

**HAWAIIAN SHORES COMMUNITY ASSOCIATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED OCTOBER 31, 2023**



CPAs | CONSULTANTS | WEALTH ADVISORS

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**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
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YEAR ENDED OCTOBER 31, 2023**

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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, 2023, 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, 2023, 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.

***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 April 10, 2024, 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  
April 10, 2024

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
BALANCE SHEET  
OCTOBER 31, 2023**

| <b>ASSETS</b>                                   | Operating<br>Fund          | Water<br>Fund            | Roads<br>Fund           | Parks and<br>Facilities<br>Fund | Emergency<br>Fund        | Total                      |
|---|----------------------------|--------------------------|-------------------------|---------------------------------|--------------------------|----------------------------|
| <b>CURRENT ASSETS</b>                           |                            |                          |                         |                                 |                          |                            |
| Cash and Cash Equivalents                       | \$ 255,866                 | \$ 291,499               | \$ 74,875               | \$ 177,970                      | \$ 156,401               | \$ 956,611                 |
| Certificates of Deposit                         | -                          | 94,305                   | -                       | -                               | 94,853                   | 189,158                    |
| Accounts Receivable, Net                        | 718,744                    | -                        | -                       | -                               | -                        | 718,744                    |
| Other Assets                                    | -                          | 62,667                   | -                       | -                               | -                        | 62,667                     |
| Prepaid Expenses                                | 4,809                      | -                        | -                       | -                               | -                        | 4,809                      |
| Total Current Assets                            | <u>979,419</u>             | <u>448,471</u>           | <u>74,875</u>           | <u>177,970</u>                  | <u>251,254</u>           | <u>1,931,989</u>           |
| <b>PROPERTY AND EQUIPMENT</b>                   |                            |                          |                         |                                 |                          |                            |
| Land  | 2,645,628                  | -                        | -                       | -                               | -                        | 2,645,628                  |
| Buildings, Furniture, and Equipment             | 8,316,630                  | -                        | -                       | -                               | -                        | 8,316,630                  |
| Vehicles  | 90,706                     | -                        | -                       | -                               | -                        | 90,706                     |
| Work in Progress                                | 203,279                    | -                        | -                       | -                               | -                        | 203,279                    |
| Less: Accumulated Depreciation and Amortization | <u>(3,657,186)</u>         | <u>-</u>                 | <u>-</u>                | <u>-</u>                        | <u>-</u>                 | <u>(3,657,186)</u>         |
| Net Property and Equipment                      | 7,599,057                  | -                        | -                       | -                               | -                        | 7,599,057                  |
| Operating ROU Asset                             | <u>16,579</u>              | <u>-</u>                 | <u>-</u>                | <u>-</u>                        | <u>-</u>                 | <u>16,579</u>              |
| Total Assets                                    | <u><u>\$ 8,595,055</u></u> | <u><u>\$ 448,471</u></u> | <u><u>\$ 74,875</u></u> | <u><u>\$ 177,970</u></u>        | <u><u>\$ 251,254</u></u> | <u><u>\$ 9,547,625</u></u> |
| <b>LIABILITIES AND FUND BALANCES</b>            |                            |                          |                         |                                 |                          |                            |
| <b>CURRENT LIABILITIES</b>                      |                            |                          |                         |                                 |                          |                            |
| Accounts Payable                                | \$ 6,216                   | \$ -                     | \$ -                    | \$ -                            | \$ -                     | \$ 6,216                   |
| Prepaid Water and Assessments                   | 16,531                     | -                        | -                       | -                               | -                        | 16,531                     |
| Accrued Payroll Liabilities                     | 18,487                     | -                        | -                       | -                               | -                        | 18,487                     |
| Current Portion of Long-Term Debt, Net          | 112,382                    | -                        | -                       | -                               | -                        | 112,382                    |
| Current Lease Liability - Operating             | 3,375                      | -                        | -                       | -                               | -                        | 3,375                      |
| Total Current Liabilities                       | <u>156,991</u>             | <u>-</u>                 | <u>-</u>                | <u>-</u>                        | <u>-</u>                 | <u>156,991</u>             |
| <b>LONG-TERM LIABILITIES</b>                    |                            |                          |                         |                                 |                          |                            |
| Long-Term Debt, Net                             | 2,479,090                  | -                        | -                       | -                               | -                        | 2,479,090                  |
| Long-Term Lease Liability - Operating           | 13,204                     | -                        | -                       | -                               | -                        | 13,204                     |
| Total Long-Term Liabilities                     | <u>2,492,294</u>           | <u>-</u>                 | <u>-</u>                | <u>-</u>                        | <u>-</u>                 | <u>2,492,294</u>           |
| Total Liabilities                               | 2,649,285                  | -                        | -                       | -                               | -                        | 2,649,285                  |
| <b>FUND BALANCES</b>                            |                            |                          |                         |                                 |                          |                            |
| Total Liabilities and Fund Balances             | <u><u>\$ 8,595,055</u></u> | <u><u>\$ 448,471</u></u> | <u><u>\$ 74,875</u></u> | <u><u>\$ 177,970</u></u>        | <u><u>\$ 251,254</u></u> | <u><u>\$ 9,547,625</u></u> |

See accompanying Notes to Financial Statements.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES  
YEAR ENDED OCTOBER 31, 2023**

|   | Operating<br>Fund   | Water<br>Fund     | Roads<br>Fund    | Parks and<br>Facilities<br>Fund | Emergency<br>Fund | Total               |
|---|---------------------|-------------------|------------------|---------------------------------|-------------------|---------------------|
| <b>REVENUES</b>                                   |                     |                   |                  |                                 |                   |                     |
| Annual Assessments                                | \$ 584,930          | \$ -              | \$ -             | \$ -                            | \$ -              | \$ 584,930          |
| Fines   | 49,279              | -                 | -                | -                               | -                 | 49,279              |
| Water Fees  | 304,590             | -                 | -                | -                               | -                 | 304,590             |
| Water Hookup Fees                                 | 21,000              | -                 | -                | -                               | -                 | 21,000              |
| Rental Income                                     | 23,727              | -                 | -                | -                               | -                 | 23,727              |
| Transfer Fees                                     | 36,300              | -                 | -                | -                               | -                 | 36,300              |
| Guest Fees  | 6,758               | -                 | -                | -                               | -                 | 6,758               |
| Interest and Investment Income                    | 187                 | 9,374             | -                | 2,636                           | 6,018             | 18,215              |
| Other Revenue                                     | 19,317              | -                 | -                | -                               | -                 | 19,317              |
| Reimbursable Legal Fees                           | 2,550               | -                 | -                | -                               | -                 | 2,550               |
| Total Revenues                                    | <u>1,048,638</u>    | <u>9,374</u>      | <u>-</u>         | <u>2,636</u>                    | <u>6,018</u>      | <u>1,066,666</u>    |
| <b>EXPENSES</b>                                   |                     |                   |                  |                                 |                   |                     |
| Salaries and Wages                                | 298,882             | -                 | -                | -                               | -                 | 298,882             |
| Board of Directors Expense                        | 2,128               | -                 | -                | -                               | -                 | 2,128               |
| Depreciation                                      | 260,811             | -                 | -                | -                               | -                 | 260,811             |
| Employee Benefits                                 | 86,099              | -                 | -                | -                               | -                 | 86,099              |
| Insurance   | 64,361              | -                 | -                | -                               | -                 | 64,361              |
| Interest Expense                                  | 58,843              | -                 | -                | -                               | -                 | 58,843              |
| Legal Fees  | 3,882               | -                 | -                | -                               | -                 | 3,882               |
| Maintenance and Repairs                           | 145,741             | -                 | -                | -                               | -                 | 145,741             |
| Miscellaneous Expense                             | 4,995               | -                 | 130              | 65                              | -                 | 5,190               |
| Office Expenses                                   | 20,141              | -                 | -                | -                               | -                 | 20,141              |
| Payroll Expenses                                  | 35,172              | -                 | -                | -                               | -                 | 35,172              |
| Payroll Taxes                                     | 30,494              | -                 | -                | -                               | -                 | 30,494              |
| Postage   | 7,168               | -                 | -                | -                               | -                 | 7,168               |
| Printing  | 8,323               | -                 | -                | -                               | -                 | 8,323               |
| Professional Services                             | 27,877              | -                 | -                | -                               | -                 | 27,877              |
| Property Taxes                                    | 2,592               | -                 | -                | -                               | -                 | 2,592               |
| Subscriptions and Trainings                       | 4,842               | -                 | -                | -                               | -                 | 4,842               |
| Utilities   | 73,660              | -                 | -                | -                               | -                 | 73,660              |
| Total Expenses                                    | <u>1,136,011</u>    | <u>-</u>          | <u>130</u>       | <u>65</u>                       | <u>-</u>          | <u>1,136,206</u>    |
| <b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES</b> | (87,373)            | 9,374             | (130)            | 2,571                           | 6,018             | (69,540)            |
| Transfers Between Funds                           | 41,762              | (7,941)           | 30,000           | (63,821)                        | -                 | -                   |
| Fund Balances - Beginning of Year                 | <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>    |
| <b>FUND BALANCES - END OF YEAR</b>                | <u>\$ 5,945,770</u> | <u>\$ 448,471</u> | <u>\$ 74,875</u> | <u>\$ 177,970</u>               | <u>\$ 251,254</u> | <u>\$ 6,898,340</u> |

See accompanying Notes to Financial Statements.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
STATEMENT OF CASH FLOWS  
YEAR ENDED OCTOBER 31, 2023**

|  | Operating<br>Fund | Water<br>Fund     | Roads<br>Fund    | Parks and<br>Facilities<br>Fund | Emergency<br>Fund | Total             |
|--|-------------------|-------------------|------------------|---------------------------------|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |                   |                   |                  |                                 |                   |                   |
| Excess (Deficit) of Revenues over Expenses                                       | \$ (87,373)       | \$ 9,374          | \$ (130)         | \$ 2,571                        | \$ 6,018          | \$ (69,540)       |
| Adjustments to Reconcile to Net Cash<br>Provided (Used) by Operating Activities: |                   |                   |                  |                                 |                   |                   |
| Unrealized Loss on Investments   | -                 | (876)             | -                | -                               | (928)             | (1,804)           |
| Depreciation   | 260,811           | -                 | -                | -                               | -                 | 260,811           |
| Amortization   | 1,386             | -                 | -                | -                               | -                 | 1,386             |
| (Increase) Decrease in:  |                   |                   |                  |                                 |                   |                   |
| Accounts Receivable  | (127,490)         | -                 | -                | -                               | -                 | (127,490)         |
| Prepaid Expenses   | 1,064             | -                 | -                | -                               | -                 | 1,064             |
| Other Assets   | -                 | (1,015)           | -                | -                               | -                 | (1,015)           |
| Increase (Decrease) in:  |                   |                   |                  |                                 |                   |                   |
| Accounts Payable   | 986               | -                 | -                | -                               | -                 | 986               |
| Prepaid Water and Assessments  | (2,318)           | -                 | -                | -                               | -                 | (2,318)           |
| Net Cash Provided (Used) by Operating Activities                                 | <u>47,066</u>     | <u>7,483</u>      | <u>(130)</u>     | <u>2,571</u>                    | <u>5,090</u>      | <u>62,080</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                      |                   |                   |                  |                                 |                   |                   |
| Purchase/Reinvestment of Investments   | -                 | (64,000)          | -                | -                               | (64,000)          | (128,000)         |
| Proceeds from Maturities of Certificates of Deposit                              | -                 | 64,000            | -                | -                               | 64,000            | 128,000           |
| Purchase of Property and Equipment   | (34,238)          | -                 | -                | -                               | -                 | (34,238)          |
| Net Cash Used by Investing Activities  | <u>(34,238)</u>   | <u>-</u>          | <u>-</u>         | <u>-</u>                        | <u>-</u>          | <u>(34,238)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                      |                   |                   |                  |                                 |                   |                   |
| Transfers Between Funds  | 41,762            | (7,941)           | 30,000           | (63,821)                        | -                 | -                 |
| Payments on Long-Term Debt   | (109,749)         | -                 | -                | -                               | -                 | (109,749)         |
| Net Cash Provided (Used) by Financing Activities                                 | <u>(67,987)</u>   | <u>(7,941)</u>    | <u>30,000</u>    | <u>(63,821)</u>                 | <u>-</u>          | <u>(109,749)</u>  |
| <b>NET INCREASE (DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>                  | (55,159)          | (458)             | 29,870           | (61,250)                        | 5,090             | (81,907)          |
| Cash and Cash Equivalents - Beginning of Year                                    | <u>311,025</u>    | <u>291,957</u>    | <u>45,005</u>    | <u>239,220</u>                  | <u>151,311</u>    | <u>1,038,518</u>  |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>                                   | <u>\$ 255,866</u> | <u>\$ 291,499</u> | <u>\$ 74,875</u> | <u>\$ 177,970</u>               | <u>\$ 156,401</u> | <u>\$ 956,611</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW<br/>INFORMATION</b>                      |                   |                   |                  |                                 |                   |                   |
| Cash Paid for Interest   | <u>\$ 58,843</u>  | <u>\$ -</u>       | <u>\$ -</u>      | <u>\$ -</u>                     | <u>\$ -</u>       | <u>\$ 58,843</u>  |
| Property and Equipment Finance Through Debt                                      | <u>\$ 189,498</u> | <u>\$ -</u>       | <u>\$ -</u>      | <u>\$ -</u>                     | <u>\$ -</u>       | <u>\$ 189,498</u> |

See accompanying Notes to Financial Statements.



**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2023**

**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.

**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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2023**

**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 \$260,811 was charged to statement of revenues, expenses, and changes in fund balances for the year ended October 31, 2023.

**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 2023 were \$425. 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.

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

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 2023, 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.

**Leases**

The Association leases equipment. The Association determines if an arrangement is a lease at inception. Operating leases are reported on the balance sheet as a right-of-use (ROU) asset and lease liability.

ROU assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most leases do not provide an implicit rate, the Association uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Association will exercise that option.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Leases (Continued)**

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Association has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statements of financial position.

**Adoption of New Accounting Standards**

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases* (Topic 842). This new standard increases transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Association adopted the requirement of the guidance effective November 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption. There was no impact on the Association's financial position and change in net assets as a result of the adoption of this accounting standard.

**Subsequent Events**

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 10, 2024, 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 \$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, 2023:

|   | <u>Amount</u>     |
|---|-------------------|
| Debt Service Reserve - Water Project      | \$ 62,667         |
| Debt Service Reserve - Road Project       | 38,174            |
| Short-Lived Asset Reserve - Water Project | 101,405           |
| Total                                     | <u>\$ 202,246</u> |

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2023**

**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, 2023, 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.

*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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2023**

**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

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

The following assets and liabilities are measured at fair value on a recurring basis at October 31, 2023:

|                                     | <u>Level 1</u>    | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>      |
|-------------------------------------|-------------------|----------------|----------------|-------------------|
| Brokered Certificates<br>of Deposit | <u>\$ 189,158</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 189,158</u> |

**NOTE 5 CONTRACT ASSETS AND LIABILITIES**

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

|                               | <u>2023</u>       | <u>2022</u>       |
|-------------------------------|-------------------|-------------------|
| Contract Assets:              |                   |                   |
| Accounts Receivable           | <u>\$ 718,744</u> | <u>\$ 591,254</u> |
| Contract Liabilities:         |                   |                   |
| Prepaid Water and Assessments | <u>\$ 16,531</u>  | <u>\$ 18,849</u>  |

**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.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2023**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

The terms of the loans are summarized as follows:

| <u>Description</u>   | <u>Amount</u>              |
|--|----------------------------|
| <u>Water Infrastructure</u><br>Fixed interest rate of 2.50% due in monthly payments<br>of \$4,435 through January 21, 2056.              | \$ 690,360                 |
| <u>Water Infrastructure Overrun Loan</u><br>Fixed interest rate of 1.875% due in monthly payments<br>of \$1,524 through January 7, 2058. | 452,511                    |
| <u>Road Improvements</u><br>Fixed interest rate of 2.38% due in monthly payments<br>of \$7,975 through January 21, 2049.                 | <u>1,271,156</u>           |
| Total Long-Term Debt   | 2,414,027                  |
| Less: Unamortized Debt Issuance Costs  | <u>(12,044)</u>            |
| Total Long-Term Debt, Less Unamortized Debt<br>Issuance Costs  | 2,401,983                  |
| Less: Current Maturities   | <u>(112,382)</u>           |
| Total  | <u><u>\$ 2,289,601</u></u> |

Estimated maturities of long-term debt are as follows:

| <u>Year Ending October 31,</u> | <u>Amount</u>              |
|--------------------------------|----------------------------|
| 2024                           | \$ 112,382                 |
| 2025                           | 115,077                    |
| 2026                           | 117,836                    |
| 2027                           | 120,662                    |
| 2028                           | 123,556                    |
| Thereafter                     | <u>1,824,514</u>           |
| Total                          | <u><u>\$ 2,414,027</u></u> |

The Association incurred debt issuance costs of \$17,380 to be amortized over the life of long-term debt. Amortization expense totaled \$1,386 for the year ended October 31, 2023. Unamortized debt issuance costs were \$12,044 at October 31, 2023.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2023**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

In February 2022, the Association entered into a note with the Hawaii Drinking Water State Revolving Fund (DWSRF) whereas, the Association may borrow up to \$275,000 at 0% interest. The loan will be forgiven when the project is complete. The outstanding balance of the loan as of October 31, 2023 was \$134,199.

In April 2022, the Association entered into a note with the Hawaii Drinking Water State Revolving Fund (DWSRF) whereas, the Association may borrow up to \$275,000 at 0% interest. The loan will be forgiven when the project is complete. The outstanding balance of the loan as of October 31, 2023 was \$55,290.

**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 \$4,174 for the year ended October 31, 2023.

**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 \$23,727 for the year ended October 31, 2023.

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, 2023**

**NOTE 9 LEASES**

The Association leases equipment under long-term, noncancelable lease agreements. The leases expire at various dates through 2028.

The following table provides quantitative information concerning the Association's leases:

|  |                 |
|--|-----------------|
| Leases Costs:  |                 |
| Operating Lease Costs  | \$ 1,824        |
| Short-Term Lease Costs   | 1,775           |
| Total Lease Costs  | <u>\$ 3,599</u> |
| Other Information:   |                 |
| Cash Paid for Amounts Included in the Measurement of Lease Liabilities       | \$ 1,824        |
| Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities | \$ 18,100       |
| Weighted-Average Remaining Lease Term - Operating Leases                     | 4.6 Years       |
| Weighted-Average Discount Rate - Operating Leases                            | 3.81%           |

The Association classifies the total undiscounted lease payments that are due in the next 12 months as current. A maturity analysis of annual undiscounted cash flows for lease liabilities as of October 31, 2023, is as follows:

| <u>Year Ending October 31,</u>     | <u>Amount</u>    |
|------------------------------------|------------------|
| 2024                               | \$ 3,936         |
| 2025                               | 3,936            |
| 2026                               | 3,936            |
| 2027                               | 3,936            |
| 2028                               | <u>2,295</u>     |
| Total Lease Payments               | 18,039           |
| Less: Interest                     | <u>(1,460)</u>   |
| Present Value of Lease Liabilities | <u>\$ 16,579</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. There were no changes to the estimates from the original study as of October 31, 2023.

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
AND REPLACEMENTS (UNAUDITED)  
OCTOBER 31, 2023**

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, 2023, the Association has accumulated \$952,570. Budgeted reserve funds are determined annually by the board of directors.

| Components                          | Estimated<br>Useful Lives<br>(Years) | Estimated<br>Remaining<br>Useful Lives<br>(Years) | Estimated<br>Future<br>Replacement<br>Costs |
|-------------------------------------|--------------------------------------|---|---|
| Buildings, Fixtures, and Structures | 10-70                                | 1-35  | \$ 2,570,850                                |
| Roads                               | 30                                   | 26  | 5,000,000                                   |
| Water System and Equipment          | 10-80                                | 1-38  | 20,850,900                                  |
| Recreational Equipment              | 10                                   | 0   | 62,000                                      |
| Vehicles                            | 10                                   | 3-6   | 94,050                                      |
| Maintenance Equipment               | 10-20                                | 1-17  | <u>317,275</u>                              |
| Total                               |                                      |   | <u><u>\$ 28,895,075</u></u>                 |

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED OCTOBER 31, 2023**

| Pass-Through Grantor/<br>Program Title      | Federal<br>Assistance<br>Listing | Federal<br>Expenditures    |
|---|----------------------------------|----------------------------|
| <b>Department of Agriculture:</b>           |                                  |                            |
| Passed Through Office of Rural Development: |                                  |                            |
| *Community Facilities Loans and Grants      | 10.766                           | <u>\$ 2,523,777</u>        |
| Total                                       |                                  | <u><u>\$ 2,523,777</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, 2023**

**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, 2023. 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, 2023, the Association received no funds from the USDA. \$2,414,027 of funds received in previous years is outstanding at October 31, 2023. 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, 2023, 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 April 10, 2024.

**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 Association'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 2023-001 that we consider to be a material weakness.

**Compliance and Other Matters**

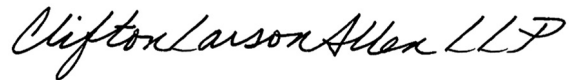
As part of obtaining reasonable assurance about whether Hawaiian Shores Community Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Owatonna, Minnesota  
April 10, 2024



**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, 2023. 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, 2023.

***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.



**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  
April 10, 2024

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED OCTOBER 31, 2023**

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***Section I – Summary of Auditors’ Results***

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**Financial Statements**

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

**Federal Awards**

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

***Identification of Major Federal Programs***

**CFDA Number(s)**

10.766

**Name of Federal Program or Cluster**

Communities Facilities Loans and Grants

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

\$ 750,000

Auditee qualified as low-risk auditee?

           yes     x     no

**HAWAIIAN SHORES COMMUNITY ASSOCIATION  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED OCTOBER 31, 2023**

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***Section II – Financial Statement Findings***

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**2023-001: 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.



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