

HAWAIIAN SHORES COMMUNITY ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED OCTOBER 31, 2020



**HAWAIIAN SHORES COMMUNITY ASSOCIATION
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YEAR ENDED OCTOBER 31, 2020**

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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, 2020, 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, 2020, 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 February 5, 2021, 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
February 5, 2021

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
BALANCE SHEET
OCTOBER 31, 2020**

	Operating Fund	Water Fund	Roads Fund	Parks and Facilities Fund	Emergency Fund	Total
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 486,913	\$ 450,305	\$ 45,257	\$ 20,993	\$ 249,900	\$ 1,253,368
Accounts Receivable, Net	298,089	-	-	-	-	298,089
Prepaid Expenses	12,339	-	-	-	-	12,339
Total Current Assets	<u>797,341</u>	<u>450,305</u>	<u>45,257</u>	<u>20,993</u>	<u>249,900</u>	<u>1,563,796</u>
PROPERTY AND EQUIPMENT						
Land	2,645,628	-	-	-	-	2,645,628
Buildings, Furniture, and Equipment	3,465,960	-	-	-	-	3,465,960
Vehicles	90,706	-	-	-	-	90,706
Work in Progress	3,831,780	-	-	-	-	3,831,780
Less: Accumulated Depreciation and Amortization	<u>(2,916,502)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,916,502)</u>
Net Property and Equipment	<u>7,117,572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,117,572</u>
Total Assets	<u>\$ 7,914,913</u>	<u>\$ 450,305</u>	<u>\$ 45,257</u>	<u>\$ 20,993</u>	<u>\$ 249,900</u>	<u>\$ 8,681,368</u>
LIABILITIES AND FUND BALANCES						
CURRENT LIABILITIES						
Accounts Payable	\$ 278,940	\$ -	\$ -	\$ -	\$ -	\$ 278,940
Prepaid Water and Assessments	17,277	-	-	-	-	17,277
Accrued Payroll Liabilities	18,487	-	-	-	-	18,487
Current Portion of Long-Term Debt, Net	104,698	-	-	-	-	104,698
Total Current Liabilities	<u>419,402</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>419,402</u>
LONG-TERM DEBT, NET						
Total Liabilities	<u>2,623,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,623,436</u>
Total Liabilities	3,042,838	-	-	-	-	3,042,838
FUND BALANCES	<u>4,872,075</u>	<u>450,305</u>	<u>45,257</u>	<u>20,993</u>	<u>249,900</u>	<u>5,638,530</u>
Total Liabilities and Fund Balances	<u>\$ 7,914,913</u>	<u>\$ 450,305</u>	<u>\$ 45,257</u>	<u>\$ 20,993</u>	<u>\$ 249,900</u>	<u>\$ 8,681,368</u>

See accompanying Notes to Financial Statements.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED OCTOBER 31, 2020**

	Operating Fund	Water Fund	Roads Fund	Parks and Facilities Fund	Emergency Fund	Total
REVENUES						
Annual Assessments	\$ 525,298	-	-	-	-	\$ 525,298
Water Fees	254,637	-	-	-	-	254,637
Rental Income	27,623	-	-	-	-	27,623
Transfer Fees	28,200	-	-	-	-	28,200
Guest Fees	2,044	-	-	-	-	2,044
Interest and Investment Income	290	3,493	90	1,144	1,822	6,839
Water Hookup Fees	5,000	-	-	-	-	5,000
Other Revenue	91,114	-	-	-	-	91,114
Loss on Disposal of Assets	(500)	-	-	-	-	(500)
Reimbursable Legal Fees	(1,260)	-	-	-	-	(1,260)
Grant Income	70,825	-	-	-	-	70,825
Total Revenues	1,003,271	3,493	90	1,144	1,822	1,009,820
EXPENSES						
Salaries and Wages	264,894	-	-	-	-	264,894
Board of Directors Expense	258	-	-	-	-	258
Depreciation	84,768	-	-	-	-	84,768
Employee Benefits	63,466	-	-	-	-	63,466
Insurance	46,100	-	-	-	-	46,100
Interest Expense	50,684	-	-	-	-	50,684
Legal Fees	3,934	-	-	-	-	3,934
Maintenance and Repairs	45,611	-	-	-	-	45,611
Miscellaneous Expense	3,276	-	65	65	-	3,406
Office Expenses	11,851	-	-	-	-	11,851
Payroll Expenses	35,444	-	-	-	-	35,444
Payroll Taxes	29,641	-	-	-	-	29,641
Postage	7,533	-	-	-	-	7,533
Printing	6,801	-	-	-	-	6,801
Professional Services	21,518	-	-	-	-	21,518
Property Taxes	2,269	-	-	-	-	2,269
Subscriptions and Trainings	2,851	-	-	-	-	2,851
Utilities	45,222	-	-	-	-	45,222
Total Expenses	726,121	-	65	65	-	726,251
EXCESS EXPENSES OVER REVENUES	277,150	3,493	25	1,079	1,822	283,569
Transfers Between Funds	221,071	(13,001)	-	(208,070)	-	-
Fund Balances - Beginning of Year	4,373,854	459,813	45,232	227,984	248,078	5,354,961
FUND BALANCES - END OF YEAR	\$ 4,872,075	\$ 450,305	\$ 45,257	\$ 20,993	\$ 249,900	\$ 5,638,530

See accompanying Notes to Financial Statements.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2020**

	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)	\$ 277,150	\$ 3,493	\$ 25	\$ 1,079	\$ 1,822	\$ 283,569
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:						
Unrealized Loss on Investments	-	(319)	-	-	95	(224)
Depreciation	84,768	-	-	-	-	84,768
Loss on Disposal of Property and Equipment	500	-	-	-	-	500
Amortization	1,287	-	-	-	-	1,287
(Increase) Decrease in:						
Accounts Receivable	(71,224)	-	-	-	-	(71,224)
Prepaid Expenses	26,942	-	-	-	-	26,942
Increase (Decrease) in:						
Accounts Payable	(355,417)	-	-	-	-	(355,417)
Prepaid Water and Assessments	532	-	-	-	-	532
Net Cash Provided (Used) by Operating Activities	<u>(35,462)</u>	<u>3,174</u>	<u>25</u>	<u>1,079</u>	<u>1,917</u>	<u>(29,267)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Maturities of Certificates of Deposit	-	55,408	-	-	59,001	114,409
Purchase of Property and Equipment	(1,169,325)	-	-	-	-	(1,169,325)
Net Cash Provided (Used) by Investing Activities	<u>(1,169,325)</u>	<u>55,408</u>	<u>-</u>	<u>-</u>	<u>59,001</u>	<u>(1,054,916)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Transfers Between Funds	221,071	(13,001)	-	(208,070)	-	-
Proceeds from Long-Term Debt	1,408,502	-	-	-	-	1,408,502
Payments on Long-Term Debt	(106,592)	-	-	-	-	(106,592)
Net Cash Provided (Used) by Financing Activities	<u>1,522,981</u>	<u>(13,001)</u>	<u>-</u>	<u>(208,070)</u>	<u>-</u>	<u>1,301,910</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	318,194	45,581	25	(206,991)	60,918	217,727
Cash and Cash Equivalents - Beginning of Year	168,719	404,724	45,232	227,984	188,982	1,035,641
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 486,913</u>	<u>\$ 450,305</u>	<u>\$ 45,257</u>	<u>\$ 20,993</u>	<u>\$ 249,900</u>	<u>\$ 1,253,368</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION						
Cash Paid for Interest	\$ 50,684	\$ -	\$ -	\$ -	\$ -	\$ 50,684

See accompanying Notes to Financial Statements.

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**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020**

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, 2020.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020**

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.

Contributions

The Association recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

The Association has entered into cost-reimbursable grant. Amounts received are recognized as earned and are reported as revenue when the Association has incurred expenditures in compliance with specific grant provisions. Amounts received but not yet earned are reported as a refundable advance in the statement of financial position. The Association received a cost-reimbursable grant of \$1,244,557 that has not been recognized at October 31, 2020 because qualifying expenditures have not yet been incurred. No advance payments have been received from this grant.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$84,768 was charged to statement of revenues, expenses, and changes in fund balances for the year ended October 31, 2020.

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, 2020, in accordance with applicable standards.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contribution (nonreciprocal) transactions within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The implementation of this standard has no impact on the financial statements.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 5, 2021, the date the financial statements were available to be issued.

NOTE 2 RESTRICTED RESERVE DEPOSITS

The 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, 2020:

	<u>Amount</u>
Debt Service Reserve - Water Project	\$ 60,772
Debt Service Reserve - Road Project	19,169
Short-Lived Asset Reserve - Water Project	<u>55,506</u>
Total	<u>\$ 135,447</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, 2020, for this uncertainty based on past collection history and the composite of the current balance.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020**

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.

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.

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.

The Association had no assets or liabilities measured at fair value on a recurring basis at October 31, 2020.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020**

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 \$6,050 at October 31, 2020 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. 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.

The terms of the loans are summarized as follows:

<u>Description</u>	<u>Amount</u>
<u>Water Infrastructure</u>	
Fixed interest rate of 2.50% due in monthly payments of \$4,435 through January 21, 2056.	\$ 794,193
 <u>Water Infrastructure Overrun Loan</u>	
Fixed interest rate of 1.875% due in monthly payments of \$1,524 through January 7, 2058.	500,764
 <u>Road Improvements</u>	
Fixed interest rate of 2.38% due in monthly payments of \$7,975 through January 21, 2049.	1,449,270
Total Long-Term Debt	<u>2,744,227</u>
Less: Unamortized Debt Issuance Costs	<u>(16,093)</u>
Total Long-Term Debt, Less Unamortized Debt Issuance Costs	2,728,134
Less: Current Maturities	<u>(104,698)</u>
Total	<u><u>\$ 2,623,436</u></u>

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Estimated maturities of long-term debt are as follows:

<u>Year Ending October 31,</u>	<u>Amount</u>
2021	\$ 104,698
2022	107,078
2023	109,646
2024	112,276
2025	114,970
Thereafter	<u>2,195,559</u>
Total	<u>\$ 2,744,227</u>

The Association incurred debt issuance costs of \$17,380 to be amortized over the life of long-term debt. Amortization expense totaled \$1,287 for the year ended October 31, 2020. Unamortized debt issuance costs were \$16,093 at October 31, 2020.

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 \$4,656 for the year ended October 31, 2020.

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 \$27,623 for the year ended October 31, 2020.

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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020**

NOTE 9 LEASE AGREEMENTS

The Association entered into a 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>
2021	\$ 3,600
2022	3,600
2023	3,600
Total	<u>\$ 10,800</u>

NOTE 10 COMMITMENTS

The Association entered into a commitment related to its water project. The total outstanding commitment from this contract was \$828,251 as of October 31, 2020.

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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED OCTOBER 31, 2020**

Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
Department of Agriculture:		
Office of Rural Development:		
*Community Facilities Loans and Grants	10.766	\$ 1,473,045
Department of Treasury:		
County of Hawaii:		
Coronavirus Release Fund	21.019	<u>6,182</u>
Total		<u><u>\$ 1,479,227</u></u>

*Denotes Major Program

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OCTOBER 31, 2020**

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, 2020. 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, 2020, funds totaling \$1,473,045 were received from the USDA. \$2,744,227 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, 2020, 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 February 5, 2021.

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 2020-01 and 2020-02 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
February 5, 2021



**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, 2020. 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, 2020.

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, material weaknesses may exist that have not been identified.

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

CliftonLarsonAllen LLP

Owatonna, Minnesota
February 5, 2021

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED OCTOBER 31, 2020**

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? yes no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported
3. Noncompliance material to financial statements noted? yes no

Federal Awards

1. Internal control over major federal programs:
 - Material weakness(es) identified? yes no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes 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 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 no

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED OCTOBER 31, 2020**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS

2020-001: 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, 2020**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

2020 – 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.