

Hi'ilei Aloha LLC and Sub-Entities

(Nonprofit Organizations)

**A component unit for financial reporting purposes of the
Office of Hawaiian Affairs**

Consolidated Financial Statements

December 31, 2017 and 2016

Hi'ilei Aloha LLC and Sub-Entities
(Nonprofit Organizations)
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Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying consolidated financial statements of Hi'ilei Aloha LLC and its sub-entities (all nonprofit organizations), a component unit of the Office of Hawaiian Affairs, State of Hawai'i, which comprise the consolidated statements of net position as of December 31, 2017 and 2016, and the related consolidated statements of revenues, expenses, and changes in net position, and of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Hi'ilei Aloha LLC and its sub-entities as of December 31, 2017 and 2016, and the changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Omission of Management's Discussion and Analysis

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 14, 2018 on my consideration of Hi'ilei Aloha LLC and its sub-entities's internal control over financial reporting and on my tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Hi'ilei Aloha LLC and its sub-entities's internal control over financial reporting and compliance.



Honolulu, Hawai'i
November 14, 2018

Hi'ilei Aloha LLC and Sub-Entities
(Nonprofit Organizations)
Consolidated Statements of Net Position
December 31, 2017 and 2016

Assets	2017	2016
Current Assets		
Cash	\$ 2,931,809	\$ 2,794,785
Accounts receivable, net of allowance for doubtful accounts of \$2,825 in 2017 and \$6,500 in 2016	212,382	221,398
Receivable - Ho'okipaipai LLC	34,942	-
Inventories	123,040	117,007
Prepaid expenses	130,132	84,114
Total current assets	<u>3,432,305</u>	<u>3,217,304</u>
Cash Restricted for Property Acquisition	97,046	119,687
Capital Assets		
Buildings and improvements	3,104,262	2,810,110
Furniture, fixtures and equipment	926,734	863,659
Vehicles	244,742	168,727
	<u>4,275,738</u>	<u>3,842,496</u>
Less accumulated depreciation	<u>(2,197,309)</u>	<u>(1,909,242)</u>
	2,078,429	1,933,254
Land	13,003,821	13,003,821
Total capital assets	<u>15,082,250</u>	<u>14,937,075</u>
Other Assets - lease security deposit	9,994	9,994
Total assets	<u>\$ 18,621,595</u>	<u>\$ 18,284,060</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 168,852	\$ 126,772
Accrued liabilities	329,051	297,189
Deferred revenue	39,986	61,405
Total current liabilities	<u>537,889</u>	<u>485,366</u>
Net Position		
Unrestricted	2,904,410	2,741,932
Restricted - property acquisition	97,046	119,687
Net investment in capital assets	15,082,250	14,937,075
Total net position	<u>18,083,706</u>	<u>17,798,694</u>
Total liabilities and net position	<u>\$ 18,621,595</u>	<u>\$ 18,284,060</u>

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

Hi'ilei Aloha LLC and Sub-Entities
(Nonprofit Organizations)
Consolidated Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenue and support		
Sales		
Gift store and food service	\$ 2,171,221	\$ 2,412,798
Cost of sales, including gift store and food service departmental expenses	(2,307,154)	(2,670,230)
Gross margin (loss)	(135,933)	(257,432)
Admissions and tours	4,344,144	4,138,974
Shuttle service	240,932	249,427
Special events and other	58,906	56,247
Less bad debt expense	(2,254)	(31,150)
Total net sales	<u>4,505,795</u>	<u>4,156,066</u>
Capacity building consulting and training services	479,684	201,226
Parking, rental and other	403,120	228,428
Audio visual production	97,907	128,025
Grants and donations	81,069	142,840
Flood insurance recoveries, net of losses incurred	49,935	-
Other revenue and support	<u>1,111,715</u>	<u>700,519</u>
Total operating revenue and support	<u>5,617,510</u>	<u>4,856,585</u>
Operating expenses		
Program Services - Hi'ipaka LLC		
Cultural	831,476	815,127
Botanical	1,249,379	1,172,567
Preservation and stewardship	1,279,688	1,239,538
Program Services - Hi'ilei LLC: capacity building	626,460	501,933
	<u>3,987,003</u>	<u>3,729,165</u>
Management and general	1,490,995	1,467,923
Fundraising	17,300	17,764
Total operating expenses	<u>5,495,298</u>	<u>5,214,852</u>
Operating income (loss)	122,212	(358,267)
Nonoperating activity		
Grants from member - Office of Hawaiian Affairs	162,800	645,531
Grants to Ho'okele Pono LLC and Ho'okipaipai LLC	-	(16,170)
Income before capital contributions	<u>285,012</u>	<u>271,094</u>
Capital contributions		
Restricted donations for purchase of real estate	-	119,687
Change in net position	<u>285,012</u>	<u>390,781</u>
Net position		
Beginning of year	<u>17,798,694</u>	<u>17,407,913</u>
End of year	<u>\$ 18,083,706</u>	<u>\$ 17,798,694</u>

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

Hi'ilei Aloha LLC and Sub-Entities
(Nonprofit Organizations)
Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Receipts from customers, grantors and funders	\$ 7,912,261	\$ 7,533,900
Payments to suppliers, vendors and service providers	(3,802,285)	(3,908,209)
Payments to employees for salaries and benefits	(3,652,645)	(3,742,901)
Net cash provided by (used in) operating activities	<u>457,331</u>	<u>(117,210)</u>
Cash flows from capital and related financing activities		
Acquisitions of property and equipment	(470,806)	(328,623)
Restricted donations for purchase of real estate	-	119,687
Net cash used in capital and related financing activities	<u>(470,806)</u>	<u>(208,936)</u>
Cash flows from noncapital financing activities		
Grants from Office of Hawaiian Affairs	162,800	645,531
Cash provided by noncapital financing activities	<u>162,800</u>	<u>645,531</u>
Cash flows from investing activities		
Advances to Ho'okipaipai LLC	(34,942)	(98,788)
Repayments of advances to Ho'okipaipai LLC	-	98,788
Grants to Ho'okele Pono LLC and Ho'okipaipai LLC	-	(16,170)
Net cash used in noncapital financing activities	<u>(34,942)</u>	<u>(16,170)</u>
Increase in cash	114,383	303,215
Cash and cash equivalents		
Beginning of year	2,914,472	2,611,257
End of year	<u>\$ 3,028,855</u>	<u>\$ 2,914,472</u>
Cash and cash equivalents consist of:		
Cash	\$ 2,931,809	\$ 2,794,785
Restricted cash	97,046	119,687
	<u>\$ 3,028,855</u>	<u>\$ 2,914,472</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 122,212	\$ (358,267)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation of property and equipment	317,664	323,745
Loss on disposal of equipment	7,967	-
Change in:		
Accounts receivable	9,016	(42,443)
Inventories	(6,033)	(7,945)
Prepaid expenses	(46,018)	(44,057)
Lease security deposit	-	(9,994)
Accounts payable	42,080	(11,415)
Accrued liabilities	31,862	(16,362)
Deferred revenue	(21,419)	49,528
Net cash provided by (used in) operating activities	<u>\$ 457,331</u>	<u>\$ (117,210)</u>

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

Hi'ilei Aloha LLC and Sub-Entities (Nonprofit Organizations) Notes to Consolidated Financial Statements December 31, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies

Hi'ilei Aloha LLC (Company or Hi'ilei) 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. The Company's governing body consists of three "Managers" who are senior management officials of OHA.

In December 2007, the Company created Hi'ipaka LLC, a Hawai'i limited liability company, as a sub-entity 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 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. Hi'ipoi was dissolved in 2017. In May 2010, the Company created Hi'ikualono LLC, a Hawai'i 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. Hi'ilei receives grants from OHA.

Based on its relationship with OHA, the Company is considered to be a component unit of OHA for financial reporting purposes.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, Hi'ipaka LLC (Hi'ipaka), and, through its dissolution, 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 Companies have been prepared on the accrual basis of accounting consistent with enterprise fund accounting and accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

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.

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.

Hi'ilei Aloha LLC and Sub-Entities

(Nonprofit Organizations)

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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 (\$2,790,798 and \$2,338,126, at December 31, 2017 and 2016, respectively) and Hi'ilei (\$551,984 at December 31, 2016).

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 \$2,825 and \$6,500 at December 31, 2017 and 2016, respectively, and was established based on a review of specific delinquent accounts.

Inventories

Inventories consist of items held for sale in Hi'ipaka's gift stores and snack shop. Inventories are stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

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 (5 to 7 years for furniture, fixtures, equipment and vehicles, 5 to 7 years for leasehold improvements, and 10 to 30 years for building and improvements). 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.

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. Revenue from special events and venue rentals are recognized when the event occurs. Capacity building consulting and training services provided by Hi'ilei are recognized as costs are incurred or upon final completion of the contracted service. Revenues are recognized net

Hi'ilei Aloha LLC and Sub-Entities

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of all discounts and allowances, including bad debts if any. Contributions are recognized as support in the period in which eligibility requirements imposed by the donor have been met, which is generally when received. Amounts received prior to revenue recognition are recorded as deferred revenue.

Expenses

The costs of conducting programs and other services have been summarized on a functional basis in the statement of revenues, expenses, and changes in net assets. 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 stores, 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'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 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.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available to pay the expenses, resources are generally applied proportionate to the benefit realized. For instances in which such a determination is not feasible or if there are cost compliance issues, unrestricted resources are applied first.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses result from the activities described above. Nonoperating activities relate to grants and other amounts paid by OHA to the Company and its sub-entities; and OHA's grants to its sub-entity Ho'okele Pono LLC and Ho'okele Pono's sub-entity Ho'okōpaipai LLC, which may pass through the Company to the sub-entities as an administrative accommodation. These grants are recognized when received or paid. Donations received that are restricted for capital asset acquisition are reflected as capital contributions and reported separately from operating and nonoperating activity.

Advertising Costs

The cost of advertising production is expensed the first time the advertising takes place. Total advertising expense amounted to \$295,419 and \$325,806 in 2017 and 2016, 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.

Hi'ilei Aloha LLC and Sub-Entities

(Nonprofit Organizations)

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Income Taxes

The Company and Hi'ipaka have both received determination letters from the Internal Revenue Service (IRS) that their stated purposes are tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Company and Hi'ipaka are exempt from federal income taxes, except on unrelated business income. The Company and Hi'ipaka each file form 990 with the IRS.

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.

Reclassifications

Certain accounts have been reclassified in the 2016 financial statements to conform with the 2017 presentation. These reclassifications have no effect on the change in net position as previously reported.

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 14, 2018, the date the financial statements were available to be issued.

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 \$68,570 and \$70,539 for the years ended December 31, 2017 and 2016.

3. Restricted Assets and Lease Agreement

Hi'ipaka is in the process of acquiring a real estate parcel adjacent to its Waimea Valley property. Donations from the community of \$119,687, net of fundraising expenses, have been raised for this purpose in 2016. An unrelated third party nonprofit organization holds title to the property pending completion of the transaction, which is expected to occur in 2018 once State of Hawai'i and City and County of Honolulu grant funding is secured. Hi'ipaka has entered into a lease agreement with the current title holder with monthly payments of \$2,000 beginning February 2017 (\$22,000 paid in 2017). Should the transaction be successfully completed, \$1,200 of the monthly payments will be applied as a reduction of purchase price. The lease agreement expired December 31, 2017 and has been on a month-to-month basis since that date. Donated funds restricted for this transaction have been reflected as restricted net position in the statements of net position.

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Notes to Consolidated Financial Statements
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4. Capital Assets

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows:

	Balance January 1, 2017	Additions	Deductions	Balance December 31, 2017
Capital assets not depreciated:				
Land	\$ 13,003,821	\$ -	\$ -	\$ 13,003,821
Total capital assets not depreciated	13,003,821	-	-	13,003,821
Capital assets being depreciated				
Buildings and improvements	2,810,110	294,152	-	3,104,262
Furniture, fixtures and equipment	863,659	100,639	(37,564)	926,734
Vehicles	168,727	76,015	-	244,742
Total capital assets being depreciated	3,842,496	470,806	(37,564)	4,275,738
Less accumulated depreciation	(1,909,242)	(317,664)	29,597	(2,197,309)
Capital assets being depreciated, net	1,933,254	153,142	(7,967)	2,078,429
Total capital assets, net	\$ 14,937,075	\$ 153,142	\$ (7,967)	\$ 15,082,250
	Balance January 1, 2016	Additions	Deductions	Balance December 31, 2016
Capital assets not depreciated:				
Land	13,003,821	\$ -	\$ -	\$ 13,003,821
Total capital assets not depreciated	13,003,821	-	-	13,003,821
Capital assets being depreciated				
Buildings and improvements	2,581,900	228,210	-	2,810,110
Furniture, fixtures and equipment	825,255	38,404	-	863,659
Vehicles	132,918	62,009	(26,200)	168,727
Total capital assets being depreciated	3,540,073	328,623	(26,200)	3,842,496
Less accumulated depreciation	(1,611,697)	(323,745)	26,200	(1,909,242)
Capital assets being depreciated, net	1,928,376	4,878	-	1,933,254
Total capital assets, net	\$ 14,932,197	\$ 4,878	\$ -	\$ 14,937,075

Depreciation expense amounted to \$317,664 and \$323,745 in 2017 and 2016, respectively.

In connection with the initial acquisition of Waimea Valley by OHA for purposes of preserving and protecting the Valley and its historical and archaeological sites and artifacts, a conservation easement covering the Valley was granted to the City and County of Honolulu and the State of Hawai'i. The purpose of the easement is to protect and preserve the Conservation Values (as defined in the easement) of the property, through the rights of inspection, monitoring and similar enforcement actions.

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In 2017, Hi'ipaka sustained damage from flooding, including the loss of equipment, and water and mud damage to property dwellings. Hi'ipaka received insurance proceeds of \$141,584 to remediate the water and mud damage. Repairs were largely performed by Hi'ipaka personnel. Total cost of repair (excluding in-house labor costs) and loss on damaged equipment amounted to \$91,649. The net gain recorded for accounting purposes of \$49,935 was utilized to replace damaged equipment and partially cover in-house labor costs of repair.

5. Transactions with Member and Sub-Entities

The Company's member, OHA, provides grants to the Company and its sub-entities. Such grants amounted to \$162,800 in 2017 and \$645,531 in 2016. OHA also provides grants to its sub-entity Ho'okele Pono LLC and Ho'okele Pono's sub-entity Ho'okipaipai LLC. Certain of these grants may pass through the Company to the sub-entities as an administrative accommodation.

In 2015, Hi'ipaka and OHA executed an agreement whereby Hi'ipaka sub-leases property located in Hale'iwa, Hawai'i from OHA. The agreement expires March 2033 but can be cancelled by OHA at any time, or by either party upon the failure to successfully re-negotiate payment terms at defined dates. The agreement calls for Hi'ipaka to pay annual lease rent to OHA during OHA's fiscal years ended June 30, 2016, 2017 and 2018 of \$7,514, \$7,739 and \$7,971, respectively, with rent to be renegotiated thereafter. The Company made payments aggregating \$19,468 in 2017 under this lease agreement. No payments were made in 2016. As part of this agreement, Hi'ipaka is responsible for providing building management services, including operating and maintenance costs. OHA has agreed to compensate Hi'ipaka \$62,400 for these services for the period July 1, 2015 to June 30, 2017, \$41,200 for the period July 1, 2017 to June 30, 2018, and \$41,200 for the period July 1, 2018 to June 30, 2019. Funding beyond June 30, 2019 shall be negotiated at a future date. Payments received from OHA under this agreement amounted to \$46,800 in 2017 and zero in 2016.

The Company provides management and administrative services to Ho'okele Pono and Ho'okipaipai. Fees charged for these services amounted to \$34,553 in 2017 and \$13,964 in 2016. The Company previously, through June 30, 2016, provided these services in the form of grant, which amounted to \$16,170 in 2016. The Company also provided working capital advances to Ho'okipaipai of \$34,942 in 2017, which were repaid in 2018; and advances of \$98,788 in 2016, which were repaid in 2016.

6. Lease Commitments

The Company leases office space under a lease agreement that expires in October 2019, with an option to extend to October 2021. 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, 2017 are \$63,654 in 2018 and \$54,447 in 2019.

Rental expense, including building operating expenses and general excise tax, totaled \$100,383 and \$68,011 for the years ended December 31, 2017 and 2016.

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The Company sub-leases certain of its office space to Ho'okipaipai LLC under an agreement that renews annually so long as Ho'okipaipai continues to operate its Procurement Technical Assistance Center (PTAC). Rent paid by Ho'okipaipai under this agreement amounted to \$21,758 in 2017 and \$24,429 in 2016, respectively.

Hi'ipaka sub-leases part of the Hale'iwa property discussed in Note 5 to an unrelated third party tenant. The agreement, as amended in June 2017, expires June 2018. Rental income was \$8,514 in 2017 and \$7,631 in 2016.

7. 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.

Hi'ilei Aloha LLC and Sub-Entities
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Notes to Consolidated Financial Statements
December 31, 2017 and 2016

8. Condensed Financial Statements

The following condensed financial information summarizes the individual entities comprising the Company's consolidated financial position, results of operations and cash flows as of and for the years ended December 31, 2017 and 2016:

Condensed Statements of Net Position

	2017			
	Hi'ilei	Hi'ipaka	Hi'ipoi	Total
Assets				
Current assets	\$ 297,763	\$ 3,134,542	\$ -	\$ 3,432,305
Cash restricted for property acquisition	-	97,046	-	97,046
Capital assets, net	57,373	15,024,877	-	15,082,250
Other assets - lease security deposit	9,994	-	-	9,994
Total assets	<u>\$ 365,130</u>	<u>\$ 18,256,465</u>	<u>\$ -</u>	<u>\$ 18,621,595</u>
Liabilities and Net Position				
Current and total liabilities	\$ 127,093	\$ 410,796	\$ -	\$ 537,889
Net position				
Unrestricted	180,664	2,723,746	-	2,904,410
Restricted - property acquisition	-	97,046	-	97,046
Net investment in capital assets	57,373	15,024,877	-	15,082,250
Total net position	<u>238,037</u>	<u>17,845,669</u>	<u>-</u>	<u>18,083,706</u>
Total liabilities and net position	<u>\$ 365,130</u>	<u>\$ 18,256,465</u>	<u>\$ -</u>	<u>\$ 18,621,595</u>
	2016			
	Hi'ilei	Hi'ipaka	Hi'ipoi	Total
Assets				
Current assets	\$ 618,638	\$ 2,598,621	\$ 45	\$ 3,217,304
Cash restricted for property acquisition	-	119,687	-	119,687
Capital assets, net	59,935	14,877,140	-	14,937,075
Other assets - lease security deposit	9,994	-	-	9,994
Total assets	<u>\$ 688,567</u>	<u>\$ 17,595,448</u>	<u>\$ 45</u>	<u>\$ 18,284,060</u>
Liabilities and Net Position				
Current and total liabilities	\$ 89,666	\$ 395,700	\$ -	\$ 485,366
Net position				
Unrestricted	538,966	2,202,921	45	2,741,932
Restricted - property acquisition	-	119,687	-	119,687
Net investment in capital assets	59,935	14,877,140	-	14,937,075
Total net position	<u>598,901</u>	<u>17,199,748</u>	<u>45</u>	<u>17,798,694</u>
Total liabilities and net position	<u>\$ 688,567</u>	<u>\$ 17,595,448</u>	<u>\$ 45</u>	<u>\$ 18,284,060</u>

Hi'ilei Aloha LLC and Sub-Entities
(Nonprofit Organizations)
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2017			Total
	Hi'ilei	Hi'ipaka	Hi'ipoi	
Revenue and support				
Sales				
Gift store, food service and other	\$ 5	\$ 2,171,216	\$ -	\$ 2,171,221
Cost of sales	105	(2,307,259)	-	(2,307,154)
Gross margin (loss)	110	(136,043)	-	(135,933)
Admissions and tours	-	4,344,144	-	4,344,144
Other, net	5,635	792,976	-	798,611
Grants and donations	6,512	74,557	-	81,069
Consulting and training services	479,684	-	-	479,684
Flood insurance recoveries, net	-	49,935	-	49,935
Total revenue and support	491,941	5,125,569	-	5,617,510
Expenses				
Depreciation expense	15,230	302,434	-	317,664
Other operating expenses	969,152	4,208,437	45	5,177,634
Total expenses	984,382	4,510,871	45	5,495,298
Operating income (loss)	(492,441)	614,698	(45)	122,212
Nonoperating activity				
Grants from OHA	152,800	10,000	-	162,800
Grant to Hi'ipaka	(21,223)	21,223	-	-
Grants to Ho'okele Pono LLC and Ho'okipaipai LLC	-	-	-	-
Income before capital contributions	(360,864)	645,921	(45)	285,012
Capital contributions - restricted donations				
Change in net position	-	-	-	-
Change in net position	(360,864)	645,921	(45)	285,012
Net assets				
Beginning of fiscal year	598,901	17,199,748	45	17,798,694
End of fiscal year	\$ 238,037	\$ 17,845,669	\$ -	\$ 18,083,706

Hi'ilei Aloha LLC and Sub-Entities
(Nonprofit Organizations)
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Condensed Statements of Revenues, Expenses and Changes in Net Position (Continued)

	2016			Total
	Hi'ilei	Hi'ipaka	Hi'ipoi	
Revenue and support				
Sales				
Gift store, food service and other	\$ 350	\$ 2,412,448	\$ -	\$ 2,412,798
Cost of sales	(164)	(2,670,066)	-	(2,670,230)
Gross margin (loss)	186	(257,618)	-	(257,432)
Admissions and tours	-	4,138,974	-	4,138,974
Other, net	-	630,977	-	630,977
Grants and donations	-	142,840	-	142,840
Consulting and training services	201,226	-	-	201,226
Total revenue and support	201,412	4,655,173	-	4,856,585
Expenses				
Depreciation expense	15,230	302,434	-	317,664
Other operating expenses	907,516	3,989,672	-	4,897,188
Total expenses	922,746	4,292,106	-	5,214,852
Operating income (loss)	(721,334)	363,067	-	(358,267)
Nonoperating activity				
Transfers	556	-	(556)	-
Grants from OHA	645,531	-	-	645,531
Grants to Ho'okele Pono LLC and Ho'okipaipai LLC	(16,170)	-	-	(16,170)
Income before capital contributions	(91,417)	363,067	(556)	271,094
Capital contributions - restricted donations				
Change in net position	(91,417)	482,754	(556)	390,781
Net assets				
Beginning of fiscal year	690,318	16,716,994	601	17,407,913
End of fiscal year	\$ 598,901	\$ 17,199,748	\$ 45	\$ 17,798,694

Hi'ilei Aloha LLC and Sub-Entities
(Nonprofit Organizations)
Notes to Consolidated Financial Statements
December 31, 2017 and 2016

Condensed Statements of Cash Flows

	2017			
	Hi'ilei	Hi'ipaka	Hi'ipoi	Total
Net cash provided by (used in)				
Operating activities	\$ (459,354)	\$ 916,685	\$ -	\$ 457,331
Capital and related financing activities	(25,984)	(444,822)	-	(470,806)
Noncapital financing activities	152,800	10,000	-	162,800
Investing activities	(34,942)	-	-	(34,942)
Total change in cash	(367,480)	481,863	-	114,383
Cash and cash equivalents				
Beginning of year	524,970	2,389,502	-	2,914,472
End of year	<u>\$ 157,490</u>	<u>\$ 2,871,365</u>	<u>\$ -</u>	<u>\$ 3,028,855</u>
	2016			
	Hi'ilei	Hi'ipaka	Hi'ipoi	Total
Net cash provided by (used in)				
Operating activities	\$ (707,193)	\$ 589,983	\$ -	\$ (117,210)
Capital and related financing activities	(39,162)	(169,774)	-	(208,936)
Noncapital financing activities	646,087	-	(556)	645,531
Investing activities	(16,170)	-	-	(16,170)
Total change in cash	(116,438)	420,209	(556)	303,215
Cash and cash equivalents				
Beginning of year	641,408	1,969,293	556	2,611,257
End of year	<u>\$ 524,970</u>	<u>\$ 2,389,502</u>	<u>\$ -</u>	<u>\$ 2,914,472</u>

**Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters**

**Independent Auditor's 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***

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

I 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 Hi'ilei Aloha LLC and Sub-Entities (the "Organization"), which comprise the statement of net position as of December 31, 2017, and the related statements of revenues, expenses, and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated November 14, 2018.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, I 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James P. Hesselman, CPA, LLC

Honolulu, Hawaii
November 14, 2018