Hi‘ilei Aloha LLC and Sub-Entities

(Nonprofit Organizations)

Consolidated Financial Statements

December 31, 2014 and 2013

Index

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Independent Auditor's Report

To the Member and Managers
Hi‘ilei Aloha LLC and Sub-Entities

I have audited the accompanying consolidated financial statements of Hi‘ilei Aloha LLC and its sub-entities, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hiʻilei Aloha LLC and its sub-entities as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

James P. Hasselman, CPA, LLC

Honolulu, Hawaiʻi
November 16, 2015

Hi‘ilei Aloha LLC and Sub-Entities
(Nonprofit Organizations)
Consolidated Statements of Financial Position
December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets		
Cash	$ 2,290,045	$ 1,600,849
Accounts receivable, net of allowance for doubtful accounts of $862 in 2014 and $5,362 in 2013	218,589	118,538
Receivable - Ho‘okīpaipai LLC	143,986	332
Inventories	106,540	78,141
Prepaid expenses	46,926	54,140
Total current assets	2,806,086	1,852,000
Property and Equipment		
Buildings and improvements	2,424,228	2,436,592
Furniture, fixtures and equipment	755,914	620,893
Vehicles	101,828	101,828
	3,281,970	3,159,313
Less accumulated depreciation	1,289,633	958,947
	1,992,337	2,200,366
Land	13,003,821	13,003,821
Total property and equipment	14,996,158	15,204,187
Total assets	$ 17,802,244	$ 17,056,187
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 140,535	$ 84,866
Accrued liabilities	313,387	304,198
Deferred revenue	38,400	109,345
Total current liabilities	492,322	498,409
Net Assets - Unrestricted	17,309,922	16,557,778
Total liabilities and net assets	$ 17,802,244	$ 17,056,187

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

Hi‘ilei Aloha LLC and Sub-Entities
(Nonprofit Organizations)
Consolidated Statements of Activities
Years Ended December 31, 2014 and 2013

	2014	2013
Revenue and support		
Sales		
Gift store and food service	$ 2,080,999	$ 1,753,940
Poi, taro and other sales	26,190	32,719
Cost of sales, including gift store and food service departmental expenses	(2,161,043)	(1,628,165)
Gross margin (loss)	(53,854)	158,494
Admissions and tours	3,285,680	3,453,429
Shuttle service	185,603	231,448
Special events and other	38,943	54,695
Total net sales	3,456,372	3,898,066
Parking, rental and other	244,209	140,936
Audio visual production	4,125	29,494
Grants and donations	53,648	145,672
Consulting and training services	300,456	130,435
Other revenue and support	602,438	446,537
Total revenue and support	4,058,810	4,344,603
Expenses		
Program Services - Hi‘ipaka LLC		
Cultural	756,809	650,731
Botanical	776,137	917,248
Preservation and stewardship	2,337,920	1,172,335
Program Services - Hi‘ilei LLC: capacity building	649,605	440,799
Program Services - Hi‘ipoi LLC: cultural, primarily poi production	-	8,721
	4,520,471	3,189,834
Management and general	1,382,423	1,493,842
Fundraising	24,268	21,745
Total expenses	5,927,162	4,705,421
Change in net assets before member and sub-entity grants	(1,868,352)	(360,818)
Member and sub-entity grants		
Grants from member - Office of Hawaiian Affairs	2,652,456	1,465,940
Grants to Ho‘okele Pono LLC and Ho‘okīpaipai LLC	(31,960)	(24,380)
Change in net assets	752,144	1,080,742
Net assets		
Beginning of fiscal year	16,557,778	15,477,036
End of fiscal year	$ 17,309,922	$ 16,557,778

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

Hiʻilei Aloha LLC and Sub-Entities
(Nonprofit Organizations)
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	$ 752,144	$ 1,080,742
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation of property and equipment	333,860	299,160
Loss on disposal of equipment	12,694	-
Grants from Office of Hawaiian Affairs	(2,652,456)	(1,465,940)
Grants to Hoʻokele Pono LLC and Hoʻokīpaipai LLC	31,960	24,380
Amortization of intangibles	-	1,500
Change in:		
Accounts receivable	(100,051)	15,708
Inventories	(28,399)	(13,364)
Prepaid expenses	7,214	(11,485)
Accounts payable	55,669	(50,820)
Accrued liabilities	9,189	7,122
Deferred revenue	(70,945)	109,345
Grants payable	-	(20,000)
Net cash used in operating activities	(1,649,121)	(23,652)
Cash flows from investing activities		
Additions to property and equipment	(138,525)	(708,996)
Advances to Hoʻokīpaipai LLC	(143,654)	160,433
Grants to Hoʻokele Pono LLC and Hoʻokīpaipai LLC	(31,960)	(24,380)
Net cash used in investing activities	(314,139)	(572,943)
Cash flows from financing activities		
Grants from Office of Hawaiian Affairs	2,652,456	1,465,940
Net cash provided by financing activities	2,652,456	1,465,940
Increase in cash	689,196	869,345
Cash and cash equivalents		
Beginning of year	1,600,849	731,504
End of year	$ 2,290,045	$ 1,600,849

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

1. Organization and Summary of Significant Accounting Policies

Hiʻilei Aloha LLC (Company or Hiʻilei) 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 Hiʻipaka LLC, a Hawaiʻi limited liability company, as a sub-entity whose mission is to preserve and perpetuate the human, cultural and natural resources of Waimea Valley, Oʻahu for future generations through education and stewardship. In January 2008, the Company created Hiʻipoi LLC, a Hawaiʻi limited liability company, as a sub-entity 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 2012, Hiʻipoi's poi mill was spun off to an unrelated third party tax-exempt organization and Hiʻipoi has been inactive since then. In May 2010, the Company created Hiʻikualono LLC, a Hawaiʻi limited liability company, as a sub-entity whose primary purpose is to preserve Hawaiian culture and natural resources through land stewardship activities; this entity has been inactive since formation.

Revenues are generated primarily from sales of admission to Waimea Valley and the activities and events (hikes, education programs, tours, gift and food service sales, etc.) held there. Revenues are also generated by providing capacity building services under contracts and grants, and from sales of poi and taro products. The Company receives and is dependent on financial support from OHA, while providing financial and administrative support and services to its sub-entities, 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, Hiʻipaka LLC (Hiʻipaka), and Hiʻipoi LLC (Hiʻipoi)(collectively the Companies). All significant inter-company transactions and balances have been eliminated.

Basis of Accounting

The consolidated financial statements of the Companies 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 Companies 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 Companies is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the Companies 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 Companies. 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). Account balances that were in excess of $250,000 include Hi‘ipaka ($1,568,398 and $930,356, at December 31, 2014 and 2013, respectively) and Hi‘ilei ($820,402 and $680,131 at December 31, 2014 and 2013, respectively).

Cash and Cash Equivalents
The Companies consider 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, a review of delinquent accounts, and management's assessment of the credit worthiness of its customers. Management considers accounts past due when they are outstanding beyond 60 days with no payment. Interest is generally not charged on past due accounts. 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. The Companies' allowance for doubtful accounts was $862 and $5,362 at December 31, 2014 and 2013, respectively, and was established based on a review of specific delinquent accounts.

Inventories
Inventories consist of items held for sale in the Waimea Valley gift store, restaurant and snack 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 from OHA as part of the Company's formation 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, restoration, 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.

Impairment Review
Long-lived assets such as property and equipment 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.

Member and Sub-Entity Grants
The Company’s member, OHA, provides grants to the Company and its sub-entities (primarily Hi‘ipaka). OHA also provides grants to its sub-entity Ho‘okele Pono LLC and Ho‘okele Pono’s sub-entity Ho‘okīpaipai LLC. Certain of these grants pass through the Company to the sub-entities as an administrative accommodation. Member and sub-entity grants are classified as equity transactions separate and apart from revenues and expenses, and are recognized when the grants are collected or paid.

Revenue Recognition
Hi‘ipaka’s admission and tours revenues are recognized based on the date of admission to Waimea Valley. Hi‘ipaka’s gift and food service sales are recognized at the time of sale as sales returns are inconsequential. Capacity building consulting and training services provided by Hi‘ilei are recognized as costs are incurred or upon final completion of the contracted service. Contributions are recognized as support in the period in which they are received.

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 service expenses consist of cultural, botanical and the preservation and stewardship of Waimea Valley. Cultural expenses include various programs and educational activities. Botanical expenses include all activities related to the flora and fauna of the Valley. Preservation and stewardship expenses include all activities pertaining to maintaining, restoring and improving the physical infrastructure and safety of the Valley. Hi‘ipaka also incurs costs related to its gift store, restaurant and snack shop, which serve to support its programmatic initiatives and enhance the visitor experience. These costs include cost of goods sold, salaries and other departmental expenses. Hi‘ipoi’s program service expenses included costs pertaining to cultural programs associated with taro farming and the production of poi and taro products. Hi‘ilei’s program service expenses include costs associated with community capacity building. Management and general expenses represent those costs associated with oversight, business management, general recordkeeping, budgeting, advertising and other related administrative activities. Fundraising represents Hi‘ipaka’s costs associated with obtaining grants and donations. 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 $320,938 and $244,358 in 2014 and 2013, respectively.

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 and other expenses.

Income Taxes
The Company has received a determination letter from the Internal Revenue Service (IRS) 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. Hi‘ipoi is considered to be a “disregarded entity” for income tax reporting and is thus combined with the Company for purposes of filing Form 990 with the Internal Revenue Service. Hi‘ipaka is tax exempt under section 501(c)(3), based on an IRS determination letter dated March 2012, and files its own Form 990.

The Companies adhere 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.

2. 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 Companies match employees' contributions up to 4% of salary. Contribution expense amounted to $83,151 and $63,897 for the years ended December 31, 2014 and 2013.

3. Transactions with Member and Sub-Entities

The Company’s member, OHA, provides grants to the Company and its sub-entities (primarily Hi‘ipaka). OHA also provides grants to its sub-entity Ho‘okele Pono LLC and Ho‘okele Pono’s sub-entity Ho‘okīpaipai LLC. Certain of these grants pass through the Company to the sub-entities as an administrative accommodation. Total grants from OHA for the years ended December 31, 2014 and 2013 amounted to $2,652,456 and $1,465,940, respectively. Grants paid through the Company to Ho‘okele Pono and Ho‘okīpaipai amounted to $31,960 and $24,380 in 2014 and 2013, respectively. The Company also provided working capital advances to Ho‘okīpaipai totaling $143,986 in 2014, and $160,765 in 2012, which were repaid in 2013.

4. Lease Commitments

The Company leases office space under a lease agreement that expires in February 2017. The lessor has retained the unilateral right to terminate the lease any time after November 30, 2015 with sixty days written notice. The lease agreement provides that the Company shall pay base rent, plus a proportionate share of building operating expenses and general excise tax.

Minimum future base rental payments as of December 31, 2014 are as follows:

Year Ending December 31,		
2015	$	49,399
2016		50,818
2017		8,517
	$	100,217

Rental expense, including building operating expenses and general excise tax, totaled $75,839 and $72,556 for the years ended December 31, 2014 and 2013.

The Company sub-leases certain of its office space to Hoʻokīpaipai LLC under an agreement that renews annually so long as Hoʻokīpaipai continues to operate its Procurement Technical Assistance Center (PTAC). Rent paid by Hoʻokīpaipai under this agreement amounted to $29,718 in 2014 and $23,716 in 2013, respectively.

5. Limited Liability Companies

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

6. Litigation, Claims and Assessments

Hiʻipaka is party to a claim arising from the drowning death of a visitor to Waimea Valley. Other parties to the claim include a third party company providing lifeguard services at the incident's location. Management, in consultation with legal counsel, believes the third party lifeguard services company has primary exposure and that Hiʻipaka has little to no liability in this case. If Hiʻipaka were found to have liability, it has insurance protection and an indemnification clause in its contract with the lifeguard services company. Accordingly, management believes the final adjudication of this claim will result in no financial loss to Hiʻipaka.

The Company is also party to claims arising from the 2012 spin off of Hiʻipoi's poi mill. One of these claims was dismissed by the court in 2015. The remaining claim pertains to the cost of defense by the Company's insurance company. Management expects to resolve this final claim without any significant cost to the Company.

7. 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 November 16, 2015, the date the financial statements were available to be issued.