340	-	-	-	-	31,340
Payroll Taxes	30,013	-	-	-	-	30,013
Postage	5,551	-	-	-	-	5,551
Printing	6,698	-	-	-	-	6,698
Professional Services	16,137	-	-	-	-	16,137
Property Taxes	2,277	-	-	-	-	2,277
Subscriptions and Trainings	1,434	-	-	-	-	1,434
Utilities	47,515	-	-	-	-	47,515
Total Expenses	667,171	-	65	65	-	667,301
EXCESS EXPENSES OVER REVENUES	166,629	4,458	2,565	3,110	1,362	178,124
Transfers Between Funds	(18,867)	(16,633)	29,000	6,500	-	-
Fund Balances - Beginning of Year	3,671,403	503,580	305,693	261,679	242,124	4,984,479
FUND BALANCES - END OF YEAR	$ 3,819,165	$ 491,405	$ 337,258	$ 271,289	$ 243,486	$ 5,162,603

See accompanying Notes to Financial Statements.

HAWAIIAN SHORES COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2018

	Operating Fund	Water Fund	Roads Fund	Parks and Facilities Fund	Emergency Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Excess of Revenues over Expenses (Expenses over Revenues)	$ 166,629	$ 4,458	$ 2,565	$ 3,110	$ 1,362	$ 178,124
Adjustments to Reconcile to Net Cash Provided by Operating Activities:						
Unrealized Loss on Investments	-	886	-	-	964	1,850
Depreciation	71,951	-	-	-	-	71,951
(Increase) Decrease in:						
Accounts Receivable	(11,843)	-	-	-	-	(11,843)
Prepaid Expenses	(307)	-	-	-	-	(307)
Increase (Decrease) in:						
Accounts Payable	37,442	-	-	-	-	37,442
Prepaid Water and Assessments	(3,450)	-	-	-	-	(3,450)
Accrued Payroll Liabilities	1,796	-	-	-	-	1,796
Net Cash Provided by Operating Activities	262,218	5,344	2,565	3,110	2,326	275,563
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase/Reinvestment of Investments	-	(26,978)	-	-	(20,006)	(46,984)
Proceeds from Maturities of Certificates of Deposit	-	27,000	-	-	19,000	46,000
Purchase of Property and Equipment	(773,022)	-	-	-	-	(773,022)
Net Cash Provided (Used) by Investing Activities	(773,022)	22	-	-	(1,006)	(774,006)
CASH FLOWS FROM FINANCING ACTIVITIES						
Transfers Between Funds	(18,867)	(16,633)	29,000	6,500	-	-
Proceeds from Long-Term Debt	630,096	-	-	-	-	630,096
Payments on Long-Term Debt	(53,993)	-	-	-	-	(53,993)
Net Cash Provided (Used) by Financing Activities	557,236	(16,633)	29,000	6,500	-	576,103
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	46,432	(11,267)	31,565	9,610	1,320	77,660
Cash and Cash Equivalents - Beginning of Year	87,940	421,498	305,693	261,679	164,056	1,240,866
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 134,372	$ 410,231	$ 337,258	$ 271,289	$ 165,376	$ 1,318,526
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION						
Cash Paid for Interest	$ 11,971	$ -	$ -	$ -	$ -	$ 11,971

See accompanying Notes to Financial Statements.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Hawaiian Shores Community Association (the Association) was incorporated as a nonprofit corporation in the state of Hawaii on July 16, 1971. The Association is located in the Hawaiian Shores Subdivision, District of Puna, county of Hawaii, 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, and manage all common and community facilities within the subdivision.

Fund Accounting

The financial statements of the Association are prepared on the accrual basis of accounting, which recognizes revenue when earned, regardless of when received, and expenses when incurred, regardless of when paid.

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 used 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.

The Association reports information regarding its financial position and activities according to three classes of fund balance: unrestricted fund balance, temporarily restricted fund balance, and permanently restricted fund balance.

The Association presents temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted fund balance class. The Association had no fund balances classified as temporarily or permanently restricted funds at October 31, 2018.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liquidity

Assets are presented in the accompanying balance sheet according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash is defined as demand deposits and certificates of deposit with original maturities of three months or less. The Association maintains bank accounts with balances which, at times, may exceed federally insured limits.

Member Assessments

Owners are subject to a yearly assessment of $385 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 bylaws allow the Association to also establish special assessments.

The Association has receivables which are subject to significant concentration of credit risk. Homeowner receivables are all due from the Association's members, who reside within a relatively small geographic area. The Association has provisions to assess late fees and lien the real property. If these provisions fail, the Association could incur a loss equal to the receivables.

Property and Equipment

Real property acquired is reflected on the Association's financial statements. The Association's policy is to capitalize property and equipment 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.

Buildings, Furniture, and Equipment	3 to 50 Years
Vehicles	10 Years

Depreciation in the amount of $71,951 was charged to statement of revenues, expenses, and changes in fund balance for the year ended October 31, 2018.

Investments

Investments consist of brokered certificates of deposit with readily determinable fair values and are measured at fair value on the balance sheet.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid Water and Assessments

Water payments and assessments received by the Association in advance and prior to assessment or billing are not recognized as revenue until the corresponding assessment is made. Payments of water fees and assessments in advance are generally not available for use in the current year operations and are not recognized as revenue until earned.

Income Taxes

The Association is exempt from federal income tax under Section 501(c)(4) of the Internal Revenue Code (IRC), except for amounts representing unrelated business income.

The Association follows the income tax standard for uncertain tax positions. The Association evaluated its tax positions and determined it has no material uncertain tax positions for the year ended October 31, 2018, in accordance with applicable standards.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Association is subject to a concentration of risk in the event of financial distress due to the current economic climate of the District of Puna housing market, which may affect the ability of the Association’s members and builders to pay assessments. If assessments are unable to be collected, the Association’s results of operations, financial position, and cash flows could be adversely affected.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 21, 2019, the date the financial statements were available to be issued.

NOTE 2 ACCOUNTS RECEIVABLE

The Association’s policy is to place liens on the properties whose annual assessments are in arrears. 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, 2018, for this uncertainty based on past collection history and the composite of the current balance.

NOTE 3 FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable such as pricing models, discounted cash flow models, and similar techniques not based on the assumptions that market participants would use in pricing an asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Debt securities consisting of certificates of deposit are generally valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality, and type. Debt securities are generally classified within Level 2 of the valuation hierarchy. Certificates of deposit are held to maturity, with various maturity dates through October 31, 2021 and earn various interest rates ranging from 1.75% to 3.20%.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets measured on a recurring basis at October 31, 2018, are as follows:

	Level 1	Level 2	Level 3	Total
Brokered Certificates of Deposit	$ -	$ 159,284	$ -	$ 159,284

NOTE 4 CERTIFICATES OF DEPOSIT

Certificates of deposits at October 31, 2018, consist of the following:

Maturity Date	Amount	Rate
2020	$ 112,265	1.75% - 2.00%
2021	47,019	3.20%
Total	$ 159,284	

Investment return is summarized as follows:

Interest and Dividends	$ 13,517
Unrealized Losses	(1,850)
Total	$ 11,667

NOTE 5 WATER SYSTEM

The Association owns and operates a water system for the subdivision. According to the Association's bylaws, each lot owner must pay a water hook-up 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 were $4,197 at October 31, 2018 and are included in prepaid water and assessments on the balance sheet.

NOTE 6 LONG-TERM DEBT

In 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 $1,550,000, of which $685,522 is outstanding at October 31, 2018. The loan bears interest at 2.5% and calls for monthly payments of $3,423 through January 21, 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 $1,309,200 to finish the project.

Estimated maturities of long-term debt are as follows:

Year Ending October 31,	Amount
2019	$ 24,214
2020	24,827
2021	25,454
2022	26,098
2023	26,758
Thereafter	558,171
Total	$ 685,522

January 2019, the Association entered into an additional loan agreement with the USDA to provide additional funds towards the water project in an amount up to $513,000. The loan is to be repaid over a term of 40 years with an interest rate not to exceed 1.875%. The loan also requires the Association to make monthly deposits until it has accumulated $18,288 after which deposits may be suspended.

NOTE 7 EMPLOYEE BENEFIT PLANS

The Association established a Simplified Employee Pension Plan for all eligible employees. In 2017, the Association also established a 401(k) Plan with the same eligibility requirements. Employees are eligible to participate in these plans upon attaining the age of 21 years and having performed services for the Association for at least one year, or two years of part-time service, earning gross wages of $5,000 or greater in each of the two years. The Association will match the employee’s contribution up to 3% of the employee’s annual salary. Contributions by the Association were $2,885 for the year ended October 31, 2018.

NOTE 8 RENTAL INCOME

In February 2014, the Association entered into a five-year lease 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 until a second carrier was added to the tower increasing the monthly rental income by $1,700 per month. Additional carriers added will increase rental income by $500 per carrier. The lease includes a renewal option for up to four five-year periods with a 10% increase with each renewal for a total of 20 years of extensions possible. Total rental income under this lease agreement was $21,250 for the year ended October 31, 2018.

The Association also entered into a five-year lease allowing an area school access to their property through the Association's property. Annual payments of $2,000 are recorded as income from this lease agreement.

NOTE 9 LEASE AGREEMENTS

The Association entered into noncancelable lease for equipment. The lease requires monthly payments of $300 through August 2023. Future minimum lease payments are as follows:

Year Ending October 31,	Amount
2019	$ 3,600
2020	3,600
2021	3,600
2022	3,600
2023	3,000
Total	$ 17,400

NOTE 10 COMMITMENTS

The Association entered into two commitments related to its water project. Total outstanding commitments from these contracts were $1,747,828 as of October 31, 2018.

NOTE 11 FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has no requirement in its governing documents to accumulate funds for future major repairs and replacements. The Association has set aside funds for specific purposes as discussed in Note 1 to the financial statements.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Hawaiian Shores Community Association
Pahoa, Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hawaiian Shores Community Association, which comprise the balance sheet as of October 31, 2018, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hawaiian Shores Community Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hawaiian Shores Community Association's internal control. Accordingly, we do not express an opinion on the effectiveness of Hawaiian Shores Community Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-01 and 2018-02 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hawaiian Shores Community Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hawaiian Shores Community Association’s Response to Findings

Hawaiian Shores Community Association’s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Hawaiian Shores Community Association’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Owatonna, Minnesota
February 21, 2019

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS

2018-001: Oversight of the Financial Reporting Process

Condition: The board of directors and management share the ultimate responsibility for the Hawaiian Shores Community Association's (the Association) internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

The Association engages CliftonLarsonAllen LLP (CLA) to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the Association's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the Association has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are completed accurately. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and the knowledge of the Association's activities and operations.

The Association's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the Association's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America.

Possible Asserted Effect: Financials could be misleading to the users if not in conformity with accounting principles generally accepted in the United States of America.

Auditors' Recommendation: Given the size of the Association, we believe management, as well as the board of directors, should be aware of the inherent limitations and risks in the current financial reporting process. An important internal control over financial reporting includes performing a reconciliation between the general ledger and amounts reported in the draft financial statements.

Management Response: The Association's management is aware of the limitations and risks as currently structured. As the Association grows and additional employees are hired, management will again look for ways to add more layers of oversight.

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

2018 – 002: Material Audit Adjustments

Condition: The Association does not have controls in place to ensure accounts are properly reconciled and accounted for in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP); therefore, the potential exists that a material misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the Association's internal controls.

Criteria: The Association should have controls in place to prevent or detect and correct a material misstatement in the financial statements in a timely manner.

Possible Asserted Effect: The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the Association's internal controls.

Auditors' Recommendation: We recommend the Association continue to work with auditors to identify year-end adjustments that are necessary to ensure the accounts are adjusted to their appropriate year-end balances in accordance with U.S. GAAP.

Management's Response: The Association will make all necessary year-end adjustments, as needed, but will rely on the auditors to propose additional adjustments if necessary to adjust accounts in accordance with U.S. GAAP. Management will review and approve those journal entries prior to recording them.