

Ho'okipaipai LLC

(A Nonprofit Organization)

Financial Statements

December 31, 2013 and 2012

Ho‘okīpaipai LLC
(A Nonprofit Organization)
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Independent Auditor's Report

To the Member and Managers
Ho'okipaipai LLC

I have audited the accompanying financial statements of Ho'okipaipai LLC (a nonprofit organization) which comprise the statements of financial position as of December 31, 2013 and 2012, and the related 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 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Ho'okipaipai LLC as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 10-11 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

James P. Herzelman, CPA, LLC

Honolulu, Hawai'i
October 1, 2014

Ho'okipaipai LLC
 (A Nonprofit Organization)
Statements of Financial Position
December 31, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash	\$ 103,737	\$ 234,876
Receivable - cooperative agreement	41,265	66,741
Receivable - other	4,250	3,817
Prepaid expenses	2,113	2,300
Total current assets	151,365	307,734
Total assets	\$ 151,365	\$ 307,734
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 2,561	\$ 2,162
Accrued payroll and vacation liabilities	14,553	16,381
Advances from Hi'ilei Aloha LLC	-	160,765
Total current liabilities	17,114	179,308
Net Assets - Unrestricted	134,251	128,426
Total liabilities and net assets	\$ 151,365	\$ 307,734

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

Ho'okipaipai LLC
 (A Nonprofit Organization)
Statements of Activities
Years Ended December 31, 2013 and 2012

	2013	2012
Revenue		
Cooperative agreement - Federal government	\$ 184,907	\$ 180,330
Conference registration fees	19,975	-
Total revenues	<u>204,882</u>	<u>180,330</u>
Expenses		
Program services - small business technical assistance	333,743	308,573
Management and general	45,771	67,766
Total expenses	<u>379,514</u>	<u>376,339</u>
Change in net assets before grants from Office of Hawaiian Affairs and Hi'ilei Aloha LLC	(174,632)	(196,009)
Grants from Office of Hawaiian Affairs and Hi'ilei Aloha LLC	<u>180,457</u>	<u>203,757</u>
Change in net assets	5,825	7,748
Net assets		
Beginning of fiscal year	128,426	120,678
End of fiscal year	<u>\$ 134,251</u>	<u>\$ 128,426</u>

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

Ho'okipaipai LLC
(A Nonprofit Organization)
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	\$ 5,825	\$ 7,748
Adjustments to reconcile change in net assets to net cash used in operating activities		
Cash grants from Office of Hawaiian Affairs and Hi'ilei Aloha LLC	(150,000)	(178,179)
Change in:		
Receivables	25,043	37,421
Prepaid expenses	187	(1,181)
Accounts payable	399	(22,674)
Accrued liabilities	(1,828)	2,214
Net cash used in operating activities	<u>(120,374)</u>	<u>(154,651)</u>
Cash flows from financing activities		
Advances from Hi'ilei Aloha LLC	(160,765)	104,181
Cash grants from Office of Hawaiian Affairs and Hi'ilei Aloha LLC	150,000	178,179
Net cash provided by (used in) financing activities	<u>(10,765)</u>	<u>282,360</u>
Net increase (decrease) in cash	(131,139)	127,709
Cash and cash equivalents		
Beginning of year	234,876	107,167
End of year	<u>\$ 103,737</u>	<u>\$ 234,876</u>
Schedule of Noncash Financing Activities		
Grants from Office of Hawaiian Affairs and Hi'ilei Aloha LLC - payment of Company expenses	\$ 30,457	\$ 25,578

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

Ho'okipaipai LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2013 and 2012

1. Organization and Summary of Significant Accounting Policies

Ho'okipaipai LLC (the "Company") was established on May 11, 2010, and began operations in May 2011. Its purpose is to engage in community economic development activity in the State of Hawai'i, primarily through the operation of a Hawai'i Procurement Technical Assistance Center (PTAC) under a program sponsored by the Defense Logistics Agency (DLA), U.S. Department of Defense.

The Company is a limited liability company with Ho'okele Pono LLC (Ho'okele Pono) as its sole member. Ho'okele Pono is a limited liability company with the Office of Hawaiian Affairs (OHA) as its sole member. OHA operated the PTAC in Hawai'i prior to the Company receiving the PTAC award effective May 1, 2011.

The Company's primary source of funding comes from OHA grants and the Defense Logistics Agency. The Company also receives working capital advances from Hi'ilei Aloha LLC (Hi'ilei), which is a limited liability company with OHA as its sole member.

Basis of Accounting

The financial statements of the Company 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.

Ho'okipaipai LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2013 and 2012

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

Receivables under the organization's federal cooperative agreement consist of costs that were incurred prior to year-end for which payment has not been received. When necessary, the carrying amount of 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 the counterparty. 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 receivables. The allowance for doubtful accounts was zero at December 31, 2013 and 2012.

Long-Lived Assets

The Company capitalizes assets having a useful life of more than one year and a cost of \$1,000 or more. To date, no such assets have been acquired.

Revenue Recognition

The Company recognizes revenue under its cooperative agreement as reimbursable costs are incurred. Costs charged to and reimbursed by DLA under the cooperative agreement are subject to audit by DLA, which could result in the disallowance of previously reimbursed costs. Management believes all costs charged to DLA to date are allowable and reimbursable under the terms of the cooperative agreement.

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. Registration fee revenue is recognized when the related event occurs.

Functional Allocation of Expenses

The costs of conducting programs and other services have been summarized on a functional basis in the statement of activities. Program service expense includes direct costs pertaining to the operation of the PTAC, which involves providing technical assistance to entities interested in contracting with the Federal government. Management and general expense 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.

Grants from OHA and Hi'ilei

The Company receives grants from OHA and/or Hi'ilei. Certain of the OHA grants may pass through Hi'ilei as an administrative accommodation. These grants are classified as equity transactions separate and apart from revenues, and are recognized when the grants are received.

Ho'okipaipai LLC
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Notes to Financial Statements
December 31, 2013 and 2012

Income Taxes

The Company has received a determination letter from the Internal Revenue Service dated April 25, 2011, stating that it is tax exempt under section 501(c)(3) of the Internal Revenue Code.

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 or to be taken on its income 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 Company maintains 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 a specified percentage of salary. Employer matching contributions amounted to \$2,980 and \$2,480 in 2013 and 2012, respectively.

3. Transactions with OHA and Hi'ilei

The Company receives grants to support its operations from OHA and Hi'ilei. Funding from OHA is in the form of cash grants, which amounted to \$150,000 in 2013 and \$178,179 in 2012, and payment of Company advertising expenses which amounted to \$6,756 and \$8,256 in 2013 and 2012, respectively. Funding from Hi'ilei arises from Hi'ilei's providing of management and administrative services and/or payment of Company expenses, which amounted to \$23,701 in 2013 and \$11,463 in 2012 (half year of service allocation in 2012). Hi'ilei also provided working capital advances amounting to \$160,765 through December 31, 2012; these advances were repaid in 2013.

The Company also rents office space from Hi'ilei under an agreement that expires June 30, 2014. The agreement renews annually so long as the Company continues to operate the PTAC under the DLA agreement. Rent expense in 2012 was \$21,051, including \$5,859 paid for 2011; rent expense in 2013 was \$23,716.

4. 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.

5. 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 1, 2014, the date the financial statements were available to be issued.

Supplementary Information

Ho'okipaipai LLC
(A Nonprofit Organization)
Schedule of Functional Expenses
Year Ended December 31, 2013

	Program Services	Management and General	Total
Salaries	\$ 168,482	\$ 9,661	\$ 178,143
Payroll taxes	16,407	-	16,407
Employee benefits	17,217	-	17,217
Total salaries and related expenses	<u>202,106</u>	<u>9,661</u>	<u>211,767</u>
Accounting services	-	14,719	14,719
Advertising	8,254	-	8,254
Computer and website expenses	17,808	-	17,808
Contract services	16,667	-	16,667
Dues and subscriptions	2,979	-	2,979
Equipment	957	-	957
Events	33,448	-	33,448
Insurance	-	4,569	4,569
Mileage and parking	461	-	461
Other expenses	1,055	159	1,214
Payroll services	2,939	-	2,939
Professional fees	3,556	16,663	20,219
Rent	23,716	-	23,716
Supplies and printing	3,630	-	3,630
Telephone	3,120	-	3,120
Travel	13,047	-	13,047
	<u>\$ 333,743</u>	<u>\$ 45,771</u>	<u>\$ 379,514</u>

Ho'okipaipai LLC
(A Nonprofit Organization)
Schedule of Functional Expenses
Year Ended December 31, 2012

	Program Services	Management and General	Total
Salaries	\$ 167,724	\$ 11,584	\$ 179,308
Payroll taxes	20,163	475	20,638
Employee benefits	17,087	653	17,740
Total salaries and related expenses	<u>204,974</u>	<u>12,712</u>	<u>217,686</u>
Accounting services	-	20,546	20,546
Advertising	8,674	209	8,883
Computer and website expenses	26,147	1,244	27,391
Dues and subscriptions	2,097	-	2,097
Equipment	5,280	-	5,280
Events	25,953	-	25,953
Insurance	-	4,574	4,574
Mileage and parking	558	-	558
Other expenses	2,143	3,220	5,363
Payroll services	3,579	145	3,724
Professional fees	-	24,042	24,042
Rent	20,197	854	21,051
Supplies and printing	2,346	104	2,450
Telephone	2,858	116	2,974
Travel	3,767	-	3,767
	<u>\$ 308,573</u>	<u>\$ 67,766</u>	<u>\$ 376,339</u>