

HAWAIIAN SHORES COMMUNITY ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED OCTOBER 31, 2022



**HAWAIIAN SHORES COMMUNITY ASSOCIATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hawaiian Shores Community Association
Pahoa, Hawaii

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Hawaiian Shores Community Association which comprise the balance sheet as of October 31, 2022, 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.

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, 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hawaiian Shores Community Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hawaiian Shores Community Association's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hawaiian Shores Community Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hawaiian Shores Community Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
Hawaiian Shores Community Association

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 March 17, 2023, 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
March 17, 2023

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**HAWAIIAN SHORES COMMUNITY ASSOCIATION
BALANCE SHEET
OCTOBER 31, 2022**

ASSETS	Operating Fund	Water Fund	Roads Fund	Parks and Facilities Fund	Emergency Fund	Total
CURRENT ASSETS						
Cash and Cash Equivalents	\$ 311,025	\$ 291,957	\$ 45,005	\$ 239,220	\$ 151,311	\$ 1,038,518
Certificates of Deposit	-	93,429	-	-	93,925	187,354
Accounts Receivable, Net	591,254	-	-	-	-	591,254
Other Assets	-	61,652	-	-	-	61,652
Prepaid Expenses	5,873	-	-	-	-	5,873
Total Current Assets	<u>908,152</u>	<u>447,038</u>	<u>45,005</u>	<u>239,220</u>	<u>245,236</u>	<u>1,884,651</u>
PROPERTY AND EQUIPMENT						
Land	2,645,628	-	-	-	-	2,645,628
Buildings, Furniture, and Equipment	8,266,475	-	-	-	-	8,266,475
Vehicles	90,706	-	-	-	-	90,706
Work in Progress	39,708	-	-	-	-	39,708
Less: Accumulated Depreciation and Amortization	(3,406,375)	-	-	-	-	(3,406,375)
Net Property and Equipment	<u>7,636,142</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,636,142</u>
Total Assets	<u>\$ 8,544,294</u>	<u>\$ 447,038</u>	<u>\$ 45,005</u>	<u>\$ 239,220</u>	<u>\$ 245,236</u>	<u>\$ 9,520,793</u>
LIABILITIES AND FUND BALANCES						
CURRENT LIABILITIES						
Accounts Payable	\$ 5,230	-	-	-	-	\$ 5,230
Prepaid Water and Assessments	18,849	-	-	-	-	18,849
Accrued Payroll Liabilities	18,487	-	-	-	-	18,487
Current Portion of Long-Term Debt, Net	109,751	-	-	-	-	109,751
Total Current Liabilities	<u>152,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152,317</u>
LONG-TERM DEBT, NET						
Total Liabilities	<u>2,400,596</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,400,596</u>
Total Liabilities	2,552,913	-	-	-	-	2,552,913
FUND BALANCES	<u>5,991,381</u>	<u>447,038</u>	<u>45,005</u>	<u>239,220</u>	<u>245,236</u>	<u>6,967,880</u>
Total Liabilities and Fund Balances	<u>\$ 8,544,294</u>	<u>\$ 447,038</u>	<u>\$ 45,005</u>	<u>\$ 239,220</u>	<u>\$ 245,236</u>	<u>\$ 9,520,793</u>

See accompanying Notes to Financial Statements.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED OCTOBER 31, 2022**

	Operating Fund	Water Fund	Roads Fund	Parks and Facilities Fund	Emergency Fund	Total
REVENUES						
Annual Assessments	\$ 544,941	-	-	-	\$ -	\$ 544,941
Fines	66,100	-	-	-	-	66,100
Water Fees	284,221	-	-	-	-	284,221
Water Hookup Fees	17,000	-	-	-	-	17,000
Rental Income	27,623	-	-	-	-	27,623
Transfer Fees	51,000	-	-	-	-	51,000
Guest Fees	3,798	-	-	-	-	3,798
Interest and Investment Income	242	(3,186)	-	267	(4,572)	(7,248)
Other Revenue	31,129	-	-	-	-	31,129
Reimbursable Legal Fees	4,200	-	-	-	-	4,200
Grant Income	2,710	-	-	-	-	2,710
Total Revenues	1,032,864	(3,186)	-	267	(4,572)	1,025,473
EXPENSES						
Salaries and Wages	266,918	-	-	-	-	266,918
Board of Directors Expense	2,102	-	-	-	-	2,102
Depreciation	254,556	-	-	-	-	254,556
Employee Benefits	57,957	-	-	-	-	57,957
Insurance	61,612	-	-	-	-	61,612
Interest Expense	61,378	-	-	-	-	61,378
Legal Fees	2,278	-	-	-	-	2,278
Maintenance and Repairs	65,967	-	-	-	-	65,967
Miscellaneous Expense	9,888	-	130	65	-	10,083
Office Expenses	17,768	-	-	-	-	17,768
Payroll Expenses	18,323	-	-	-	-	18,323
Payroll Taxes	25,484	-	-	-	-	25,484
Postage	8,069	-	-	-	-	8,069
Printing	7,733	-	-	-	-	7,733
Professional Services	26,572	-	-	-	-	26,572
Property Taxes	2,110	-	-	-	-	2,110
Subscriptions and Trainings	1,805	-	-	-	-	1,805
Utilities	74,315	-	-	-	-	74,315
Total Expenses	964,835	-	130	65	-	965,030
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	68,129	(3,186)	(130)	202	(4,572)	60,443
Transfers Between Funds	(40,000)	-	-	40,000	-	-
Fund Balances - Beginning of Year	5,963,252	450,224	45,135	198,018	249,808	6,907,437
FUND BALANCES - END OF YEAR	\$ 5,991,381	\$ 447,038	\$ 45,005	\$ 238,220	\$ 245,236	\$ 6,957,880

See accompanying Notes to Financial Statements

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2022**

	Operating Fund	Water Fund	Roads Fund	Parks and Facilities Fund	Emergency Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Excess (Deficit) of Revenues over Expenses	\$ 68,129	\$ (3,186)	\$ (130)	\$ 202	\$ (4,572)	\$ 60,443
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:						
Unrealized Loss on Investments	-	7,008	-	-	6,648	13,656
Depreciation	254,556	-	-	-	-	254,556
Amortization	1,352	-	-	-	-	1,352
(Increase) Decrease in:						
Accounts Receivable	(115,892)	-	-	-	-	(115,892)
Prepaid Expenses	2,756	-	-	-	-	2,756
Other Assets	-	(61,652)	-	-	-	(61,652)
Increase (Decrease) in:						
Accounts Payable	2,179	-	-	-	-	2,179
Prepaid Water and Assessments	590	-	-	-	-	590
Net Cash Provided (Used) by Operating Activities	213,670	(57,830)	(130)	202	2,076	157,988
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase/Reinvestment of Investments	-	(100,437)	-	-	(100,573)	(201,010)
Purchase of Property and Equipment	(68,152)	-	-	-	-	(68,152)
Net Cash Used by Investing Activities	(68,152)	(100,437)	-	-	(100,573)	(269,162)
CASH FLOWS FROM FINANCING ACTIVITIES						
Transfers Between Funds	(40,000)	-	-	40,000	-	-
Payments on Long-Term Debt	(107,182)	-	-	-	-	(107,182)
Net Cash Provided (Used) by Financing Activities	(147,182)	-	-	40,000	-	(107,182)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,664)	(158,267)	(130)	40,202	(98,497)	(218,356)
Cash and Cash Equivalents - Beginning of Year	312,669	450,224	45,135	199,018	249,808	1,256,874
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 311,025	\$ 291,957	\$ 45,005	\$ 239,220	\$ 151,311	\$ 1,038,518
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION						
Cash Paid for Interest	\$ 61,378	\$ -	\$ -	\$ -	\$ -	\$ 61,378

See accompanying Notes to Financial Statements

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**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2022**

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.

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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$254,556 was charged to statement of revenues, expenses, and changes in fund balances for the year ended October 31, 2022.

Revenue and Revenue Recognition

The Association recognizes revenue from homeowner assessments over the assessment period, which is generally one year, during which time the members have access to parks and facilities and covenant enforcement. The assessments are used to cover the costs of operating the Association, future capital acquisitions, and providing for facility repair and replacement. Assessments for 2022 were \$395. 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.

Homeowner assessments paid in advance are deferred to the assessment period to which they relate.

For individuals who violate the Association's Covenants, Conditions, and Restrictions (CC&R's), the Association will assess a fine after attempts through a hearing and notifications have been exhausted. Monthly fines will follow for up to 12 months until the violation is corrected.

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 fees for water hook-up are recognized at the point in time hook-up is completed. The individual meter system billings are based on actual measured usage and recognized over time on a monthly basis. 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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Revenue Recognition (Continued)

Rental income, transfer fees, and guest fee revenue is recognized over time as the rental, transfer of property or usage of facilities take place.

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.

Income Taxes

The Association is exempt from federal income tax under Section 501(c)(4) of the Internal Revenue Code, 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, 2022, 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 March 17, 2023, the date the financial statements were available to be issued.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2022**

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 \$77,652 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, 2022:

	Amount
Debt Service Reserve - Water Project	\$ 61,652
Debt Service Reserve - Road Project	28,639
Short-Lived Asset Reserve - Water Project	99,862
Total	<u>\$ 190,153</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, 2022, 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, 2022**

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.

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 following assets and liabilities are measured at fair value on a recurring basis at October 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Brokered Certificates of Deposit	<u>\$ 187,354</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 187,354</u>

NOTE 5 CONTRACT ASSETS AND LIABILITIES

The beginning and ending contract assets and liabilities were as follows as of October 31:

	<u>2022</u>	<u>2021</u>
Contract Assets:		
Accounts Receivable	<u>\$ 591,254</u>	<u>\$ 475,362</u>
Contract Liabilities:		
Prepaid Water and Assessments	<u>\$ 18,849</u>	<u>\$ 18,259</u>

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2022**

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 have been billed to the USDA when incurred.

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 have been billed to the USDA when incurred.

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.	\$ 725,839
<u>Water Infrastructure Overrun Loan</u>	
Fixed interest rate of 1.875% due in monthly payments of \$1,524 through January 7, 2058.	462,217
<u>Road Improvements</u>	
Fixed interest rate of 2.38% due in monthly payments of \$7,975 through January 21, 2049.	1,335,721
Total Long-Term Debt	2,523,777
Less: Unamortized Debt Issuance Costs	(13,430)
Total Long-Term Debt, Less Unamortized Debt Issuance Costs	2,510,347
Less: Current Maturities	(109,751)
Total	<u>\$ 2,400,596</u>

Estimated maturities of long-term debt are as follows:

<u>Year Ending October 31,</u>	<u>Amount</u>
2023	\$ 109,751
2024	112,382
2025	115,077
2026	117,836
2027	120,662
Thereafter	1,948,069
Total	<u>\$ 2,523,777</u>

The Association incurred debt issuance costs of \$17,380 to be amortized over the life of long-term debt. Amortization expense totaled \$1,352 for the year ended October 31, 2022. Unamortized debt issuance costs were \$13,430 at October 31, 2022.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2022**

NOTE 7 EMPLOYEE BENEFIT PLANS

The Association established a Simplified Employee Pension Plan for all eligible employees. In 2017, the Association also established a 401(k) plan with the same eligibility requirements. Employees are eligible to participate in these plans upon attaining the age of 21 years and having performed services for the Association for at least one year, or two years of part-time service, earning gross wages of \$5,000 or greater in each of the two years. The Association will match the employee's contribution up to 3% of the employee's annual salary. Contributions by the Association were \$2,658 for the year ended October 31, 2022.

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, 2022.

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

NOTE 9 LEASE AGREEMENTS

The Association entered into 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>
2023	<u>\$ 3,000</u>
Total	<u><u>\$ 3,000</u></u>

NOTE 10 FUTURE MAJOR REPAIRS AND REPLACEMENTS

In March 2022, an independent specialist conducted a study of future major repairs and replacements. The information presented in the supplementary information on future major repairs and replacements is based on the 2022 study. The components' actual replacement costs, useful lives, and investment income may vary from estimated amounts, and the variation may be material. In addition, the timing and amount of actual expenditures will vary and these variations may be material. When funds are needed for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay the repair or replacement until funds are available. The Association does not currently assess reserve funding, rather, the board determines the minimum balance of reserve funds annually and adjusts the budget as needed.

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**HAWAIIAN SHORES COMMUNITY ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS (UNAUDITED)
 OCTOBER 31, 2022**

The board of directors conducted a study in March 2022 to estimate the remaining useful lives and the replacement costs of the components of the Association's common property. The estimates were obtained from licensed professional engineer who inspected the property and determined average life cycles for each asset category.

The following table represents the analysis calculating minimum annual contributions necessary to fund reserve components under a set of stated parameters. The study assumes a 2.5% rate of inflation. Based upon the reserve study, the Association has budgeted \$1,022,268 for funding of reserves during 2023. As of October 31, 2022, the Association has accumulated \$976,563. Budgeted reserve funds are determined annually by the board of directors.

Components	Estimated Useful Lives (Years)	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs
Buildings, Fixtures, and Structures	10-70	1-36	\$ 2,570,850
Roads	30	27	5,000,000
Water System and Equipment	10-80	1-39	20,850,900
Recreational Equipment	10	1	62,000
Vehicles	10	3-7	94,050
Maintenance Equipment	10-20	1-18	<u>317,275</u>
Total			<u>\$ 28,895,075</u>

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**HAWAIIAN SHORES COMMUNITY ASSOCIATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED OCTOBER 31, 2022**

Pass-Through Grantor/ Program Title	Federal Assistance Listing	Federal Expenditures
Department of Agriculture:		
Office of Rural Development:		
*Community Facilities Loans and Grants	10.766	<u>\$ 2,630,960</u>
Total		<u><u>\$ 2,630,960</u></u>

*Denotes Major Program

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
OCTOBER 31, 2022**

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, 2022. 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, 2022, the Association received no funds from the USDA. \$2,523,777 of funds received in previous years is outstanding at October 31, 2022. 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, 2022, and the related statements of revenue, expenses, and changes in fund balance, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 17, 2023.

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) as a basis for designing 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 2022-001 that we consider to be a material weakness.

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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the Hawaiian Shores Community Association's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Hawaiian Shores Community Association's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
March 17, 2023



**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

Opinion on Each Major Federal Program

We have audited Hawaiian Shores Community Association's compliance with the types of compliance requirements identified as subject to audit 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, 2022. Hawaiian Shores Community Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Hawaiian Shores Community Association complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Hawaiian Shores Community Association and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Hawaiian Shores Community Association's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Hawaiian Shores Community Association's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Hawaiian Shores Community Association's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Hawaiian Shores Community Association's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Hawaiian Shores Community Association's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of Hawaiian Shores Community Association's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Hawaiian Shores Community Association's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Board of Directors
Hawaiian Shores Community Association

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 results 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
March 17, 2023

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**HAWAIIAN SHORES COMMUNITY ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED OCTOBER 31, 2022**

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, 2022**

Section II – Financial Statement Findings

2022-001: 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.