

# **Ho'okipaipai LLC**

**(A Nonprofit Organization)**

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

**Financial Statements and Independent Auditor's Reports**

**December 31, 2015**

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

To the Member and Managers  
Ho'okipaipai LLC

### Report on the Financial Statements

I have audited the accompanying financial statements of Ho'okipaipai LLC (a nonprofit organization), a component unit of the Office of Hawaiian Affairs, State of Hawai'i, which comprise the statement of net position as of December 31, 2015, 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.

#### *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 audit. I conducted my audit 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 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‘okīpaipai LLC as of December 31, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the organization changed its accounting principles in 2015 from those prescribed by FASB to those prescribed by GASB. My opinion is not modified with respect to this matter.

***Other Matter – Supplementary Information***

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 10 is presented for purposes of additional analysis and is 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 audit 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.

***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 11, 2016 on my consideration of Ho‘okīpaipai LLC’s internal control over financial reporting and on my tests of its 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 Ho‘okīpaipai LLC’s internal control over financial reporting and compliance.



Honolulu, Hawai‘i  
November 11, 2016

**Ho'okipaipai LLC**  
**(A Nonprofit Organization)**  
**Statement of Net Position**  
**December 31, 2015**

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**Assets**

**Current Assets**

Cash	\$	34,134
Receivable - cooperative agreement		93,677
Receivable - other		859
Prepaid expenses		878
Total current assets		<u>129,548</u>

Total assets	\$	<u>129,548</u>
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**Liabilities and Net Position**

**Current Liabilities**

Accrued payroll and vacation liabilities	\$	22,691
Total current liabilities		<u>22,691</u>

<b>Net Position - Unrestricted</b>		<u>106,857</u>
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Total liabilities and net position	\$	<u>129,548</u>
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The accompanying notes are an integral part of the financial statements.

**Ho'okipaipai LLC**  
 (A Nonprofit Organization)  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Year Ended December 31, 2015**

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<b>Operating Revenue</b>	
Cooperative agreement - Federal government	\$ 206,333
Total operating revenue	<u>206,333</u>
<b>Operating Expenses</b>	
Program services - small business technical assistance	336,615
Management and general	60,902
Total operating expenses	<u>397,517</u>
Operating income (loss)	(191,184)
<b>Nonoperating activity</b>	
Grants from Office of Hawaiian Affairs and Hi'ilei Aloha LLC	<u>170,320</u>
Change in net position	(20,864)
<b>Net position</b>	
Beginning of year	<u>127,721</u>
End of year	<u>\$ 106,857</u>

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

**Ho'okipaipai LLC**  
**(A Nonprofit Organization)**  
**Statement of Cash Flows**  
**Year Ended December 31, 2015**

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<b>Cash flows from operating activities</b>	
Receipts from customers, grantors and funders	\$ 306,938
Payments to suppliers, vendors and service providers	(103,302)
Payments to employees for salaries and benefits	(254,586)
Net cash used in operating activities	<u>(50,950)</u>
<b>Cash flows from noncapital financing activities</b>	
Repayment of advances from Hi'ilei Aloha LLC	(143,000)
Cash grants from Office of Hawaiian Affairs	130,000
Net cash used in noncapital financing activities	<u>(13,000)</u>
Decrease in cash	(63,950)
<b>Cash and cash equivalents</b>	
Beginning of year	98,084
End of year	<u>\$ 34,134</u>
<b>Reconciliation of operating income (loss) to net cash</b>	
Operating income (loss)	\$ (191,184)
Adjustments to reconcile operating income (loss) to net cash used in operating activities	
Expenses paid by Hi'ilei and OHA	40,320
Change in:	
Receivables	100,605
Prepaid expenses	(287)
Accrued liabilities	(404)
Net cash used in operating activities	<u>\$ (50,950)</u>
<b>Schedule of Noncash Financing Activities</b>	
Grants from Office of Hawaiian Affairs and Hi'ilei Aloha LLC - payment of Company expenses	\$ 40,320

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

**Ho'okipaipai LLC**  
**(A Nonprofit Organization)**  
**Notes to Financial Statements**  
**December 31, 2015**

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**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. The Company's governing body consists of three "Managers" who are senior management officials of OHA.

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.

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

**Basis of Accounting**

The financial statements of the Company 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). The Company's 2014 and prior financial statements were prepared in accordance with accounting principles prescribed by the Financial Accounting Standards Board (FASB). The change from FASB to GASB standards in 2015 did not have a significant impact on the financial statements.

**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 Company considers all highly liquid debt investments with original maturities of three months or less when purchased to be cash equivalents. Cash balances are held with a banking institution in the State of Hawai'i and are insured up to \$250,000 by the FDIC. Account balances may at times exceed the FDIC's insurance limit.

**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

**Ho'okipaipai LLC**  
**(A Nonprofit Organization)**  
**Notes to Financial Statements**  
**December 31, 2015**

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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, 2015.

**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 when all eligibility requirements imposed by DLA have been met, that is 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.

**Functional Allocation of 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 position. 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.

**Operating and Nonoperating Revenues and Expenses**

Operating revenues and expenses generally result from the activities associated with operating the PTAC, including revenues from DLA. Nonoperating activities relate to grants received from OHA and/or Hi'ilei. Certain of the OHA grants may pass through Hi'ilei as an administrative accommodation. These grants are recognized when received.

**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.

**Ho'okipaipai LLC**  
**(A Nonprofit Organization)**  
**Notes to Financial Statements**  
**December 31, 2015**

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**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 \$7,178 in 2015.

**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 \$130,000 in 2015, and payment of Company advertising expenses which amounted to \$6,600 in 2015. Funding from Hi'ilei arises from Hi'ilei's providing of management and administrative services and/or payment of Company expenses, which amounted to \$33,720 in 2015. Hi'ilei also provided working capital advances amounting to \$143,000 in 2014; these advances were repaid in 2015.

The Company also rents office space from Hi'ilei under an agreement that renews annually so long as the Company continues to operate the PTAC under the DLA agreement. Rent expense was \$34,503 in 2015.

**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 November 11, 2016, 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, 2015**

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	<b>Program Services</b>	<b>Management and General</b>	<b>Total</b>
Salaries	\$ 177,973	\$ 33,959	\$ 211,932
Payroll taxes	16,209	-	16,209
Employee benefits	26,041	-	26,041
Total salaries and related expenses	<u>220,223</u>	<u>33,959</u>	<u>254,182</u>
Advertising	6,600	-	6,600
Computer and website expenses	18,582	-	18,582
Conferences and events	5,147	-	5,147
Contract services	31,000	-	31,000
Dues and subscriptions	2,623	-	2,623
Insurance	789	9,456	10,245
Mileage and parking	932	-	932
Other expenses	930	-	930
Payroll services	3,521	-	3,521
Professional fees	-	17,487	17,487
Rent	34,503	-	34,503
Supplies and printing	1,098	-	1,098
Telephone	3,825	-	3,825
Travel	6,842	-	6,842
	<u>\$ 336,615</u>	<u>\$ 60,902</u>	<u>\$ 397,517</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  
Ho‘okīpaipai LLC

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 Ho‘okīpaipai LLC (the “Organization”), which comprise the statement of net position as of December 31, 2015, 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 11, 2016.

**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 11, 2016