

Lili‘uokalani Trust

Financial Statements and Supplemental Schedule
December 31, 2018 and 2017
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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 1q to the financial statements, in 2018 the Trust adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. As a result of adopting this ASU, the Trust's 2017 net assets have been reclassified. Our opinion is not modified with respect to this matter.

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, except as marked "unaudited," has been subjected to the auditing procedures applied in the audit of the 2018 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, except as marked "unaudited," is fairly stated in all material respects in relation to the financial statements as a whole. We do not express an opinion or provide any assurance on the information marked "unaudited," as it has not been subjected to the auditing procedures applied in the audit of the financial statements.

KMH LLP

KMH LLP

Honolulu, Hawaii

June 24, 2019

Lili'uokalani Trust

Statements of Financial Position
December 31, 2018 and 2017

	<u>Assets</u>	
	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and cash equivalents	\$ 5,156,791	\$ 5,856,978
Accounts receivable, net	2,650,340	2,432,248
Investment receivable	899,489	66,435
Prepaid expenses and other assets	710,057	645,449
Total current assets	9,416,677	9,001,110
Property and Equipment, Net	58,588,008	43,845,124
Investments:		
Marketable securities	50,871,010	65,666,989
Other	181,343,095	170,127,587
Notes Receivable	13,000,000	-
Deferred Rent Receivable	21,175,971	21,738,995
Total assets	<u>\$ 334,394,761</u>	<u>\$ 310,379,805</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities:		
Accounts payable and other accrued liabilities	\$ 2,244,911	\$ 1,722,832
Accrued vacation	1,188,402	1,103,451
Deferred revenue	690,000	609,000
Notes payable	363,994	338,851
Total current liabilities	4,487,307	3,774,134
Accrued Postretirement Benefits	1,254,340	1,402,017
Deferred Revenue, Less Current Portion	13,870,104	14,172,414
Notes Payable, Less Current Portion	11,549,429	11,154,957
Total liabilities	31,161,180	30,503,522
Commitments and Contingencies		
Net Assets Without Donor Restrictions	303,233,581	279,876,283
Total liabilities and net assets	<u>\$ 334,394,761</u>	<u>\$ 310,379,805</u>

See accompanying notes to financial statements.

Lili‘uokalani Trust

Statements of Activities

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues, Gains, and Other Support:		
Investment return, net:		
Rental income, net	\$ 23,443,623	\$ 24,045,389
Net realized gains on sales of real estate	15,044,904	13,750,676
Investment income, net	<u>2,149,710</u>	<u>13,515,712</u>
Total investment return, net	40,638,237	51,311,777
Donations	40,806	6,525
Other	<u>13,050,142</u>	<u>17,581</u>
Total revenues, gains and other support	<u>53,729,185</u>	<u>51,335,883</u>
Expenses:		
Program services	19,014,759	17,804,849
Program support services	5,685,684	4,985,357
Endowment management services	<u>5,857,480</u>	<u>5,030,276</u>
Total expenses	<u>30,557,923</u>	<u>27,820,482</u>
Total revenues, gains and other support over expenses	23,171,262	23,515,401
Pension-Related Changes Other Than Net Periodic Pension Costs	<u>186,036</u>	<u>(115,007)</u>
Increase in net assets	23,357,298	23,400,394
Net Assets Without Donor Restrictions at Beginning of Year	<u>279,876,283</u>	<u>256,475,889</u>
Net Assets Without Donor Restrictions at End of Year	<u><u>\$ 303,233,581</u></u>	<u><u>\$ 279,876,283</u></u>

See accompanying notes to financial statements.

Lili‘uokalani Trust

Statements of Functional Expenses For the Year Ended December 31, 2018

	Program Services	Support Services			Total Expenses
		Program Support	Endowment Management	Total	
Salaries	\$ 8,440,679	\$ 2,294,526	\$ 1,860,058	\$ 4,154,584	\$ 12,595,263
Employee Benefits and Payroll Taxes	2,259,055	542,812	425,989	968,801	3,227,856
Financial Assistance	2,072,266	-	-	-	2,072,266
Professional Services	312,926	753,249	721,681	1,474,930	1,787,856
Partnerships and Collaborations	754,348	-	-	-	754,348
Repairs and Maintenance	599,181	62,200	43,207	105,407	704,588
Trustees' Fees	-	300,416	300,117	600,533	600,533
Travel and Meals	360,156	131,807	92,008	223,815	583,971
Insurance	428,402	83,926	49,275	133,201	561,603
Utilities	384,674	32,024	7,028	39,052	423,726
Telephone	335,443	22,576	23,104	45,680	381,123
Occupancy Expense	184,008	260,242	113,002	373,244	557,252
Information Technology	9,225	294,842	48,180	343,022	352,247
Equipment Rental	97,414	195,779	29,455	225,234	322,648
Supplies	104,160	114,976	37,770	152,746	256,906
Taxes	184,615	3,585	2,850	6,435	191,050
Education	11,176	114,160	39,676	153,836	165,012
General Real Estate Expenses	125,435	-	-	-	125,435
Bad Debt Expense	-	-	67,647	67,647	67,647
Dues	3,162	23,406	8,674	32,080	35,242
Publications	23,279	5,827	3,089	8,916	32,195
Real Estate Management Fees	24,210	-	-	-	24,210
Other Expenses	481,933	246,976	59,738	306,714	788,647
Total expenses before impairment, depreciation and amortization	17,195,747	5,483,329	3,932,548	9,415,877	26,611,624
Loss on Impairment of Property and Equipment	-	-	299,542	299,542	299,542
Depreciation and Amortization	1,819,012	202,355	1,625,390	1,827,745	3,646,757
Total	\$ 19,014,759	\$ 5,685,684	\$ 5,857,480	\$ 11,543,164	\$ 30,557,923

See accompanying notes to financial statements.

Lili‘uokalani Trust

Statements of Functional Expenses For the Year Ended December 31, 2017

	Program Services	Support Services			Total Expenses
		Program Support	Endowment Management	Total	
Salaries	\$ 7,826,561	\$ 2,046,782	\$ 1,542,314	\$ 3,589,096	\$ 11,415,657
Employee Benefits and Payroll Taxes	1,910,226	523,963	310,738	834,701	2,744,927
Financial Assistance	1,911,005	-	-	-	1,911,005
Professional Services	356,201	797,936	390,280	1,188,216	1,544,417
Partnerships and Collaborations	683,232	-	-	-	683,232
Repairs and Maintenance	577,618	21,124	82,567	103,691	681,309
Occupancy Expense	223,435	165,936	283,107	449,043	672,478
Travel and Meals	425,918	101,050	123,926	224,976	650,894
Trustees' Fees	-	282,375	282,375	564,750	564,750
Insurance	355,701	76,361	85,278	161,639	517,340
Utilities	425,576	12,579	12,804	25,383	450,959
Telephone	274,769	14,127	28,270	42,397	317,166
Equipment Rental	100,284	143,734	36,828	180,562	280,846
Supplies	118,527	61,902	53,053	114,955	233,482
Information Technology	33,140	176,821	21,708	198,529	231,669
Education	10,172	68,383	7,007	75,390	85,562
Dues	5,362	27,312	16,087	43,399	48,761
Taxes	55,455	(4,666)	(4,774)	(9,440)	46,015
Publications	7,450	8,258	6,594	14,852	22,302
Bad Debt Expense	-	-	11,045	11,045	11,045
General Real Estate Expenses	3,832	104	-	104	3,936
Real Estate Management Fees	702	-	-	-	702
Other Expenses	702,652	160,539	97,358	257,897	960,549
Total expenses before impairment, depreciation and amortization	16,007,818	4,684,620	3,386,565	8,071,185	24,079,003
Loss on Impairment of Property and Equipment	159,360	118,098	-	118,098	277,458
Depreciation and Amortization	1,637,671	182,639	1,643,711	1,826,350	3,464,021
Total	\$ 17,804,849	\$ 4,985,357	\$ 5,030,276	\$ 10,015,633	\$ 27,820,482

See accompanying notes to financial statements.

Lili'uokalani Trust

Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 32,105,841	\$ 34,296,766
Cash paid to suppliers for goods and services	(23,678,907)	(23,272,161)
Cash paid to employees for services	(12,595,263)	(11,458,191)
Net investment income received	4,599,744	3,978,315
Other cash receipts (payments)	<u>276,984</u>	<u>(90,900)</u>
Net cash provided by operating activities	<u>708,399</u>	<u>3,453,829</u>
Cash Flows from Investing Activities:		
Proceeds from the sales or maturities of marketable securities and other	63,830,337	98,228,694
Purchase of marketable securities and other	(53,804,172)	(88,238,804)
Proceeds from the sales or maturities of limited partnership interests	19,989,605	14,325,947
Purchases of limited partnership interests	(16,727,184)	(24,685,634)
Proceeds from the sales of real estate	15,156,412	13,848,220
Purchases of real estate	(262,567)	(3,331,619)
Purchases of property and equipment	(17,010,632)	(9,896,468)
Issuance of notes receivable	<u>(13,000,000)</u>	<u>-</u>
Net cash (used in) provided by investing activities	<u>(1,828,201)</u>	<u>250,336</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable	768,000	-
Repayment of notes payable	<u>(348,385)</u>	<u>(327,648)</u>
Net cash provided by (used in) financing activities	<u>419,615</u>	<u>(327,648)</u>
Net (decrease) increase in cash and cash equivalents	(700,187)	3,376,517
Cash and Cash Equivalents at Beginning of Year	<u>5,856,978</u>	<u>2,480,461</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,156,791</u>	<u>\$ 5,856,978</u>
Supplemental Disclosure of Non Cash Activity--		
Receipt of Building from Vacated Lease	<u>\$ 13,054,900</u>	<u>\$ -</u>

See accompanying notes to financial statements.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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 transformative programs to orphan and destitute children within the State of Hawaii, 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 and income and gains earned from its investment portfolios. The Trust also engages in occasional sales of certain real property located in the State of Hawaii.

b. Basis of Presentation

The financial statements of the Trust are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (US GAAP).

US GAAP requires the Trust to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Trust. These net assets may be used at the discretion of the Trust's management and its Trustees.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Trust or by the passage of time.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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

c. Management Estimates

The preparation of financial statements in conformity with 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, investments, and accrued postretirement benefits. Actual results could differ from those estimates.

d. Income Taxes

The Trust has been recognized by the Internal Revenue Service (IRS) 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 2018 and 2017, 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 \$5,248,000 and \$5,977,000 in excess of federally insured limits at December 31, 2018 and 2017, 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.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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

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, 2018 and 2017, management's estimated allowance was approximately \$216,000 and \$166,000, respectively.

g. Investment Receivable

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

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. The Trust owns both exempt and non-exempt property and equipment. Non-exempt property and equipment is used for endowment purposes. Exempt property and equipment is 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

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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

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.

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.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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 2018 and 2017, the Trust recognized an impairment loss of approximately \$300,000 and \$277,000, respectively.

p. Functional Expenses

The cost of providing program and other activities have been summarized on a functional basis on the statements of activities. Costs that are classified as Program Services reflect direct costs for youth development programs, social services, community change initiatives, and financial assistance payments. Costs that are classified as Program Support includes indirect costs for programs including strategy, research and evaluation, and administrative support for Program Services in addition to a pro-rata allocation of all other costs based on estimated time and usage, except for bad debt expense, that are shared between program and endowment areas (i.e. human resources, technology, accounting, communications, and trust administration).

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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

q. Recently Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Among the changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. The ASU also requires the presentation or disclosure of expenses by nature and function. The Trust has adopted this ASU and has adjusted the presentation of these statements accordingly, however, as provided for in the ASU, the Trust has elected not to include comparative information related to its liquidity and availability of resources. Adoption of this ASU resulted in the reclassifications to net assets previously reported at December 31, 2017 as follows:

	December 31, 2017		
	As Previously Reported	Reclassification	As Reclassified
Net Assets - Unrestricted	\$ 279,876,283	\$ (279,876,283)	\$ -
Net Assets Without Donor Restrictions	-	279,876,283	279,876,283
Total net assets	<u>\$ 279,876,283</u>	<u>\$ -</u>	<u>\$ 279,876,283</u>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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

r. Recent Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This ASU will be effective beginning after December 15, 2018. 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.

In February 2016, the FASB issued 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.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improve the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This ASU will be effective beginning after December 15, 2018. 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.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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

r. Recent Accounting Pronouncements (continued)

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. The ASU provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. This ASU will be effective beginning after December 15, 2018. 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.

s. Reclassification

Certain reclassifications were made to prior year's financial statements to conform to the 2018 presentation. Such reclassification had no impact on the previously reported change in net assets.

t. Subsequent Events

The Trust has evaluated subsequent events through June 24, 2019, the date the financial statements were available to be issued, and it was determined that all subsequent events had been properly accounted for.

Subsequent to year end, the Trust purchased 3 properties amounting to \$3.3 million to be used for program and support services.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

2. Investments

a. Marketable Securities

Marketable securities stated at fair value at December 31, 2018 and 2017 were as follows:

	Fair Value	Cost	Net Unrealized Gains/(Losses)
2018:			
Mutual funds	\$ 32,293,308	\$ 30,450,884	\$ 1,842,424
U.S. treasuries	10,279,501	10,520,584	(241,083)
Equity securities	7,762,976	5,271,227	2,491,749
Other	535,225	535,225	-
	<u>\$ 50,871,010</u>	<u>\$ 46,777,920</u>	<u>\$ 4,093,090</u>
2017:			
Mutual funds	\$ 44,144,669	37,050,818	\$ 7,093,851
Equity securities	11,231,675	6,358,495	4,873,180
U.S. treasuries	10,140,292	10,401,883	(261,591)
Other	150,353	150,353	-
	<u>\$ 65,666,989</u>	<u>\$ 53,961,549</u>	<u>\$ 11,705,440</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, 2018 and 2017

2. Investments (continued)

b. Other Investments (continued)

At December 31, 2018 and 2017, the cost and fair value of other investments were as follows:

	Cost	Fair Value (Unaudited)	Fair Value Over Cost (Unaudited)
2018:			
Investment in real estate	\$ 55,858,253	\$ 568,512,329	\$ 512,654,076
Investment in for-profit limited partnerships	125,484,842	145,200,914	19,716,072
	<u>\$ 181,343,095</u>	<u>\$ 713,713,243</u>	<u>\$ 532,370,148</u>
2017:			
Investment in real estate	\$ 44,395,307	\$ 563,174,430	\$ 518,779,123
Investment in for-profit limited partnerships	125,732,280	159,610,246	33,877,966
	<u>\$ 170,127,587</u>	<u>\$ 722,784,676</u>	<u>\$ 552,657,089</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, 2018 and 2017, the Trust had outstanding funding commitments of approximately \$22,961,000 and \$16,447,000, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

2. Investments (continued)

b. Other Investments (continued)

Investment in real estate at December 31, 2018 and 2017 consisted of the following:

	Held For			Total
	Use	Sale	Development	
2018:				
Land	\$ 968,333	\$ 367,544	\$ 223,025	\$ 1,558,902
Building and improvements	58,160,925	-	-	58,160,925
	59,129,258	367,544	223,025	59,719,827
Accumulated depreciation and amortization	(24,788,983)	-	-	(24,788,983)
	34,340,275	367,544	223,025	34,930,844
Construction in progress (see Note 9)	-	-	20,927,409	20,927,409
Investment in real estate, net	<u>\$ 34,340,275</u>	<u>\$ 367,544</u>	<u>\$ 21,150,434</u>	<u>\$ 55,858,253</u>
2017:				
Land	\$ 983,266	\$ 441,593	\$ 224,119	\$ 1,648,978
Building and improvements	45,121,715	-	-	45,121,715
	46,104,981	441,593	224,119	46,770,693
Accumulated depreciation and amortization	(23,385,567)	-	-	(23,385,567)
	22,719,414	441,593	224,119	23,385,126
Construction in progress (see Note 9)	-	-	21,010,181	21,010,181
Investment in real estate, net	<u>\$ 22,719,414</u>	<u>\$ 441,593</u>	<u>\$ 21,234,300</u>	<u>\$ 44,395,307</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, 2018 and 2017

2. Investments (continued)

b. Other Investments (continued)

For the year ended December 31, 2018, the Trust received proceeds of approximately \$15,156,000 and recognized a gain of approximately \$15,045,000 related to the sale of its interest in the land under certain condominiums and properties. For the year ended December 31, 2017, the Trust received proceeds of approximately \$13,848,000 and recognized a gain of approximately \$13,751,000 related to the sale of its interest in the land under certain condominiums and properties.

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, 2018 and 2017, the Trust capitalized approximately \$364,000 and \$343,000 of interest costs, respectively.

In 2018, the Trust received a building from a lease vacated by the lessee. The building, which had an estimated fair value of approximately \$13,055,000, was recorded in the statement of activities as other income.

3. Property and Equipment

Property and equipment at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Land	\$ 24,185,451	\$ 15,512,589
Building and Improvements	49,242,059	43,122,445
Furniture, Fixtures and Equipment	6,666,979	6,570,481
	80,094,489	65,205,515
Accumulated Depreciation and Amortization	(25,555,095)	(23,534,299)
	54,539,394	41,671,216
Construction in Progress (see Note 9)	4,048,614	2,173,908
Property and Equipment, Net	\$ 58,588,008	\$ 43,845,124

For the years ended December 31, 2018 and 2017, the Trust capitalized approximately \$49,000 and \$54,000 of interest costs, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017:

	2018	2017
Mutual Funds:		
Money market funds	\$ 8,584,181	\$ 6,447,681
Foreign small/mid value	6,912,386	8,283,272
Large blend	6,449,723	9,850,784
Foreign large blend	5,337,519	9,228,508
Large growth	5,009,499	6,517,053
Precious metals	-	2,354,561
Diversified emerging markets	-	1,462,810
Total mutual funds	<u>32,293,308</u>	<u>44,144,669</u>
Equity Securities:		
Consumer goods	4,944,102	7,606,317
Financial	1,461,999	1,992,458
Services	891,371	1,077,683
Industrial goods	227,728	324,929
Consumer entertainment	154,928	230,288
Technology	82,848	-
Total equity securities	<u>7,762,976</u>	<u>11,231,675</u>
U.S. Treasuries	10,279,501	10,140,292
Other	535,225	150,353
Total investments at fair value	<u>\$ 50,871,010</u>	<u>\$ 65,666,989</u>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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, 2018 and 2017, the fair value of investments in limited partnerships was approximately \$145,201,000 and \$159,610,000, respectively (unaudited). Fair values are based on information provided by the respective investment manager at the most recent valuation date. The Trust utilized the net asset value per share as a practical expedient for the estimation of the fair value of these investments (see Note 2). Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investment existed.

As of December 31, 2018 and 2017, the fair value of investment in real estate was approximately \$569,281,000 and \$563,174,000, respectively (unaudited), and included land, buildings and improvements, net of accumulated depreciation and construction in progress (see Note 2). The fair value of land is based on the appraised value as of January 1, 2015 and is further adjusted for any purchases or sales subsequent to the appraisal date. The fair value of buildings and improvement are estimated at acquisition cost, net of depreciation. The fair value of construction in progress is estimated at cost. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investment existed.

As of December 31, 2018 and 2017, the carrying amount of notes payable was approximately \$11,913,000 and \$11,494,000, 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.

As of December 31, 2018, the carrying amount of notes receivable was approximately \$13,000,000, which approximates fair value as the interest rate on the note approximates those offered by lending institutions for loans of similar terms and credit risks; and the principal balance is substantially secured by pledged collateral.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

5. Notes Receivable

In May 2018, the Trust entered into a loan agreement (the Agreement) to lend \$13,000,000 to an unrelated third-party (the Borrower). The Agreement bears interest at 9.00 percent and requires monthly interest payments. The Agreement matures on the earlier of May 2028 or 120 days after an event, as specified in the Agreement. The Agreement is collateralized by the Borrower's shares in a privately held company. The balance of \$13,000,000 is outstanding at December 31, 2018.

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. Effective January 1, 2018, the Trust matched 100 percent of employee contribution for the first 5 percent of included compensation, plus 50 percent of employee contribution up the next 2 percent of included contribution.

Expenses related to the 401(k) plan totaled approximately \$676,600 and \$509,300 for the years ended December 31, 2018 and 2017, 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 \$2,600 and \$2,500 for the years ended December 31, 2018 and 2017, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

6. Employee Benefit Plans (continued)

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.

The changes in the obligations and assets of the Trust's postretirement benefit plan and the changes in unrestricted net assets for 2018 and 2017, 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:

	2018	2017
Benefit Obligation, Beginning of Year	\$ 1,402,017	\$ 1,258,915
Service cost	50,151	46,123
Interest cost	50,922	51,001
Plan amendments	-	50,853
Actuarial (gain) loss	(223,286)	18,933
Benefits paid	(25,464)	(23,808)
Benefit Obligation, End of Year	<u>1,254,340</u>	<u>1,402,017</u>
Fair Value of Plan Assets, Beginning of Year		
Employer contribution	25,464	23,808
Benefits paid	(25,464)	(23,808)
Fair Value of Plan Assets, End of Year	<u>-</u>	<u>-</u>
Accrued Postretirement Benefit Liability	<u>\$ (1,254,340)</u>	<u>\$ (1,402,017)</u>
Change in Net Period Benefit Cost Not Yet Recognized		
Beginning of year	\$ 554,824	\$ 669,831
Current year	186,036	(115,007)
Current Net Periodic Benefit Cost Not Yet Recognized	<u>\$ 740,860</u>	<u>\$ 554,824</u>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

6. Employee Benefit Plans (continued)

c. Postretirement Benefit Plan (continued)

The components of net periodic benefit cost were as follows:

	2018	2017
Service Cost	\$ 50,151	\$ 46,123
Interest Cost	50,922	51,001
Amortization of Unrecognized Net Transition Obligation	(37,250)	(45,222)
Net Periodic Benefit Cost	<u>\$ 63,823</u>	<u>\$ 51,902</u>

The prior service costs that will be amortized into net periodic benefit cost in 2019 are approximately \$55,000.

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

	2018	2017
Benefit Obligation:		
Discount rate	4.42%	3.69%
Expected long-term rate of return on plan assets	n/a	n/a
Health care trend rates	6.50%-5.00%	6.75%-5.00%
Year of ultimate trend	2025	2025
Net Periodic Benefit Cost (Years Ended):		
Discount rate	3.69%	4.12%
Expected long-term rate of return on plan assets	n/a	n/a
Health care trend rates	6.75%-5.00%	7.00%-5.00%
Year of ultimate trend	2025	2025

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

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,	
2019	34,072
2020	49,408
2021	56,728
2022	71,126
2023	74,633
2024-2028	426,815

The Trust expects to contribute approximately \$34,000 to its postretirement benefit plan in 2019.

Assumed health care cost trend rates could have a significant effect on the amounts reported for the post-retirement medical plan. A one percentage point change in assumed health care cost trend rates would have the following effects:

	<u>1% increase</u>	<u>1% decrease</u>
Post-Retirement Benefit Obligation	\$ 61,611	\$ (51,999)
Total Service and Interest Cost	9,028	(7,284)

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's 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 \$863,000 and \$897,000 outstanding on the loan at December 31, 2018, and 2017, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

7. Notes Payable (continued)

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 \$4,075,000 and \$4,232,000 outstanding on the loan at December 31, 2018, and 2017, respectively.

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, 2018 and 2017, the loans had outstanding balances of approximately \$1,052,000 and \$1,085,000, 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 \$5,165,000 and \$5,280,000 outstanding on the loan at December 31, 2018 and 2017, respectively.

On March 5, 2018, the Trust entered into a \$768,000 mortgage loan agreement with the aforementioned bank to finance the acquisition of a condominium. The loan matures on March 12, 2048, bears interest at 4.25% and requires the Trust to make monthly principal and interest payments of \$3,779. There was a balance of approximately \$758,000 outstanding on the loan at December 31, 2018.

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 0.75 percent 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 2019. As of December 31, 2018 and 2017, there were no outstanding draws on the line of credit.

All loans, including any outstanding line of credit draws, are secured by approximately \$18.4 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, 2018.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

7. Notes Payable (continued)

The approximate annual principal payments on notes payable at December 31, 2018 were as follows:

Years ending December 31,	
2019	\$ 364,000
2020	376,000
2021	390,000
2022	4,512,000
2023	1,054,000
Thereafter	<u>5,217,000</u>
	<u>\$ 11,913,000</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 2089.

Future minimum rental revenues under long-term non-cancelable operating leases as of December 31, 2018 were approximately as follows:

Years ending December 31,	
2019	\$ 21,874,000
2020	21,670,000
2021	21,478,000
2022	21,253,000
2023	21,173,000
Thereafter	<u>848,898,000</u>
Total	<u>\$ 956,346,000</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, 2018 and 2017, amounted to approximately \$3,506,000 and \$3,392,000, respectively, and is included on the statements of activities as rental income, net.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

9. Commitments

The Trust entered into contracts with various third parties related to its development projects and construction in progress. At December 31, 2018, these contracts totaled approximately \$15,927,000, of which the Trust had incurred approximately \$9,000,000 as of December 31, 2018.

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, 2018, no claim was requested related to the promissory note.

10. Liquidity Disclosure

The Trust's financial assets available within one year of the balance sheet date for general expenditures at December 31, 2018 are as follows:

Financial Assets:	
Cash and cash equivalents	\$ 5,156,791
Accounts receivable, net	2,650,340
Investment receivable	899,489
Investments:	
Marketable securities	50,871,010
Other	181,343,095
Notes receivable	<u>13,000,000</u>
Financial Assets, at year end.	253,920,725
Less those unavailable for general expenditure within one year due to:	
Other investments that cannot be liquidated within one year	(100,892,799)
Notes receivable that cannot be liquidated within one year	<u>(13,000,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 140,027,926</u>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2018 and 2017

10. Liquidity Disclosure (continued)

In addition to the above, land held by the Trust as investment property (see Note 8) is leased or available for lease under operating lease arrangements. Future minimum rental revenues under long-term, non-cancelable operating leases as of December 31, 2018, are expected to generate approximately \$21,874,000 during the year 2019. The Trust also receives percentage rental income from certain of those non-cancelable operating leases. These rentals are based upon the lessees' gross receipts, and because they are not readily determinable, the Trust has not quantified this as a potential source of funding for general expenditures. These are also as source of funds available within one year of the balance sheet date to fund general expenditures.

As part of the Trust's liquidity management, it regularly develops plans to structure its financial assets to be available as its general expenditures, liabilities (including unfunded commitments) and other obligations come due. In addition, the Trust regularly invests cash in excess of daily requirements in its investment portfolio. In the event of any unanticipated, or unplanned liquidity need, the Trust could also draw upon a \$2.5 million line of credit (see Note 7).

Supplementary Information

Lili'uokalani Trust

Supplemental Schedule of Land
December 31, 2018

	Cost Basis	Appraisal Basis (Unaudited)
Investment Land:		
Oahu:		
Waikiki	\$ 959,070	\$ 354,069,051
Other Oahu	214,598	5,970,599
Hawaii:		
Kona:		
Developed	49,331	84,584,450
Undeveloped	223,025	61,745,278
Leased for agriculture	112,877	2,450,800
Other Hawaii	1	5,392,800
Total investment land	<u>1,558,902</u>	<u>514,212,978</u>
Land Used for Tax Exempt Purposes --		
Kipuka (program office):		
Hilo	302,816	580,000
Honolulu*	12,815,454	12,815,454
Kona*	214,676	591,975
Kaneohe	703,316	670,000
Kapalama	217,160	2,880,000
Kauai	966,857	780,000
Kapolei*	5,105,614	5,105,614
Maui*	2,905,208	2,952,018
Punaluu	1	3,638,400
Wahiawa*	439,715	439,715
Waianae	514,634	630,000
Total land used for tax exempt purposes	<u>24,185,451</u>	<u>31,083,176</u>
Total land	<u>\$ 25,744,353</u>	<u>\$ 545,296,154</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 Honolulu, Kona, Kapolei, Maui, and Wahiawa kipukas were not included in the appraisal described in the note above as the purchases were made after January 1, 2015. As such, the "appraisal basis" value is based on the purchase price.

See accompanying independent auditor's report.