
Hi'ilei Aloha LLC and Subsidiaries

(A Nonprofit Organization)

Consolidated Financial Statements

December 31, 2009

Hi'ilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
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Report of Independent Auditor

To the Member and Managers
Hi'ilei Aloha LLC and Subsidiaries

I have audited the accompanying consolidated statement of financial position of Hi'ilei Aloha LLC and subsidiaries (the "Company") as of December 31, 2009, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hi'ilei Aloha LLC and subsidiaries as of December 31, 2009, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary consolidating information on Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic consolidated financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

James P. Hasselman, CPA, LLC

Honolulu, Hawai'i
October 13, 2010

Hi'ilei Aloha LLC and Subsidiaries
 (A Nonprofit Organization)
Consolidated Statement of Financial Position
December 31, 2009

Assets	
Current Assets	
Cash	\$ 299,716
Accounts receivable	57,674
Inventory	34,747
Prepaid expenses	43,342
Total current assets	<u>435,479</u>
Property and Equipment	
Buildings and improvements	1,250,244
Furniture, fixtures and equipment	251,343
Vehicles	38,432
	<u>1,540,019</u>
Less accumulated depreciation	193,287
	<u>1,346,732</u>
Land	13,003,821
	<u>14,350,553</u>
Other Assets	
Goodwill and other intangibles, less accumulated amortization of \$35,200	60,800
Security deposit	973
	<u>61,773</u>
Total assets	<u>\$ 14,847,805</u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 124,621
Accrued liabilities	95,442
Amount held for other organization	16,500
Total current liabilities	<u>236,563</u>
Net assets - unrestricted	<u>14,611,242</u>
Total liabilities and net assets	<u>\$ 14,847,805</u>

The accompanying notes are an integral part of the financial statements.

Hi'ilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
Consolidated Statement of Activities
Year Ended December 31, 2009

Revenue

Sales	
Gift shop	\$ 391,453
Poi sales	156,592
Cost of sales and gift shop expenses	<u>(490,312)</u>
Gross margin	57,733
Admissions and tours	1,359,346
Special events and other	<u>28,352</u>
Total net sales	<u>1,445,431</u>
Audio visual production	20,770
Rental and other	48,202
Interest income	185
	<u>69,157</u>
Total revenue	<u>1,514,588</u>

Expenses

Program Services - Hi'ipaka LLC	
Cultural	474,971
Botanical	777,610
Preservation and stewardship	993,443
Program Services - Hi'ipoi LLC	
Cultural, primarily poi production	<u>192,273</u>
	2,438,297
Management and general	<u>713,896</u>
Total expenses	<u>3,152,193</u>
Change in net assets before parent company support	(1,637,605)

Parent Company Support

Grants from member - Office of Hawaiian Affairs	<u>1,457,537</u>
Change in net assets	(180,068)

Net assets

Beginning of fiscal year	<u>14,791,310</u>
End of fiscal year	<u>\$ 14,611,242</u>

The accompanying notes are an integral part of the financial statements.

Hi'ilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
Consolidated Statement of Cash Flows
Year Ended December 31, 2009

Reconciliation of change in net assets to net cash used in operating activities

Change in net assets	\$ (180,068)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	139,698
Grants from Office of Hawaiian Affairs	(1,457,537)
Change in:	
Accounts receivable	(5,507)
Inventory	9,633
Prepaid expenses	28,368
Accounts payable	(51,295)
Accrued liabilities	28,272
Amount held for other organization	16,500
Net cash used in operating activities	<u>(1,471,936)</u>

Cash flows from investing activities

Capital expenditures	<u>(10,827)</u>
Net cash used in investing activities	<u>(10,827)</u>

Cash flows from financing activities

Cash grants from Office of Hawaiian Affairs	<u>1,492,414</u>
Net cash provided by financing activities	<u>1,492,414</u>
Net increase in cash and cash equivalents	9,651

Cash and cash equivalents

Beginning of year	<u>290,065</u>
End of year	<u>\$ 299,716</u>

Schedule of Noncash Investing and Financing Activities

Acquisition of office trailer in settlement of receivable	\$ 26,719
Adjustment to basis of property transferred from Office of Hawaiian Affairs	(34,877)

The accompanying notes are an integral part of the financial statements.

Hi'ilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

1. Organization and Summary of Significant Accounting Policies

Hi'ilei Aloha LLC (Company) was established on October 1, 2007, for the study, protection, development, enhancement and promotion of Hawaiian culture, resources, values, customs and practices, and for related purposes. The Company is a limited liability company with the Office of Hawaiian Affairs (OHA) as its sole member.

In December 2007, the Company created Hi'ipaka LLC, a Hawai'i limited liability company, as a subsidiary whose mission is to preserve and perpetuate the human, cultural and natural resources of Waimea Valley, O'ahu for future generations through education and stewardship. In January 2008, the Company created Hi'ipoi LLC, a Hawai'i limited liability company, as a subsidiary whose primary purpose is to foster cultural, educational, and business opportunities related to taro farming and the production of poi and taro products, primarily in West Kauai.

The Company receives and is dependent on financial support from OHA, while providing financial and administrative support and services to its subsidiaries, enabling them to fulfill their missions. This in turn supports the mission of OHA.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, Hi'ipaka LLC (Hi'ipaka), and Hi'ipoi LLC (Hi'ipoi)(collectively the Companies). All significant inter-company transactions and balances have been eliminated.

Basis of Accounting

The consolidated financial statements of the Company and subsidiaries have been prepared on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. Net assets, public support and revenues and expenses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Company and changes therein are classified and reported as follows:

Unrestricted - Net assets which are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in temporarily or permanently restricted net assets.

Temporarily Restricted - Net assets whose use by the Company is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the Company pursuant to those stipulations. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted - Net assets whose use is limited by donor-imposed restrictions that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Company. The income from these assets is available for either general operations or specific programs as specified by the donor.

The Company does not have any temporarily or permanently restricted net assets.

Hi'ilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Use of Estimates in the Preparation of Financial Statements

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.

Concentrations of Credit Risk

The Companies maintain separate legal entity cash accounts with a financial institution in the State of Hawai'i. Balances are insured up to \$250,000 per account holder by the Federal Deposit Insurance Corporation (FDIC). Balances may at times exceed the FDIC's insurance limits.

Cash and Cash Equivalents

The Company considers all highly liquid debt investments with original maturities of three months or less when purchased to be cash equivalents.

Receivables

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected based upon prior experience and management's assessment of the credit worthiness of existing specific customers. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2009, management believes all receivables to be collectible and has not established an allowance account.

Inventories

Inventories consist of items held for sale in the Waimea Valley gift shop. Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property is stated at cost if purchased. Property transferred to the Company or its subsidiaries from OHA is stated at OHA's carrying basis. Property purchased with a cost in excess of \$1,000 and a useful life exceeding one year is capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of such assets (3 to 40 years), or lease term, if shorter. Expenditures for maintenance, repairs, and minor renewals are charged to expense; expenditures for betterments are capitalized. Property retired or otherwise disposed of is removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses from the disposition of assets are reflected in current operations.

Goodwill and Intangibles

Goodwill and other intangibles represent the excess of the purchase price over the fair value of the net tangible assets purchased from Makaweli Poi Mill, Inc. (Makaweli Poi). Goodwill and other intangibles are amortized on a straight-line basis over the useful lives of the assets, which is estimated to be five years.

Hi'ilei Aloha LLC and Subsidiaries
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In fiscal 2010, new accounting standards pertaining to accounting for goodwill will become effective for the Company. Goodwill will no longer be amortized and instead will be subject to either immediate write off effective January 1, 2010 or subjected to annual impairment tests depending on how the new standards are implemented. Management is evaluating the new standards for proper implementation.

Amounts Held for Other Organization

Amounts held for other organization represent grant monies held by Hi'ipoi on behalf of a farmers' cooperative pending expenditure by the cooperative.

Impairment Review

Long-lived assets such as property, equipment, goodwill and intangibles are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. Estimated undiscounted future cash flows are used to determine if an asset is impaired, in which case the asset's carrying value would be reduced to fair value.

Revenue Recognition

Hi'ipaka's revenues consist primarily of charges for admission to Waimea Valley by individuals and tour groups, and from gift shop sales. Admission and tours revenues are recognized based on the date of admission to the Valley. Gift shop sales are recognized at the time of sale as sales returns are inconsequential. Hi'ipoi's revenues consist of poi sales and are recognized upon delivery of product to customers, less an allowance for product returns. Contributions are recognized as revenue in the period in which they are received, and are classified as unrestricted, temporarily restricted or permanently restricted based on the existence and/or nature of any donor restrictions.

Functional Allocation of Expenses

The costs of conducting programs and other services have been summarized on a functional basis in the statement of activities. Hi'ipaka's program services consist of cultural, botanical and the preservation and stewardship of Waimea Valley. Cultural includes various programs and educational activities. Botanical includes all activities related to the flora and fauna of the Valley. Preservation and stewardship includes all activities pertaining to maintaining and improving the physical infrastructure and safety of the Valley. The Company also incurs costs related to its gift shop, including cost of goods sold, salaries and other expenses. Hi'ipoi's program services include costs pertaining to cultural programs associated with taro farming and the production of poi and taro products. Management and general represents those costs associated with oversight, business management, general recordkeeping, budgeting and other related administrative activities. Certain costs have been allocated between programs and supporting services based on various methodologies, including relative personnel costs or other estimates.

Advertising Costs

The cost of advertising production is expensed the first time the advertising takes place. Total advertising expense amounted to \$149,821 in fiscal 2009.

General Excise Tax

General excise tax collected from customers is reflected in revenues. General excise taxes paid to the State of Hawai'i is reflected in cost of sales.

Hi'ilei Aloha LLC and Subsidiaries
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Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Income Taxes

The Company has received a determination from the Internal Revenue Service that its stated purpose is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Company is exempt from federal income taxes, except on unrelated business income. The Company's subsidiaries are considered to be "disregarded entities" for income tax reporting and are thus combined with the Company for purposes of filing Form 990 with the Internal Revenue Service (IRS).

The Company implemented generally accepted accounting principles (GAAP) pertaining to uncertain tax positions in 2009. Those principles call for uncertain tax positions to be recognized in the financial statements only if those positions are more likely than not to be sustained upon regulatory examination. Management is not aware of any uncertain tax positions taken on previously filed tax returns. Such tax returns are generally open for examination by the IRS until the statute of limitations (three years) expires.

Parent and Subsidiary Support

The Company receives financial support from OHA (parent) and provides financial support to Hi'ipaka and Hi'ipoi (subsidiaries). Parent and subsidiary financial support are classified as equity transactions separate and apart from revenues and expenses, and are recognized when the support is collected or paid.

2. Goodwill and Other Intangibles

The Company capitalized the costs of goodwill and other intangibles acquired through the purchase of Makaweli Poi. Goodwill resulted from the purchase of the Makaweli Poi's assets for an amount in excess of the fair value of the tangible and intangible assets acquired, and amounted to \$51,000. Intangibles consist of rights, title, and interest in the Makaweli Poi trade name and logo and were assigned a value of \$45,000.

3. Retirement Plan

The Companies maintain a 401(k) profit sharing plan. Employees become eligible upon six months of employment and may contribute to the plan to the extent allowed by law. Under the plan, the Company matches employees' contributions up to 4% of salary. Contribution expense amounted to \$27,028 for the year ended December 31, 2009.

4. Lease Commitments

The Company leases office space for its office located in Honolulu, Hawai'i, from OHA, under a lease that expires in February 2011. The Company also leases a poi factory and an adjoining office in Kauai, under a lease that expires in February 2013. Minimum future rental payments under these leases are as follows:

Hi'ilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
Consolidating Statement of Financial Position
December 31, 2009

Schedule I

Assets	Hi'ilei	Hi'ipaka	Hi'ipoi	Eliminating Entries	Total
Current Assets					
Cash	\$ 77,400	\$ 204,812	\$ 17,504	\$ -	\$ 299,716
Accounts receivable	576	39,707	17,391	-	57,674
Inventory	-	34,747	-	-	34,747
Prepaid expenses	400	41,481	1,461	-	43,342
Total current assets	<u>78,376</u>	<u>320,747</u>	<u>36,356</u>	<u>-</u>	<u>435,479</u>
Property and Equipment					
Buildings and improvements	-	1,250,244	-	-	1,250,244
Furniture, fixtures and equipment	37,307	147,256	66,780	-	251,343
Vehicles	-	20,900	17,532	-	38,432
	<u>37,307</u>	<u>1,418,400</u>	<u>84,312</u>	<u>-</u>	<u>1,540,019</u>
Less accumulated depreciation	<u>8,333</u>	<u>161,724</u>	<u>23,230</u>	<u>-</u>	<u>193,287</u>
	<u>28,974</u>	<u>1,256,676</u>	<u>61,082</u>	<u>-</u>	<u>1,346,732</u>
Land	-	13,003,821	-	-	13,003,821
	<u>28,974</u>	<u>14,260,497</u>	<u>61,082</u>	<u>-</u>	<u>14,350,553</u>
Other Assets					
Goodwill and other intangibles, less accumulated amortization of \$35,200	-	-	60,800	-	60,800
Security deposit	-	-	973	-	973
	<u>-</u>	<u>-</u>	<u>61,773</u>	<u>-</u>	<u>61,773</u>
Total assets	<u>\$ 107,350</u>	<u>\$ 14,581,244</u>	<u>\$ 159,211</u>	<u>\$ -</u>	<u>\$ 14,847,805</u>
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	\$ 45,289	\$ 68,898	\$ 10,434	\$ -	\$ 124,621
Accrued liabilities	8,751	78,472	8,219	-	95,442
Amount held for other organization	-	-	16,500	-	16,500
Total current liabilities	<u>54,040</u>	<u>147,370</u>	<u>35,153</u>	<u>-</u>	<u>236,563</u>
Net assets - unrestricted	<u>53,310</u>	<u>14,433,874</u>	<u>124,058</u>	<u>-</u>	<u>14,611,242</u>
Total liabilities and net assets	<u>\$ 107,350</u>	<u>\$ 14,581,244</u>	<u>\$ 159,211</u>	<u>\$ -</u>	<u>\$ 14,847,805</u>

Hi'ilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
Consolidating Statement of Activities
Year Ended December 31, 2009

Schedule II

	Hi'ilei	Hi'ipaka	Hi'ipoi	Eliminating Entries	Total
Revenue					
Sales					
Gift shop	\$ -	\$ 391,453	\$ -	\$ -	\$ 391,453
Poi sales	-	-	156,592	-	156,592
Cost of sales and shop expenses	-	(429,393)	(60,919)	-	(490,312)
Gross margin (loss)	-	(37,940)	95,673	-	57,733
Admissions and tours	-	1,359,346	-	-	1,359,346
Special events and other	-	28,352	-	-	28,352
Total net sales	-	1,349,758	95,673	-	1,445,431
Audio visual production	-	20,770	-	-	20,770
Rental and other	-	48,202	-	-	48,202
Interest income	185	-	-	-	185
	185	68,972	-	-	69,157
Total revenue	185	1,418,730	95,673	-	1,514,588
Expenses					
Program Services - Hi'ipaka LLC					
Cultural	-	474,971	-	-	474,971
Botanical	-	777,610	-	-	777,610
Preservation and stewardship	-	993,443	-	-	993,443
Program Services - Hi'ipoi LLC					
Cultural	-	-	192,273	-	192,273
	-	2,246,024	192,273	-	2,438,297
Management and general	136,952	533,387	43,557	-	713,896
Total expenses	136,952	2,779,411	235,830	-	3,152,193
Change in net assets before parent company support	(136,767)	(1,360,681)	(140,157)	-	(1,637,605)
Parent and subsidiary support					
Grants from parent company	1,492,414	1,229,537	87,957	(1,352,371)	1,457,537
Hi'ilei grants to Hi'ipaka LLC	(1,264,414)	-	-	1,264,414	-
Hi'ilei grants to Hi'ipoi LLC	(87,957)	-	-	87,957	-
Change in net assets	3,276	(131,144)	(52,200)	-	(180,068)
Net assets					
Beginning of fiscal year	50,034	14,565,018	176,258	-	14,791,310
End of fiscal year	\$ 53,310	\$ 14,433,874	\$ 124,058	\$ -	\$ 14,611,242