

HAWAIIAN SHORES COMMUNITY ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED OCTOBER 31, 2019

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
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YEAR ENDED OCTOBER 31, 2019**

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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, 2019, 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, 2019, 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 Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2020, 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

Owatonna, Minnesota
June 17, 2020

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
BALANCE SHEET
OCTOBER 31, 2019**

ASSETS	Operating Fund	Water Fund	Roads Fund	Parks and Facilities Fund	Emergency Fund	Total
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 168,719	\$ 404,724	\$ 45,232	\$ 227,984	\$ 188,982	\$ 1,035,641
Accounts Receivable, Net	226,865	-	-	-	-	226,865
Prepaid Expenses	39,281	-	-	-	-	39,281
Total Current Assets	<u>434,865</u>	<u>404,724</u>	<u>45,232</u>	<u>227,984</u>	<u>188,982</u>	<u>1,301,787</u>
PROPERTY AND EQUIPMENT						
Land	2,645,628	-	-	-	-	2,645,628
Buildings, Furniture, and Equipment	3,423,979	-	-	-	-	3,423,979
Vehicles	113,111	-	-	-	-	113,111
Work in Progress	2,707,353	-	-	-	-	2,707,353
Less: Accumulated Depreciation and Amortization	<u>(2,856,555)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,856,555)</u>
Net Property and Equipment	6,033,516	-	-	-	-	6,033,516
CERTIFICATES OF DEPOSIT						
	-	55,089	-	-	59,096	114,185
Total Assets	<u>\$ 6,468,381</u>	<u>\$ 459,813</u>	<u>\$ 45,232</u>	<u>\$ 227,984</u>	<u>\$ 248,078</u>	<u>\$ 7,449,488</u>
LIABILITIES AND FUND BALANCES						
CURRENT LIABILITIES						
Accounts Payable	\$ 634,357	\$ -	\$ -	\$ -	\$ -	\$ 634,357
Prepaid Water and Assessments	16,745	-	-	-	-	16,745
Accrued Payroll Liabilities	18,487	-	-	-	-	18,487
Current Portion of Long-Term Debt, Net	<u>114,946</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>114,946</u>
Total Current Liabilities	784,535	-	-	-	-	784,535
LONG-TERM DEBT, NET						
	<u>1,309,992</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,309,992</u>
Total Liabilities	2,094,527	-	-	-	-	2,094,527
FUND BALANCES						
	<u>4,373,854</u>	<u>459,813</u>	<u>45,232</u>	<u>227,984</u>	<u>248,078</u>	<u>5,354,961</u>
Total Liabilities and Fund Balances	<u>\$ 6,468,381</u>	<u>\$ 459,813</u>	<u>\$ 45,232</u>	<u>\$ 227,984</u>	<u>\$ 248,078</u>	<u>\$ 7,449,488</u>

See accompanying Notes to Financial Statements.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED OCTOBER 31, 2019**

	Operating Fund	Water Fund	Roads Fund	Parks and Facilities Fund	Emergency Fund	Total
REVENUES						
Annual Assessments	\$ 523,062	\$ -	\$ -	\$ -	\$ -	\$ 523,062
Water Fees	255,854	-	-	-	-	255,854
Rental Income	23,253	-	-	-	-	23,253
Transfer Fees	25,500	-	-	-	-	25,500
Guest Fees	7,256	-	-	-	-	7,256
Interest and Investment Income	217	10,258	2,617	4,760	4,592	22,444
Water Hookup Fees	3,000	-	-	-	-	3,000
Other Revenue	22,789	-	-	-	-	22,789
Loss on Disposal of Assets	(500)	-	-	-	-	(500)
Reimbursable Legal Fees	3,000	-	-	-	-	3,000
Total Revenues	<u>863,431</u>	<u>10,258</u>	<u>2,617</u>	<u>4,760</u>	<u>4,592</u>	<u>885,658</u>
EXPENSES						
Salaries and Wages	256,073	-	-	-	-	256,073
Board of Directors Expense	1,394	-	-	-	-	1,394
Depreciation	78,238	-	-	-	-	78,238
Employee Benefits	60,782	-	-	-	-	60,782
Insurance	41,408	-	-	-	-	41,408
Interest Expense	19,688	-	-	-	-	19,688
Legal Fees	14,942	-	-	-	-	14,942
Maintenance and Repairs	56,134	-	-	-	-	56,134
Miscellaneous Expense	2,019	-	65	65	-	2,149
Office Expenses	13,404	-	-	-	-	13,404
Payroll Expenses	32,010	-	-	-	-	32,010
Payroll Taxes	34,006	-	-	-	-	34,006
Postage	5,123	-	-	-	-	5,123
Printing	6,072	-	-	-	-	6,072
Professional Services	18,666	-	-	-	-	18,666
Property Taxes	2,385	-	-	-	-	2,385
Subscriptions and Trainings	757	-	-	-	-	757
Utilities	50,069	-	-	-	-	50,069
Total Expenses	<u>693,170</u>	<u>-</u>	<u>65</u>	<u>65</u>	<u>-</u>	<u>693,300</u>
EXCESS EXPENSES OVER REVENUES	170,261	10,258	2,552	4,695	4,592	192,358
Transfers Between Funds	384,428	(41,850)	(294,578)	(48,000)	-	-
Fund Balances - Beginning of Year	<u>3,819,165</u>	<u>491,405</u>	<u>337,258</u>	<u>271,289</u>	<u>243,486</u>	<u>5,162,603</u>
FUND BALANCES - END OF YEAR	<u>\$ 4,373,854</u>	<u>\$ 459,813</u>	<u>\$ 45,232</u>	<u>\$ 227,984</u>	<u>\$ 248,078</u>	<u>\$ 5,354,961</u>

See accompanying Notes to Financial Statements.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2019**

	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)	\$ 170,261	\$ 10,258	\$ 2,552	\$ 4,695	\$ 4,592	\$ 192,358
Adjustments to Reconcile to Net Cash Provided by Operating Activities:						
Unrealized Loss on Investments	-	(968)	-	-	(985)	(1,953)
Depreciation	78,238	-	-	-	-	78,238
Loss on Disposal of Property and Equipment	500	-	-	-	-	500
(Increase) Decrease in:						
Accounts Receivable	(76,272)	-	-	-	-	(76,272)
Prepaid Expenses	(33,791)	-	-	-	-	(33,791)
Increase (Decrease) in:						
Accounts Payable	591,567	-	-	-	-	591,567
Prepaid Water and Assessments	541	-	-	-	-	541
Accrued Payroll Liabilities	(130)	-	-	-	-	(130)
Net Cash Provided by Operating Activities	<u>730,914</u>	<u>9,290</u>	<u>2,552</u>	<u>4,695</u>	<u>3,607</u>	<u>751,058</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Maturities of Certificates of Deposit	-	27,053	-	-	19,999	47,052
Purchase of Property and Equipment	(1,820,411)	-	-	-	-	(1,820,411)
Net Cash Provided (Used) by Investing Activities	<u>(1,820,411)</u>	<u>27,053</u>	<u>-</u>	<u>-</u>	<u>19,999</u>	<u>(1,773,359)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Transfers Between Funds	384,428	(41,850)	(294,578)	(48,000)	-	-
Proceeds from Long-Term Debt	869,037	-	-	-	-	869,037
Payments on Long-Term Debt	(112,241)	-	-	-	-	(112,241)
Payments of Debt Issuance Costs	(17,380)	-	-	-	-	(17,380)
Net Cash Provided (Used) by Financing Activities	<u>1,123,844</u>	<u>(41,850)</u>	<u>(294,578)</u>	<u>(48,000)</u>	<u>-</u>	<u>739,416</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,347	(5,507)	(292,026)	(43,305)	23,606	(282,885)
Cash and Cash Equivalents - Beginning of Year	<u>134,372</u>	<u>410,231</u>	<u>337,258</u>	<u>271,289</u>	<u>165,376</u>	<u>1,318,526</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 168,719</u>	<u>\$ 404,724</u>	<u>\$ 45,232</u>	<u>\$ 227,984</u>	<u>\$ 188,982</u>	<u>\$ 1,035,641</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION						
Cash Paid for Interest	<u>\$ 19,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,688</u>

See accompanying Notes to Financial Statements.

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**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019**

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 two classes of fund balance: fund balance without restrictions, and fund balance with restrictions.

The Association presents restricted contributions, which are fulfilled in the same time period, within the fund balance without restrictions class. The Association had no fund balances with restrictions at October 31, 2019.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019**

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 \$78,238 was charged to statement of revenues, expenses, and changes in fund balances for the year ended October 31, 2019.

Investments

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

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019**

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, 2019, 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 June 17, 2020, the date the financial statements were available to be issued.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 2 RESTRICTED RESERVE DEPOSITS

That Association has multiple reserve accounts as required by the United States Department of Agriculture (USDA) Rural Development. As it relates to the Association's water and road projects, the Association is required to make monthly deposits until it has accumulated \$59,364 and \$97,500, respectively, after which deposits may be suspended. When necessary, disbursements may be made for payment due on the note with prior written approval of Rural Development. Monthly deposits must then resume again until the required accumulated total is obtained. The water project also requires a short-lived asset reserve, which requires annual funding of \$44,200 for the life of the loan to pay for repairs as well as replacement of major system assets.

USDA Rural Development reserve balances consisted of the following at October 31, 2019:

	<u>Amount</u>
Debt Service Reserve - Water Project	\$ 60,412
Debt Service Reserve - Road Project	9,600
Short-Lived Asset Reserve - Water Project	55,178
Total	<u>\$ 125,190</u>

NOTE 3 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, 2019, for this uncertainty based on past collection history and the composite of the current balance.

NOTE 4 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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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 2.00%.

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, 2019, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Brokered Certificates of Deposit	<u>\$ -</u>	<u>\$ 114,185</u>	<u>\$ -</u>	<u>\$ 114,185</u>

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 5 CERTIFICATES OF DEPOSIT

Certificates of deposits at October 31, 2019, consist of the following:

<u>Maturity Date</u>	<u>Amount</u>	<u>Rate</u>
2021	\$ 114,185	1.75% - 2.00%
Total	<u>\$ 114,185</u>	

Investment return is summarized as follows:

Interest and Dividends	\$ 20,491
Unrealized Losses	1,953
Total	<u>\$ 22,444</u>

NOTE 6 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 \$5,048 at October 31, 2019 and are included in Prepaid Water and Assessments on the balance sheet.

NOTE 7 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. Once the full value of the loan is drawn, the USDA will issue a grant for \$1,309,200 to finish the project.

In 2019, the Association secured funding in the form of a loan from the United States Department of Agriculture (USDA) to perform road improvements. The costs associated with the project are to be billed to the USDA when incurred. The full value of the potential loan is \$2,050,000.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 7 LONG-TERM DEBT (CONTINUED)

The terms of the loans are summarized as follows:

Water Infrastructure

Fixed interest rate of 2.50% due in monthly payments of \$4,435 through January 21, 2056. \$ 699,384

Road Improvements

Fixed interest rate of 2.38% due in monthly payments of \$7,975 through January 21, 2049.	742,934
Total Long-Term Debt	1,442,318
Less: Unamortized Debt Issuance Costs	(17,380)
Total Long-Term Debt, Less Unamortized Debt Issuance Costs	1,424,938
Less: Current Maturities	(114,946)
Total	\$ 1,309,992

Estimated maturities of long-term debt are as follows:

<u>Year Ending October 31,</u>	<u>Amount</u>
2020	\$ 114,946
2021	117,752
2022	120,627
2023	123,572
2024	126,588
Thereafter	838,833
Total	\$ 1,442,318

The Association incurred debt issuance costs of \$17,380 to be amortized over the life of long-term debt. There was no amortization expense recorded for the year ended October 31, 2019. Unamortized debt issuance costs were \$17,380 at October 31, 2019.

NOTE 8 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 \$4,686 for the year ended October 31, 2019.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019**

NOTE 9 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 \$23,253 for the year ended October 31, 2019.

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 10 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:

<u>Year Ending October 31,</u>	<u>Amount</u>
2020	\$ 3,600
2021	3,600
2022	3,600
2023	3,000
Total	<u>\$ 13,800</u>

NOTE 11 COMMITMENTS

The Association entered into two commitments related to its water project and one commitment related to its roads improvement project. Total outstanding commitments from these contracts were \$1,870,896,828 as of October 31, 2019.

NOTE 12 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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED OCTOBER 31, 2019**

Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
Department of Agriculture:		
Office of Rural Development:		
*Community Facilities Loans and Grants	10.766	<u>\$ 876,106</u>

*Denotes Major Program

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OCTOBER 31, 2019**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Hawaiian Shores Community Association, under programs of the federal government for the year ended October 31, 2019. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Hawaiian Shores Community Association, it is not intended to and does not present the balance sheet, changes in fund balance, or cash flows of Hawaiian Shores Community Association.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Association has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 COMMUNITY FACILITIES LOANS AND GRANTS

During the year ended October 31, 2019, funds totaling \$876,106 were received from the USDA. \$1,442,318 is outstanding at year-end. There were no loans from previous years for which the Federal government imposes continuing compliance requirements. There were no funds in the form of an interest subsidy, cash, or administrative cost allowance received.



**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, 2019, 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, and have issued our report thereon dated June 17, 2020.

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 2019-01 and 2019-02 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

Owatonna, Minnesota
June 17, 2020



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Hawaiian Shores Community Association
Pahoa, Hawaii

Report on Compliance for Each Major Federal Program

We have audited Hawaiian Shores Community Association's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hawaiian Shores Community Association's major federal programs for the year ended October 31, 2019. Hawaiian Shores Community Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and responses.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Hawaiian Shores Community Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hawaiian Shores Community Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Hawaiian Shores Community Association's compliance.

Opinion on Each Major Federal Program

In our opinion, Hawaiian Shores Community Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-003. Our opinion on each major federal program is not modified with respect to these matters.

Hawaiian Shores Community Association's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hawaiian Shores Community Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Hawaiian Shores Community Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hawaiian Shores Community Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hawaiian Shores Community Association's internal control over compliance.


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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-003, that we consider to be a significant deficiency.

Hawaiian Shores Community Association's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hawaiian Shores Community Association's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Board of Directors
Hawaiian Shores Community Association

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Owatonna, Minnesota
June 17, 2020

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED OCTOBER 31, 2019**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? x yes no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes x none reported
3. Noncompliance material to financial statements noted? yes x no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? yes x no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes x none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of Major Federal Programs

CFDA Number(s)

10.766

Name of Federal Program or Cluster

Communities Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs:

 \$ 750,000

Auditee qualified as low-risk auditee?

 yes x no

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED OCTOBER 31, 2019**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS

2019-001: 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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED OCTOBER 31, 2019**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

2019 – 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.

Section III – Findings and Questioned Costs – Major Federal Programs

2019 – 003

Federal agency: U.S. Department of Agriculture

Federal program title: Communities Facilities Loans and Grants

CFDA Number: 10.766

Award Period: January 21, 2016 - Ongoing

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* requires compliance with the provisions of reporting. The Association should have internal controls designed to ensure compliance with those provisions.

Condition: During our testing, we noted the Association did not have adequate internal controls designed to ensure annual reporting requirements were met.

Questioned costs: None

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED OCTOBER 31, 2019**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2019 – 003 (Continued)

Context: During our testing, it was noted that the Association is required to provide an annual report to the U.S. Department of Agriculture.

Cause: The Association was aware of the requirement, but due to significant turnover there was a lack of communication from the U.S. Department of Agriculture.

Effect: The auditor noted no report was submitted to the U.S. Department of Agriculture for 2018.

Recommendation: We recommend the Association design controls to ensure required reporting is completed accurately and timely.

Views of responsible officials: There is no disagreement with the audit finding.

Section IV – Prior Year Major Federal Program Findings

There was no audit performed in accordance with 2 CFR 200.516(a) for the year ended October 31, 2018.