Hi'ilei Aloha LLC and Subsidiaries

(A Nonprofit Organization)

Consolidated Financial Statements

December 31, 2010

Index

James P. Hasselman, CPA, LLC
Certified Public Accountant

P.O. Box 11149
Honolulu HI 96828
Telephone (808) 721 5483
Facsimile (866) 750 2891
E-mail jim@cpajph.com

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, 2010, 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, 2010, 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.

As discussed in Note 2, the Company changed its method of accounting for goodwill in 2010. - Hi'ipu - wrote [illegible] off

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 6, 2011

Hi'ilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
Consolidated Statement of Financial Position
December 31, 2010

Assets

Current Assets		
Cash	$	441,134
Accounts receivable, net of allowance for doubtful accounts of $27,590		43,985
Inventory		68,380
Prepaid expenses		49,080
Total current assets		602,579
Property and Equipment		
Buildings and improvements		1,300,558
Furniture, fixtures and equipment		317,482
Vehicles		38,432
		1,656,472
Less accumulated depreciation		319,606
		1,336,866
Land		13,003,821
		14,340,687
Other Assets		
Intangibles, less accumulated amortization of $25,500		19,500
Security deposit		973
		20,473
Total assets	$	14,963,739

Liabilities and Net Assets

Current Liabilities		
Accounts payable	$	105,501
Accrued liabilities		170,685
Amount held for other organization		500
Total current liabilities		276,686
Net Assets - Unrestricted		14,687,053
Total liabilities and net assets	$	14,963,739

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

Hiʻilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
Consolidated Statement of Activities
Year Ended December 31, 2010

Revenue	
Sales	
Gift and snack shop	$ 580,811
Poi sales	246,888
Cost of sales including gift and snack shop departmental expenses	(729,294)
Gross margin	98,405
Admissions and tours	1,811,333
Special events and other	85,974
Total net sales	1,995,712
Audio visual production	204,497
Parking, rental and other	106,322
Interest income	115
	310,934
Total revenue	2,306,646
Expenses	
Program Services - Hiʻipaka LLC	
Cultural	556,907
Botanical	748,800
Preservation and stewardship	948,046
Program Services - Hiʻipoi LLC	
Cultural, primarily poi production	218,406
	2,472,159
Management and general	1,206,262
Total expenses	3,678,421
Change in net assets before parent company support and goodwill writeoff	(1,371,775)
Parent Company Support	
Grants from member - Office of Hawaiian Affairs	1,479,886
Change in net assets before goodwill writeoff	108,111
Goodwill writeoff	32,300
Change in net assets	75,811
Net assets	
Beginning of fiscal year	14,611,242
End of fiscal year	$ 14,687,053

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, 2010

Reconciliation of change in net assets to net cash used in operating activities	
Change in net assets	$ 75,811
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation of property and equipment	126,318
Amortization of intangibles	9,000
Goodwill writeoff	32,300
Grants from Office of Hawaiian Affairs	(1,479,886)
Change in:	
Accounts receivable	13,689
Inventory	(33,633)
Prepaid expenses	(5,738)
Accounts payable	(14,496)
Accrued liabilities	75,243
Amount held for other organization	(16,000)
Net cash used in operating activities	(1,217,392)
Cash flows from investing activities	
Capital expenditures	(121,076)
Net cash used in investing activities	(121,076)
Cash flows from financing activities	
Grants from Office of Hawaiian Affairs	1,479,886
Loan from Office of Hawaiian Affairs	150,000
Repayment of loan from Office of Hawaiian Affairs	(150,000)
Net cash provided by financing activities	1,479,886
Net increase in cash and cash equivalents	141,418
Cash and cash equivalents	
Beginning of year	299,716
End of year	$ 441,134

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

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. In May 2010, the Company created Hi'ikualono LLC, a Hawai'i limited liability company, as a subsidiary whose primary purpose is to preserve Hawaiian culture and natural resources through land stewardship activities; this entity was inactive in 2010.

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. Contributions for which restrictions are met in the same reporting period are reported as unrestricted support.

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.

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). Hi'ipaka's bank balance at December 31, 2010, irrespective of outstanding checks and deposits in transit, was $441,354.

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 an allowance for doubtful accounts 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 allowance account and a credit to accounts receivable. As of December 31, 2010, an allowance for doubtful accounts of $27,590 had been established based on a review of specific delinquent accounts.

Inventories
Inventories consist of items held for sale in the Waimea Valley gift and snack shops. 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.

Intangibles
Intangible assets are amortized over a five year period.

Impairment Review
Long-lived assets such as property, equipment 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. No impairment charges have been recorded.

Revenue Recognition
Hi'ipaka's revenues consist primarily of charges for admission to Waimea Valley by individuals and tour groups, and from gift and snack shop sales. Admission and tours revenues are recognized based on the date of admission to the Valley. Gift and snack 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 and snack shops, 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 $159,525 in fiscal 2010.

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.

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). Effective January 1, 2011, Hi'ipaka elected to discontinue its status as a disregarded entity, and will begin filing its own form 990 beginning with fiscal 2011. Hi'ipaka has also applied for its own tax exemption under section 501(c)(3).

The Company adheres to generally accepted accounting principles (GAAP) pertaining to uncertain tax positions. 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 recognized goodwill and other intangibles in connection with its March 2008 purchase of the net assets of Makaweli Poi Mill, Inc. (Makaweli Poi). Goodwill resulted from the purchase of 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. Goodwill was being amortized over five years through 2009. In fiscal 2010, the Company implemented new accounting standards pertaining to nonprofit organizations and goodwill. In accordance with these new standards, the unamortized balance of goodwill of $32,300 was written off as a charge against net assets in the statement of activities. Amortization of intangibles is $9,000 per year in 2010-2012 and $1,500 in 2013.

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 $41,728 for the year ended December 31, 2010.

4. Lease Commitments

The Company leases office space from OHA under a sub-lease that expires in February 2011. Rent is $400 per month. In February 2011, the Company renewed the lease directly with the building owner. The new lease expires February 2013, and contains two renewal options of twelve months each. Base rent is approximately $25,000 per year, plus a proportionate share of building operating expenses and general excise tax. 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:

Year Ending December 31,		Amount
2011	$	34,754
2012		36,448
2013		3,984
	$	75,186

Rental expense totaled $16,121 for the year ended December 31, 2010.

5. Related Party Transactions

The sole member of the Company, OHA, provides funding to support the operation of the Company and its subsidiaries. Total support from OHA for the year ended December 31, 2010 was $1,479,886.

The Company provides a majority of the funding it receives from OHA to its subsidiaries, Hi'ipaka and Hi'ipoi, for their operations and fulfillment of their respective missions. Amounts are generally transferred to the subsidiaries for their use or in limited instances, amounts are paid by the Company on behalf of its subsidiaries. Total amounts transferred to or paid on behalf of its subsidiaries for the year ended December 31, 2010, was $1,020,677. These inter-company transactions have been eliminated in the consolidation of the financial statements of the companies.

6. Limited Liability Company

Since the Company is a limited liability company, no member, manager, agent, or employee of the Company shall be personally liable for debts, obligations, or liabilities of the Company whether arising in contract, tort, or otherwise for the acts or omissions of any other member, director, manager, agent, or employee of the Company, unless the individual has signed a specific personal guarantee. The duration of the Company is perpetual.

7. Contingencies

Hi'ipaka is a party to a litigation arising from the normal course of business. Hi'ipaka's insurance carrier is providing legal defense and it is expected that the insurance policy will cover any loss that may be sustained upon settlement, subject to a $5,000 deductible. As such, it is management's opinion, based on consultation with legal counsel, that the final outcome of this matter will not result in a material adverse effect on the Company's financial condition.

8. Subsequent Events

Management has reviewed and considered whether events occurring after year end should be reflected or disclosed in these financial statements. The date through which this review was conducted was October 6, 2011, the date the financial statements were available to be issued.

Supplementary Information

Hi'ilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
Consolidating Statement of Financial Position
December 31, 2010 — Schedule I

	Hi'ilei	Hi'ipaka	Hi'ipoi	Eliminating Entries	Total
Assets					
Current Assets					
Cash	$ 37,132	$ 407,844	$ (3,842)	$ -	$ 441,134
Accounts receivable, net of allowance for doubtful accounts of $27,590	-	22,347	21,638	-	43,985
Inventory	-	68,380	-	-	68,380
Prepaid expenses	6,995	40,624	1,461	-	49,080
Total current assets	44,127	539,195	19,257	-	602,579
Property and Equipment					
Buildings and improvements	-	1,300,558	-	-	1,300,558
Furniture, fixtures and equipment	57,357	192,102	68,023	-	317,482
Vehicles	-	20,900	17,532	-	38,432
	57,357	1,513,560	85,555	-	1,656,472
Less accumulated depreciation	18,357	264,885	36,364	-	319,606
	39,000	1,248,675	49,191	-	1,336,866
Land	-	13,003,821	-	-	13,003,821
	39,000	14,252,496	49,191	-	14,340,687
Other Assets					
Goodwill and other intangibles, less accumulated amortization of $25,500	-	-	19,500	-	19,500
Security deposit	-	-	973	-	973
	-	-	20,473	-	20,473
Total assets	$ 83,127	$ 14,791,691	$ 88,921	$ -	$ 14,963,739
Liabilities and Net Assets					
Current Liabilities					
Accounts payable	$ 4,159	$ 87,442	$ 13,900	$ -	$ 105,501
Accrued liabilities	16,624	144,986	9,075	-	170,685
Amount held for other organization	-	-	500	-	500
Total current liabilities	20,783	232,428	23,475	-	276,686
Net assets - unrestricted	62,344	14,559,263	65,446	-	14,687,053
Total liabilities and net assets	$ 83,127	$ 14,791,691	$ 88,921	$ -	$ 14,963,739

Note: the accounts of subsidiary Hi'ikualono LLC have not been presented as this entity was inactive in 2010.

Hi'ilei Aloha LLC and Subsidiaries
(A Nonprofit Organization)
Consolidating Statement of Activities
Year Ended December 31, 2010 — Schedule II

	Hi'ilei	Hi'ipaka	Hi'ipoi	Eliminating Entries	Total
Revenue					
Sales					
Gift and snack shop	$ -	$ 580,811	$ -	$ -	$ 580,811
Poi sales	-	-	246,888	-	246,888
Cost of sales and shop expenses	-	(643,340)	(85,954)	-	(729,294)
Gross margin (loss)	-	(62,529)	160,934	-	98,405
Admissions and tours	-	1,811,333	-	-	1,811,333
Special events and other	-	85,974	-	-	85,974
Total net sales	-	1,834,778	160,934	-	1,995,712
Audio visual production	-	204,497	-	-	204,497
Parking, rental and other	3,395	102,927	-	-	106,322
Interest income	115	-	-	-	115
	3,510	307,424	-	-	310,934
Total revenue	3,510	2,142,202	160,934	-	2,306,646
Expenses					
Program Services - Hi'ipaka LLC					
Cultural	-	556,907	-	-	556,907
Botanical	-	748,800	-	-	748,800
Preservation and stewardship	-	948,046	-	-	948,046
Program Services - Hi'ipoi LLC					
Cultural	-	-	218,406	-	218,406
	-	2,253,753	218,406	-	2,472,159
Management and general	383,792	787,563	34,907	-	1,206,262
Total expenses	383,792	3,041,316	253,313	-	3,678,421
Change in net assets before parent company support and goodwill writeoff	(380,282)	(899,114)	(92,379)	-	(1,371,775)
Parent and subsidiary support					
Grants from OHA and Hi'ilei	1,409,993	1,024,503	66,067	(1,020,677)	1,479,886
Hi'ilei grants to Hi'ipaka LLC	(1,004,608)	-	-	1,004,608	-
Hi'ilei grants to Hi'ipoi LLC	(16,069)	-	-	16,069	-
Change in net assets before goodwill writeoff	9,034	125,389	(26,312)	-	108,111
Goodwill writeoff	-	-	32,300	-	32,300
Change in net assets	9,034	125,389	(58,612)	-	75,811
Net assets					
Beginning of fiscal year	53,310	14,433,874	124,058	-	14,611,242
End of fiscal year	$ 62,344	$ 14,559,263	$ 65,446	$ -	$ 14,687,053

Note: the accounts of subsidiary Hi'ikualono LLC have not been presented as this entity was inactive in 2010.