

Lili‘uokalani Trust

Financial Statements and Supplemental Schedule
December 31, 2015 and 2014
Together with Independent Auditor’s Report



A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Trustees of
Lili'uokalani Trust:

Report on the Financial Statements

We have audited the accompanying financial statements of Lili'uokalani Trust (the Trust) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses 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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lili'uokalani Trust as of December 31, 2015 and 2014, 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

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information 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 2015 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
August 12, 2016

Lili'uokalani Trust

Statements of Financial Position
December 31, 2015 and 2014

	<u>Assets</u>	
	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and cash equivalents	\$ 2,901,623	\$ 3,350,259
Accounts receivable, net	1,726,758	1,582,485
Investment receivable	4,104,007	5,187,376
Prepaid expenses and other assets	<u>870,745</u>	<u>738,712</u>
Total current assets	9,603,133	10,858,832
Property and Equipment, Net	31,058,399	25,847,638
Investments:		
Marketable securities	79,864,505	75,214,182
Cash	-	10,006,243
Other	144,353,137	129,250,424
Deferred Rent Receivable	<u>20,448,224</u>	<u>20,291,081</u>
Total assets	<u>\$ 285,327,398</u>	<u>\$ 271,468,400</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities:		
Accounts payable and other accrued liabilities	\$ 1,471,174	\$ 2,000,684
Accrued vacation	974,991	939,295
Deferred revenue	1,074,000	960,000
Notes payable	<u>319,798</u>	<u>203,247</u>
Total current liabilities	3,839,963	4,103,226
Accrued Postretirement Benefits	1,383,030	1,669,680
Deferred Revenue, Less Current Portion	13,388,966	13,645,327
Notes Payable, Less Current Portion	<u>11,821,815</u>	<u>6,641,510</u>
Total liabilities	<u>30,433,774</u>	<u>26,059,743</u>
Commitments and Contingencies		
Net Assets:		
Unrestricted	254,893,624	245,401,905
Temporarily restricted	<u>-</u>	<u>6,752</u>
Total net assets	<u>254,893,624</u>	<u>245,408,657</u>
Total liabilities and net assets	<u>\$ 285,327,398</u>	<u>\$ 271,468,400</u>

See accompanying notes to financial statements.

Lili'uokalani Trust

Statements of Activities

For the Years Ended December 31, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Other Support:						
Rent	\$ 26,022,617	\$ -	\$ 26,022,617	\$ 25,012,218	\$ -	\$ 25,012,218
Real property and general excise tax reimbursements	6,419,141	-	6,419,141	5,805,577	-	5,805,577
Donations	9,077	-	9,077	28,180	-	28,180
Net realized gains on sales and exchange of real estate	9,613,280	-	9,613,280	1,565,191	-	1,565,191
Net realized and unrealized gains on investments	391,533	-	391,533	1,405,848	-	1,405,848
Income from investments	3,565,674	-	3,565,674	4,523,896	-	4,523,896
Other	38,585	-	38,585	18,855	-	18,855
	<u>46,059,907</u>	<u>-</u>	<u>46,059,907</u>	<u>38,359,765</u>	<u>-</u>	<u>38,359,765</u>
Net assets released from restrictions	6,752	(6,752)	-	29,834	(29,834)	-
Total revenues, gains and other support	<u>46,066,659</u>	<u>(6,752)</u>	<u>46,059,907</u>	<u>38,389,599</u>	<u>(29,834)</u>	<u>38,359,765</u>
Expenses:						
Program services	16,978,579	-	16,978,579	16,740,786	-	16,740,786
Program support services	5,145,488	-	5,145,488	4,267,571	-	4,267,571
Endowment management services	14,850,689	-	14,850,689	13,570,132	-	13,570,132
Total expenses	<u>36,974,756</u>	<u>-</u>	<u>36,974,756</u>	<u>34,578,489</u>	<u>-</u>	<u>34,578,489</u>
Total revenues, gains and other support over expenses	9,091,903	(6,752)	9,085,151	3,811,110	(29,834)	3,781,276
Pension-Related Changes Other Than Net Periodic Pension Costs	<u>399,816</u>	<u>-</u>	<u>399,816</u>	<u>(241,754)</u>	<u>-</u>	<u>(241,754)</u>
Increase (decrease) in net assets	9,491,719	(6,752)	9,484,967	3,569,356	(29,834)	3,539,522
Net Assets at Beginning of Year	<u>245,401,905</u>	<u>6,752</u>	<u>245,408,657</u>	<u>241,832,549</u>	<u>36,586</u>	<u>241,869,135</u>
Net Assets at End of Year	<u>\$ 254,893,624</u>	<u>\$ -</u>	<u>\$ 254,893,624</u>	<u>\$ 245,401,905</u>	<u>\$ 6,752</u>	<u>\$ 245,408,657</u>

See accompanying notes to financial statements.

Lili‘uokalani Trust

Statements of Functional Expenses

For the Years Ended December 31, 2015 and 2014

	2015					2014				
	Program Services	Support Services			Total Expenses	Program Services	Support Services			Total Expenses
		Program Support	Endowment Management	Total			Program Support	Endowment Management	Total	
Salaries	\$ 7,715,993	\$ 2,180,950	\$ 970,315	\$ 3,151,265	\$ 10,867,258	\$ 7,542,017	\$ 1,729,896	\$ 927,798	\$ 2,657,694	\$ 10,199,711
Taxes	-	42,309	8,223,970	8,266,279	8,266,279	-	20,691	7,981,987	8,002,678	8,002,678
Financial Assistance	3,818,287	227	-	227	3,818,514	3,891,312	234	-	234	3,891,546
Employee Benefits and Payroll Taxes	2,155,493	509,887	221,924	731,811	2,887,304	2,018,433	456,192	204,724	660,916	2,679,349
Professional Services	11,577	784,087	1,499,780	2,283,867	2,295,444	13,097	581,061	1,321,156	1,902,217	1,915,314
Insurance	448,501	76,781	129,711	206,492	654,993	422,436	69,158	119,863	189,021	611,457
Repairs and Maintenance	498,070	114,741	15,725	130,466	628,536	643,306	145,603	19,719	165,322	808,628
Travel and Meals	150,167	279,619	180,802	460,421	610,588	164,085	76,968	140,607	217,575	381,660
Trustees' Fees	-	260,750	260,750	521,500	521,500	-	284,000	284,000	568,000	568,000
Utilities	352,657	134,200	18,225	152,425	505,082	376,303	169,831	20,415	190,246	566,549
Occupancy Expense	156,253	115,648	168,289	283,937	440,190	128,042	107,578	163,280	270,858	398,900
Supplies	217,659	131,302	47,800	179,102	396,761	208,146	142,259	30,195	172,454	380,600
General Real Estate Expenses	-	-	377,959	377,959	377,959	-	-	326,207	326,207	326,207
Telephone	221,936	38,166	21,827	59,993	281,929	136,951	22,008	16,065	38,073	175,024
Equipment Rental	95,449	19,818	16,726	36,544	131,993	88,642	25,681	15,446	41,127	129,769
Education	47,088	71,342	-	71,342	118,430	57,553	81,217	-	81,217	138,770
Real Estate Management Fees	-	-	105,624	105,624	105,624	-	-	63,437	63,437	63,437
Bad Debt Expense	-	-	54,407	54,407	54,407	-	-	41,756	41,756	41,756
Leasing Commission	-	-	46,657	46,657	46,657	-	-	44,196	44,196	44,196
Dues	5,209	21,410	13,396	34,806	40,015	5,869	13,987	17,123	31,110	36,979
Publications	2,039	768	2,005	2,773	4,812	1,970	1,636	2,251	3,887	5,857
Other Expenses	63,591	170,138	166,630	336,768	400,359	69,860	138,554	136,399	274,953	344,813
Total expenses before impairment, depreciation and amortization	15,959,969	4,952,143	12,542,522	17,494,665	33,454,634	15,768,022	4,066,554	11,876,624	15,943,178	31,711,200
Loss on Impairment of Property and Equipment	-	-	466,527	466,527	466,527	-	-	-	-	-
Depreciation and Amortization	1,018,610	193,345	1,841,640	2,034,985	3,053,595	972,764	201,017	1,693,508	1,894,525	2,867,289
Total	\$ 16,978,579	\$ 5,145,488	\$ 14,850,689	\$ 19,996,177	\$ 36,974,756	\$ 16,740,786	\$ 4,267,571	\$ 13,570,132	\$ 17,837,703	\$ 34,578,489

See accompanying notes to the financial statements.

Lili'uokalani Trust

Statements of Cash Flows

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 31,997,980	\$ 42,897,762
Cash paid to suppliers for goods and services	(23,599,815)	(20,722,929)
Cash paid to employees for services	(10,767,316)	(10,199,711)
Net investment income received	3,565,674	4,523,896
Other cash receipts (payments)	447,479	(194,718)
Net cash provided by operating activities	<u>1,644,002</u>	<u>16,304,300</u>
Cash Flows from Investing Activities:		
Proceeds from the sales or maturities marketable securities and other	37,117,555	56,675,724
Purchase of marketable securities and other	(34,718,957)	(64,108,229)
Proceeds from the sales or maturities of limited partnership interests	15,511,715	30,752,778
Purchases of limited partnership interests	(25,862,811)	(34,521,657)
Proceeds from the sales of real estate	9,721,831	1,577,088
Purchases of real estate	(2,323,324)	(6,871,358)
Purchases of property and equipment	(6,835,503)	(497,658)
Net cash used in investing activities	<u>(7,389,494)</u>	<u>(16,993,312)</u>
Cash Flows from Financing Activities:		
Repayment of notes payable	(203,144)	(196,447)
Proceeds from note payable	5,500,000	-
Net cash provided by (used in) financing activities	<u>5,296,856</u>	<u>(196,447)</u>
Net decrease in cash	(448,636)	(885,459)
Cash and Cash Equivalents at Beginning of Year	<u>3,350,259</u>	<u>4,235,718</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,901,623</u>	<u>\$ 3,350,259</u>

See accompanying notes to financial statements.

Lili'uokalani Trust

Statements of Cash Flows

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of Cash Flows from Operating Activities:		
Increase in net assets	\$ 9,484,967	\$ 3,539,522
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized gains on sales and exchange of real estate	(9,613,280)	(1,565,191)
Net realized and unrealized gains on investments	(391,533)	(1,405,848)
Loss on impairment of property and equipment	466,527	-
Depreciation and amortization	3,053,595	2,867,289
Increase in accounts receivable	(144,273)	(185,985)
Increase in prepaids expenses and other assets	(132,033)	(93,441)
(Increase) decrease in deferred rent receivable	(157,143)	468,213
(Decrease) increase in accounts payable and other accrued liabilities	(529,510)	572,727
Increase (decrease) in accrued vacation	35,696	(8,514)
(Decrease) increase in deferred revenue	(142,361)	11,797,740
(Decrease) increase in accrued postretirement benefits	(286,650)	317,788
Net cash provided by operating activities	<u>\$ 1,644,002</u>	<u>\$ 16,304,300</u>

See accompanying notes to financial statements.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies

a. Operations

Lili'uokalani Trust (the Trust) was created in 1909 by the late Queen Lili'uokalani, Hawaii's last reigning monarch. The Trust is dedicated to providing support and services to orphan and destitute children, with preference given to those of Hawaiian ancestry. Income of the Trust is derived principally from rental income received from long-term leases on owned real estate, sales of certain real property located in the state of Hawaii and investment income realized from its investment portfolios.

b. Basis of Presentation

The Trust's net assets and activities are classified based on the existence or absence of donor-imposed restrictions as follows:

- **Unrestricted Net Assets** – Net assets not subject to donor-imposed stipulations. The portion of unrestricted net assets that the board of trustees has designated for a specific purpose is presented separately from the undesignated net assets in the accompanying statements of financial position. The board of trustees retains full control over such designated funds and may use them for any purpose.
- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Trust and/or the passage of time.
- **Permanently Restricted Net Assets** – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Trust. The donors of these assets generally permit the use of the income earned on related investments for general or specific purposes. The Trust has no permanently restricted net assets.

c. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) 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. Significant items subject to such estimates and assumptions include the carrying amount of receivables, real property, investments, and accrued postretirement benefits. Actual results could differ from those estimates.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

d. Income Taxes

The Trust has been recognized by the Internal Revenue Service as exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (Code) and is classified as a private operating foundation under Section 4942. As an exempt private operating foundation, the Trust is not subject to the excise tax on net investment income for private foundations. To maintain its private operating foundation status, the Code requires the distribution, for charitable purposes, of at least 85 percent of the lesser of adjusted net income or the minimum investment return (i.e., five percent of the aggregate fair market value of investment assets less cash deemed to be held for charitable purposes). The distribution must not be less than 2/3 of minimum investment return.

In each of the years 2015 and 2014, the Trust has expended sufficient amounts for charitable purposes or utilized distribution carryovers from prior years to not incur a tax for failure to distribute income that is imposed by the aforementioned section of the Code.

e. Cash and Cash Equivalents

The Trust primarily maintains its cash in bank deposit accounts and had approximately \$3,092,000 and \$13,359,000 in excess of federally insured limits at December 31, 2015 and 2014, respectively. The Trust has not experienced losses in these accounts and management believes there is no significant credit risk related to cash.

The Trust considers cash on hand, deposit accounts and financial instruments with original maturities of three months or less at the date of purchase to be cash and cash equivalents.

f. Accounts Receivable

Accounts receivable consists of amounts due primarily from percentage rent due from lessees. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible and recoveries of previously written off receivables are recorded when received. For the years ended December 31, 2015 and 2014, management's estimated allowance was approximately \$133,000 and \$103,000, respectively.

g. Investment Receivable

Investment receivable consists of amounts redeemed, but not yet received from investment managers on December 31.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

h. Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist primarily of deferred leasing commissions and escrow deposits. Deferred leasing commissions are amortized on a straight-line basis over the term of the related leases.

i. Property and Equipment

Property and equipment are recorded at cost, except that land acquired in the original deed of trust is recorded at the appraisal value at date of grant. All Trust property and equipment is considered exempt. Exempt property represents property used for program services. Maintenance and repairs are expensed as incurred and expenditures for renewals or betterments are capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Furniture, fixtures and equipment	3 to 7 years
Buildings and improvements	Shorter of lease term or 20-40 years
Land improvements	30-40 years

j. Investments

Investments include marketable securities, non-controlling interests in for-profit limited partnerships, and real estate. Investments in marketable securities consist of mutual funds, equity securities and U.S. treasuries and are stated at fair value based on quoted market prices. Investments in real estate and for-profit limited partnerships are classified as other investments and are reported at the lower of cost or fair value.

Included in investments are cash of \$0 and \$10,006,243 at December 31, 2015 and 2014, respectively, which the Trust has elected not to classify as cash and cash equivalents in the statements of financial position.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

k. Deferred Rent Receivable

The Trust, as lessor, has lease agreements that provide for scheduled rent increases over the terms of the leases. Rental income is recognized on a straight-line basis over the term of the lease. The difference between rental income per the lease agreements and amounts recognized on a straight-line basis is recorded as deferred rent receivable on the accompanying statements of financial position.

l. Deferred Revenue

Deferred revenue consists of rents received in advance of the due date and lease extension premiums. Lease extension premiums are amortized on a straight-line basis over the life of the related leases.

m. Employee Benefit Plans

The Trust accounts for its postretirement benefit plan in accordance with Accounting Standards Codification (ASC) 715, *Employers Accounting for Pensions*. ASC 715 prescribes standards of financial accounting and reporting for an employer that offers pension benefits to its employees. ASC 715 requires employers to (a) recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in unrestricted net assets in the year in which the changes occur, and (b) measure the funded status of a plan as of the date of its year-end statement of financial position.

n. Donations

The Trust reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

1. Summary of Operations and Significant Accounting Policies (continued)

o. Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets (individual assets or asset groups) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If future net cash flows are less than the carrying value of an asset, an impairment loss is recognized to the extent the asset's carrying value exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. In 2015, the Trust recognized an impairment loss of approximately \$467,000.

p. Recent Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. This ASU replaces the existing lease guidance in U.S. GAAP with new guidance applicable to both lessees and lessors and requires lessees to recognize right-of-use assets and lease liabilities for all leases other than those that meet the definition of short-term leases at the commencement date of the lease. A right-of-use asset is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. A lease liability is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. The standard also requires additional quantitative and qualitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. This ASU will be effective beginning after December 15, 2019. Management is currently assessing the impact of this ASU on its financial position and results of operations and has not yet determined if the adoption of this ASU will have a material effect on its financial statements.

q. Subsequent Events

In January and February 2016, the Trust entered into commitments for the purchase of property and equipment. Total commitments amounted to approximately \$1,822,000.

In May 2016, the Trust made a \$500,000 gift to University of Hawaii at Manoa – Myron B. Thompson School of Social Work to establish the Queen Liliuokalani Distinguished Professorship in Native Hawaiian Culture.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

2. Investments

a. Marketable Securities

Marketable securities stated at fair value at December 31, 2015 and 2014 were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Gains/(Losses)</u>
2015:			
Mutual funds	\$ 57,642,652	\$ 59,103,787	\$ (1,461,135)
U.S. treasuries	13,506,309	13,641,079	(134,770)
Equity securities	8,633,587	6,016,239	2,617,348
Other	81,957	81,957	-
	<u>\$ 79,864,505</u>	<u>\$ 78,843,062</u>	<u>\$ 1,021,443</u>
2014:			
Mutual funds	\$ 63,841,107	\$ 60,592,776	\$ 3,248,331
U.S. treasuries	3,085,546	3,085,565	(19)
Equity securities	8,243,311	5,751,506	2,491,805
Other	44,218	44,218	-
	<u>\$ 75,214,182</u>	<u>\$ 69,474,065</u>	<u>\$ 5,740,117</u>

b. Other Investments

The Trust's other investments consist of investments in for-profit limited partnerships and real estate held for use, sale and development. As allowed under ASC 958-325-35, the Trust accounts for its other investments at the lower of cost or fair value. Under this method, the same measurement attribute is used for all other investments and declines in the value of those investments are recognized if their aggregate market value is less than their carrying amount; recoveries of aggregate market value in subsequent periods are recorded in those periods subject only to the limitation that the carrying amount does not exceed the original cost.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

2. Investments (continued)

b. Other Investments (continued)

At December 31, 2015 and 2014, the cost and fair value of other investments was as follows:

	<u>Cost</u>	<u>Fair Value (Unaudited)</u>	<u>Fair Value Over/(Under) Cost (Unaudited)</u>
2015:			
Investment in real estate	\$ 41,868,474	\$ 551,060,501	\$ 509,192,027
Investment in for-profit limited partnerships	<u>102,484,663</u>	<u>109,930,454</u>	<u>7,445,791</u>
Total	<u>\$ 144,353,137</u>	<u>\$ 660,990,955</u>	<u>\$ 516,637,818</u>
2014:			
Investment in real estate	\$ 41,549,079	\$ 406,449,496	\$ 364,900,417
Investment in for-profit limited partnerships	<u>87,701,345</u>	<u>102,928,744</u>	<u>15,227,399</u>
Total	<u>\$ 129,250,424</u>	<u>\$ 509,378,240</u>	<u>\$ 380,127,816</u>

The Trust has formal commitments with various limited partnerships to acquire interests in the partnerships up to agreed upon amounts. The Trust, at the discretion of the limited partnerships, may be called upon to fully fund their commitments. At December 31, 2015 and 2014, the Trust had outstanding funding commitments of approximately \$8,461,000 and \$11,113,000, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

2. Investments (continued)

b. Other Investments (continued)

Investment in real estate at December 31, 2015 and 2014 consisted of the following:

	Held for			Total
	Use	Sale	Development	
2015:				
Land	\$ 1,001,525	\$ 532,720	\$ 224,120	\$ 1,758,365
Building and improvements	45,050,062	-	-	45,050,062
	46,051,587	532,720	224,120	46,808,427
Accumulated depreciation and amortization	(20,353,837)	-	-	(20,353,837)
	25,697,750	532,720	224,120	26,454,590
Construction in progress (see Note 9)	-	-	15,413,884	15,413,884
Investment in real estate, net	<u>\$ 25,697,750</u>	<u>\$ 532,720</u>	<u>\$ 15,638,004</u>	<u>\$ 41,868,474</u>
2014:				
Land	\$ 1,001,525	\$ 641,267	\$ 224,120	\$ 1,866,912
Building and improvements	44,750,472	-	-	44,750,472
	45,751,997	641,267	224,120	46,617,384
Accumulated depreciation and amortization	(18,933,335)	-	-	(18,933,335)
	26,818,662	641,267	224,120	27,684,049
Construction in progress (see Note 9)	-	-	13,865,030	13,865,030
Investment in real estate, net	<u>\$ 26,818,662</u>	<u>\$ 641,267</u>	<u>\$ 14,089,150</u>	<u>\$ 41,549,079</u>

Real estate held for use primarily represents property that the Trust leases to third parties under long-term non-cancelable leases (see Note 8).

Real estate held for sale consists of the Trust's interest in the land under four condominium properties.

Lili‘uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

2. Investments (continued)

b. Other Investments (continued)

For the years ended December 31, 2015 and 2014, the Trust received proceeds of approximately \$9,722,000 and \$1,577,000, respectively, and recognized a gain of approximately \$9,613,000 and \$1,565,000, respectively, related to the sale of its interest in the land under certain condominiums.

Real estate held for development includes land acquisition costs, initial planning costs and capitalized interest related to various parcels of land in Kona. For the years ended December 31, 2015 and 2014, the Trust capitalized approximately \$237,000 and \$234,000 of interest costs, respectively.

3. Property and Equipment

Property and equipment at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Land	\$ 8,693,589	\$ 3,587,975
Building and improvements	35,892,784	35,046,396
Furniture, fixtures and equipment	5,558,237	5,302,847
	50,144,610	43,937,218
Accumulated depreciation and amortization	(19,748,881)	(18,158,074)
	30,395,729	25,779,144
Construction in progress (see Note 9)	662,670	68,494
Property and equipment, net	<u>\$ 31,058,399</u>	<u>\$ 25,847,638</u>

For the years ended December 31, 2015 and 2014, the Trust capitalized approximately \$3,000 and \$0 of interest costs, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

4. Fair Value Measurements

US GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under US GAAP are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Trust's investments are recorded at fair value as follows:

Mutual funds are stated at fair value using quoted market prices. Shares of mutual funds are valued at the net asset value of shares held by the Trust at the reporting date on a recurring basis.

Equity securities are stated at fair value using quoted market prices.

U.S. treasuries are stated at fair value using quoted market prices.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There have been no changes in the methodologies used at December 31, 2015 and 2014.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

4. Fair Value Measurements (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth the Trust's investments by type of fund based on Level 1 inputs as of December 31, 2015 and 2014:

	2015	2014
Mutual funds:		
Large blend	\$ 13,319,619	\$ 13,264,568
Money market funds	11,240,015	5,785,031
Foreign large blend	10,617,130	13,435,158
Large growth	7,828,285	7,583,234
Foreign small/mid value	6,870,925	6,777,293
Diversified emerging markets	4,533,569	12,038,044
Natural resources	1,859,040	2,997,997
Equity resources	1,374,069	1,946,874
Trading-leveraged equity	-	12,908
Total mutual funds	<u>57,642,652</u>	<u>63,841,107</u>
Equity securities:		
Consumer goods	5,943,157	5,372,312
Financial	1,536,905	1,672,887
Services	798,711	869,866
Industrial goods	192,578	155,551
Consumer entertainment	162,236	172,695
Total equity securities	<u>8,633,587</u>	<u>8,243,311</u>
U.S. treasuries	13,506,309	3,085,546
Other	81,957	44,218
Total investments at fair value	<u>\$ 79,864,505</u>	<u>\$ 75,214,182</u>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

4. Fair Value Measurements (continued)

The Trust's other financial instruments include cash and cash equivalents, receivables, prepaid expense and other assets, accounts payable and other accrued liabilities. The carrying amounts of these assets and liabilities approximate fair value because of the short-term nature of these instruments.

As of December 31, 2015 and 2014, the carrying amount of notes payable was approximately \$12,142,000 and \$6,845,000, respectively, which approximates fair value as the interest rate is commensurate with interest rates currently offered by lending institutions for loans of similar terms to companies with comparable credit risk.

5. Temporarily Restricted Net Assets

As of December 31, 2015, there were no temporarily restricted net assets. As of December 31, 2014, temporarily restricted net assets consisted of the following:

Operations:	
U.S. Department of Education Summer Food Service Program	\$ 568
Other	<u>6,184</u>
Total	<u>\$ 6,752</u>

Net assets in the amount of approximately \$6,800 and \$29,800 were released from donor restrictions in 2015 and 2014, respectively, by incurring expenses satisfying the restricted purposes related to the applicable programs.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

6. Employee Benefit Plans

a. 401(k) Plan

In 2005, the Trust established a defined contribution plan qualifying under Section 401(k) of the Internal Revenue Code, covering all regular employees who have six months of service and are age 21 or older. Employees may contribute up to 75 percent of included compensation, as defined in the defined contribution plan. The Trust matched 100 percent of employee contributions up to the first 4 percent of included compensation, plus 50 percent of employee contributions up to the next 2 percent of included compensation.

Expenses related to the 401(k) plan totaled approximately \$500,000 and \$486,000 for the years ended December 31, 2015 and 2014, respectively.

b. 457(b) Plan

Effective September 2013, the Trust established a non-qualified deferred compensation plan called the Queen Lili'uokalani Trust 457(b) Plan, covering a select group of eligible employees and independent contractors of the Trust. Participants can defer a portion of their compensation up to the IRS limit and have the funds invested tax deferred.

Expenses related to the 457(b) plan totaled approximately \$3,300 and \$3,200 for the years ended December 31, 2015 and 2014, respectively.

c. Postretirement Benefit Plan

The Trust provides postretirement health benefits to eligible employees based on age and years of service. The plan covers the cost of medical plan coverage subject to a set monthly maximum.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

6. Employee Benefit Plans (continued)

c. Postretirement Benefit Plan (continued)

The changes in the obligations and assets of the Trust's postretirement benefit plan and the changes in unrestricted net assets for 2015 and 2014 and the funded status of this plan and amounts related to this plan reflected in the Trust's statements of financial position were as follows:

	2015	2014
Benefit obligation, beginning of year	\$ 1,669,680	\$ 1,351,892
Service cost	67,300	50,441
Interest cost	68,476	67,266
Plan amendments	(289,010)	-
Actuarial (gain) loss	(94,090)	239,864
Benefits paid	(39,326)	(39,783)
Benefit obligation, end of year	<u>1,383,030</u>	<u>1,669,680</u>
Fair value of plan assets, beginning of year	-	-
Employer contribution	39,326	39,783
Benefits paid	(39,326)	(39,783)
Fair value of plan assets, end of year	<u>-</u>	<u>-</u>
Accrued postretirement benefits	<u>\$ (1,383,030)</u>	<u>\$ (1,669,680)</u>
Change in net periodic benefit cost not yet recognized:		
Beginning of year	\$ 83,268	\$ 325,022
Current year	399,816	(241,754)
Current net periodic benefit cost not yet recognized	<u>\$ 483,084</u>	<u>\$ 83,268</u>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

6. Employee Benefit Plans (continued)

c. Postretirement Benefit Plan (continued)

The following estimated future postretirement benefit payments, which reflect expected future service are expected to be paid in the years indicated:

Years ending December 31,	
2016	\$ 46,778
2017	56,158
2018	63,897
2019	60,470
2020	71,206
2021 – 2024	459,230

The Trust expects to contribute approximately \$47,000 to its postretirement benefit plan in 2016.

The following assumptions were used in accounting for the plans at December 31:

	2015	2014
Benefit obligation:		
Discount rate	4.44%	4.15%
Expected long-term rate of return on plan assets	n/a	n/a
Health care trend rates	7.25% - 5%	7.5% - 5%
Year of ultimate trend	2025	2025
Net periodic benefit cost (years ended):		
Discount rate	4.15%	5.05%
Expected long-term rate of return on plan assets	n/a	n/a
Health care trend rates	7.5% - 5%	7.75% - 5%
Year of ultimate trend	2025	2025

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

6. Employee Benefit Plans (continued)

c. Postretirement Benefit Plan (continued)

The components of net periodic benefit cost were as follows:

	2015	2014
Service cost	\$ 67,300	\$ 50,441
Interest cost	68,476	67,266
Amortization of net gain	-	(18,609)
Amortization of unrecognized net transition obligation	16,716	16,719
Net periodic benefit cost	<u>\$ 152,492</u>	<u>\$ 115,817</u>

7. Notes Payable

In 2004, the Trust entered into a commercial term loan agreement with a bank in the original amount of \$1,300,000 to finance the purchase of its main office space and related improvements. In 2012, the Trust amended the loan agreement to extend and amend the terms of the loan. The loan interest rate decreased from 5.31 percent to 3.23 percent and the required monthly principal and interest payments decreased from \$7,836 to \$5,178. The maturity date of the loan was extended to July 1, 2022. There was a balance of approximately \$961,000 and \$992,000 outstanding on the loan at December 31, 2015, and 2014, respectively.

In 2012, the Trust entered into a \$5,000,000 commercial term loan agreement with the aforementioned bank to fund the construction of its Waianae Coast Children's Center, which was completed in 2012. The loan matures on July 1, 2022, bears interest at 3.23 percent and requires the Trust to make monthly principal and interest payments of \$24,314. There was a balance of approximately \$4,532,000 and \$4,675,000 outstanding on the loan at December 31, 2015, and 2014, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

7. Notes Payable (continued)

In 2013, the Trust entered into a commercial term loan agreement with the aforementioned bank in the amount of \$1,210,000 to retire the remaining balance on an original 2008 loan used to finance the purchase of the Wili Pa Loop property and related improvements for the Maui Children's Center. The loan matures on November 8, 2023, bears interest at 4.10 percent and requires the Trust to make monthly principal and interest payments of \$6,455. At December 31, 2015 and 2014, the loans had outstanding balances of approximately \$1,149,000 and \$1,178,000, respectively.

On December 4, 2015, the Trust entered into a \$5,500,000 commercial term loan agreement with the aforementioned bank to finance the acquisition of its Kapolei Children's Center. The loan matures on December 8, 2025, bears interest at 3.45 percent and requires the Trust to make monthly principal and interest payments of \$24,544. There was a balance of approximately \$5,500,000 outstanding on the loan at December 31, 2015.

The Trust also has a line of credit with the aforementioned bank in the amount of \$2,500,000. The line of credit bears interest at a variable interest rate and is subject to the Trust's choice of the bank's one-, three- or six-month London Inter-Bank Offer Rates (LIBOR) plus 0.750 and 0.875 percent for the years ended December 31, 2015 and 2014, respectively, or the bank's base rate minus a margin of 0.75 percent with a minimum interest rate not less than 1.75 percent, and expires in October 2016. As of December 31, 2015 and 2014, there were no outstanding draws on the line of credit.

All loans, including any outstanding line of credit draws, are secured by approximately \$17 million of marketable securities, and also require the Trust to maintain certain financial covenants related to its loan to value ratio, as defined in the loan agreements. The Trust was in compliance with these requirements as of December 31, 2015.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

7. Notes Payable (continued)

The approximate annual principal payments on notes payable at December 31, 2015 were as follows:

For the years ending	
December 31,	
2016	\$ 320,000
2017	328,000
2018	339,000
2019	350,000
2020	362,000
Thereafter	<u>10,443,000</u>
	<u>\$ 12,142,000</u>

8. Leases As Lessor

Land held by the Trust as investment property is leased or available for lease under operating lease arrangements which expire through 2082.

Future minimum rental revenues under long-term non-cancelable operating leases as of December 31, 2015 were approximately as follows:

For the years ending	
December 31,	
2016	\$ 21,654,000
2017	21,348,000
2018	20,841,000
2019	20,840,000
2020	20,704,000
Thereafter	<u>850,664,000</u>
Total	<u>\$ 956,051,000</u>

The Trust receives percentage rentals (based on lessees' gross receipts, as defined) on certain of its properties. Percentage rent revenues earned for the years ended December 31, 2015 and 2014, amounted to approximately \$3,429,000 and \$3,231,000, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2015 and 2014

9. Commitments

The Trust entered into contracts with various third parties related to its development projects and construction in progress. At December 31, 2015, these contracts totaled approximately \$7,594,000, of which the Trust had incurred approximately \$4,176,000 as of December 31, 2015.

In October 2012, the Trust executed a promissory note agreement in the amount of \$1,490,235 with a government agency to secure the Trust's commitment to fund its estimated share of costs under a water resource development agreement. The promissory note requires the Trust to pay the full amount of the promissory note within forty five days of receiving supporting evidence of the cost incurred. The note does not bear interest and is secured by approximately \$2,600,000 of marketable securities, as defined in the agreement. As of December 31, 2015, no claim was requested related to the promissory note.

In October 2015, the Trust entered into a contract with a third party to purchase certain property and equipment for approximately \$2,250,000. The Trust completed the purchase in January 2016.

Supplementary Information

Lili‘uokalani Trust

Supplemental Schedule of Land

December 31, 2015

	<u>Cost Basis</u>	<u>Appraisal Basis (Unaudited)</u>
Investment Land:		
Oahu:		
Waikiki	\$ 1,124,245	\$ 360,231,274
Other Oahu	247,791	13,157,200
Hawaii:		
Kona:		
Developed	49,331	84,584,450
Undeveloped	224,120	61,822,250
Leased for agriculture	112,877	2,450,800
Other Hawaii	1	5,392,800
Total investment land	<u>1,758,365</u>	<u>527,638,774</u>
Land Used for Tax Exempt Purposes --		
Children's Centers:		
Hilo	302,816	580,000
Kona	1	377,300
Kaneohe	703,316	670,000
Kapalama	217,160	2,880,000
Kauai	966,857	780,000
Kapolei*	5,105,614	5,105,614
Maui	883,190	930,000
Punaluu	1	3,638,400
Waianae	514,634	630,000
Total land used for tax exempt purposes	<u>8,693,589</u>	<u>15,591,314</u>
Total land	<u>\$ 10,451,954</u>	<u>\$ 543,230,088</u>

Note: The supplemental "appraisal basis" value of land is stated primarily at the estimated market value on January 1, 2015 as appraised by John Child & Company, in its report dated November 12, 2015. For land sales that were not given a separate tax map key in the appraisal, their appraisal value has been removed in proportion to their cost basis.

*The Kapolei Children Center was not included in the appraisal described in the note above as the purchase was made in December 2015. As such, the "appraisal basis" value is based on the purchase price.

See accompanying independent auditor's report.