

Lili‘uokalani Trust

Financial Statements and Supplemental Schedule
December 31, 2019 and 2018
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, 2019 and 2018, 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, 2019 and 2018, 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, except as marked "unaudited," has been subjected to the auditing procedures applied in the audit of the 2019 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
September 14, 2020

Lili‘uokalani Trust

Statements of Financial Position
December 31, 2019 and 2018

	<u>Assets</u>	
	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and cash equivalents	\$ 6,319,823	\$ 5,156,791
Accounts receivable, net	1,348,295	2,650,340
Investment receivable	2,709,802	899,489
Prepaid expenses and other assets	<u>607,367</u>	<u>189,335</u>
Total current assets	10,985,287	8,895,955
Property and Equipment, Net	59,911,721	58,671,114
Investments:		
Marketable securities	283,985,500	50,871,010
For-profit limited partnership	221,825,932	125,484,842
Real estate	58,423,209	55,858,253
Notes Receivable	13,000,000	13,000,000
Deferred Rent Receivable	18,165,720	21,175,971
Other Assets	<u>408,027</u>	<u>437,616</u>
Total assets	<u>\$ 666,705,396</u>	<u>\$ 334,394,761</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities:		
Accounts payable and other accrued liabilities	\$ 2,376,804	\$ 2,244,911
Accrued vacation	1,425,675	1,188,402
Deferred revenue	380,000	690,000
Notes payable	<u>389,785</u>	<u>363,994</u>
Total current liabilities	4,572,264	4,487,307
Accrued Postretirement Benefits	1,460,692	1,254,340
Deferred Revenue, Less Current Portion	1,077,831	13,870,104
Notes Payable, Less Current Portion	<u>11,156,420</u>	<u>11,549,429</u>
Total liabilities	<u>18,267,207</u>	<u>31,161,180</u>
Commitments and Contingencies		
Net Assets Without Donor Restrictions	<u>648,438,189</u>	<u>303,233,581</u>
Total liabilities and net assets	<u>\$ 666,705,396</u>	<u>\$ 334,394,761</u>

See accompanying notes to financial statements.

Lili‘uokalani Trust

Statements of Activities

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, Gains, and Other Support:		
Investment return, net:		
Rental income, net	\$ 29,117,050	\$ 23,443,623
Net realized gains on sales of real estate	294,768,966	15,044,904
Investment income, net	<u>54,800,145</u>	<u>2,149,710</u>
Total investment return, net	378,686,161	40,638,237
Donations	9,980	40,806
Other	<u>118,545</u>	<u>13,050,142</u>
Total revenues, gains and other support	<u>378,814,686</u>	<u>53,729,185</u>
Expenses:		
Program services	21,209,654	19,014,759
Program support services	6,399,413	5,685,684
Endowment management services	<u>5,810,680</u>	<u>5,857,480</u>
Total expenses	<u>33,419,747</u>	<u>30,557,923</u>
Total revenues, gains and other support over expenses	345,394,939	23,171,262
Pension-Related Changes Other Than Net Periodic Pension Costs	<u>(190,331)</u>	<u>186,036</u>
Increase in net assets	345,204,608	23,357,298
Net Assets Without Donor Restrictions at Beginning of Year	<u>303,233,581</u>	<u>279,876,283</u>
Net Assets Without Donor Restrictions at End of Year	<u>\$ 648,438,189</u>	<u>\$ 303,233,581</u>

See accompanying notes to financial statements.

Lili‘uokalani Trust

Statements of Functional Expenses For the Year Ended December 31, 2019

	Support Services				Total Expenses
	Program Services	Program Support	Endowment Management	Total	
Salaries	\$ 9,501,300	\$ 2,257,950	\$ 1,838,015	\$ 4,095,965	\$ 13,597,265
Employee Benefits and Payroll Taxes	2,343,100	511,726	424,518	936,244	3,279,344
Professional Services	1,930,989	732,368	519,148	1,251,516	3,182,505
Partnerships and Collaborations	1,267,274	145,728	-	145,728	1,413,002
Financial Assistance	1,121,806	178,777	-	178,777	1,300,583
Insurance	634,068	65,200	52,615	117,815	751,883
Occupancy Expense	175,138	302,958	161,340	464,298	639,436
Information Technology	6,455	527,996	89,484	617,480	623,935
Trustees' Fees	-	298,400	298,400	596,800	596,800
Repairs and Maintenance	426,076	71,693	45,627	117,320	543,396
Education	189,067	210,877	65,891	276,768	465,835
Telephone	367,206	47,222	32,386	79,608	446,814
Travel and Meals	280,704	84,496	72,399	156,895	437,599
Utilities	410,358	6,139	3,456	9,595	419,953
Equipment Rental	93,422	177,737	34,799	212,536	305,958
Taxes	205,457	26,571	25,351	51,922	257,379
Supplies	130,979	80,775	36,591	117,366	248,345
Bad Debt Expense	72,253	-	-	-	72,253
Dues	3,133	26,579	11,160	37,739	40,872
Publications	8,171	7,078	3,177	10,255	18,426
Real Estate Management Fees	8,057	-	-	-	8,057
General Real Estate Expenses	5,000	-	-	-	5,000
Other Expenses	126,142	331,840	124,001	455,841	581,983
Total expenses before impairment, depreciation and amortization	19,306,155	6,092,110	3,838,358	9,930,468	29,236,623
Loss on Impairment of Property and Equipment	-	-	216,002	216,002	216,002
Depreciation and Amortization	1,903,499	307,303	1,756,320	2,063,623	3,967,122
Total	\$ 21,209,654	\$ 6,399,413	\$ 5,810,680	\$ 12,210,093	\$ 33,419,747

See accompanying notes to financial statements.

Lili‘uokalani Trust

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

	Support Services				Total Expenses
	Program Services	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 Cash Flows

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 34,897,629	\$ 32,938,895
Cash paid to suppliers for goods and services	(30,558,201)	(23,678,907)
Cash paid to employees for services	(13,597,265)	(12,595,263)
Net investment income received	8,781,863	3,766,690
Other cash (payments) receipts	(114,861)	276,984
Net cash (used in) provided by operating activities	<u>(590,835)</u>	<u>708,399</u>
Cash Flows from Investing Activities:		
Proceeds from the sales or maturities of marketable securities and other	94,030,300	63,830,337
Purchase of marketable securities and other	(319,319,478)	(53,804,172)
Proceeds from the sales or maturities of limited partnership interests	13,340,120	19,989,605
Purchases of limited partnership interests	(72,575,664)	(16,727,184)
Proceeds from the sales of real estate	295,405,198	15,156,412
Purchases of real estate	(4,427,193)	(262,567)
Purchases of property and equipment	(4,332,198)	(17,010,632)
Issuance of notes receivable	-	(13,000,000)
Net cash provided by (used in) investing activities	<u>2,121,085</u>	<u>(1,828,201)</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable	-	768,000
Repayment of notes payable	(367,218)	(348,385)
Net cash (used in) provided by financing activities	<u>(367,218)</u>	<u>419,615</u>
Net increase (decrease) in cash and cash equivalents	1,163,032	(700,187)
Cash and Cash Equivalents at Beginning of Year	<u>5,156,791</u>	<u>5,856,978</u>
Cash and Cash Equivalents at End of Year	<u>\$ 6,319,823</u>	<u>\$ 5,156,791</u>
Supplemental Disclosure of Non Cash Activity--		
Receipt of Building from Vacated Lease	<u>\$ -</u>	<u>\$ 13,054,900</u>

See accompanying notes to financial statements.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018

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 in marketable securities, for-profit limited partnerships, and real estate, 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 2019 and 2018, 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 considers cash on hand, deposit accounts and highly-liquid financial instruments with original maturities of three months or less at the date of purchase to be cash and cash equivalents.

The Trust primarily maintains its cash in bank deposit accounts and had approximately \$5,550,000 and \$5,248,000 in excess of federally insured limits at December 31, 2019 and 2018, respectively. The Trust has not experienced losses in these accounts and management believes there is no significant credit risk related to cash.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018, management's estimated allowance was approximately \$238,000 and \$216,000, respectively.

g. Investment Receivable

Investment receivable consists of amounts redeemed, but not yet received from investment managers at year end.

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, 2019 and 2018

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.

Effective January 1, 2019, the Trust adopted Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The adoption of this standard requires the Trust to recognize changes in fair value of its equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) through net income. For equity investments without readily determinable fair values, the ASU allows, as a practical expedient, the Trust to measure certain investments at their net asset value with changes in fair value to be recognized prospectively through net income in the year of adoption. 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. Investment in for-profit limited partnership, which do not have a readily determinable fair value, utilize net asset value, as provided by the investment manager, as a practical expedient to determine fair value. Investments that do not qualify to utilize net asset value as a practical expedient are reported at cost adjusted for any impairment. Investments in real estate are reported at the lower of cost or fair value.

Prior to the adoption of ASU No. 2016-01 on January 1, 2019, the Company's investment in real estate and for-profit limited partnerships were classified as other investments and was 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.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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

m. Employee Benefit Plans

The Trust accounts for its postretirement benefit plan in accordance with 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.

Effective January 1, 2019, the Trust adopted 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

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 2019 and 2018, the Trust recognized an impairment loss of approximately \$216,000 and \$300,000, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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

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).

q. Recently Adopted Accounting Pronouncement

In addition to the adoption of ASU No. 2016-01, as described in Note 1.j., and ASU No. 2017-07, as described in Note 1.m., the Trust also adopted in 2019 ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which was issued by the FASB in June 2018. 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.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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

r. Recent Accounting Pronouncements

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. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, which revises the ASU 2016-02's effective date for fiscal years beginning after December 15, 2020. In June 2020, the FASB Issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which revises the effective date for fiscal years beginning after December 15, 2021. 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 August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU removes, modifies and adds certain disclosure requirements of ASC Topic 820. This ASU will be effective for fiscal years 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.

s. Reclassification

Certain reclassifications were made to prior year's financial statements to conform to the 2019 presentation. Such reclassification had no impact on the previously reported change in net assets.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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

t. Subsequent Events

On March 10, 2020 the World Health Organization declared the coronavirus outbreak to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and business. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the Trust operates, or invests in.

As of September 14, 2020, the date that these financial statements were authorized for issue, the fair value of the Trust's investments had not significantly declined from December 31, 2019, but it may be possible that it will be materially adversely affected in the future. These subsequent changes in the fair value of the Trust's investments are not reflected in the financial statements as of December 31, 2019. While the Federal and State governments and central banks have reacted with monetary interventions designed to stabilize economic conditions, the duration and extent of the impact of coronavirus, as well as the effectiveness of the responses, remains unclear at this time. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions.

Subsequent to year end, the Trust entered into a commercial loan agreement with a bank in the amount of approximately \$2,513,000 to finance the purchase of a fee simple land parcel as the site for an Early Childhood Center. The loan matures in May 2030, bears interest at 3.15 percent and requires the Trust to make monthly principal and interest payments of \$12,112.

The Trust has evaluated subsequent events through September 14, 2020, the date the financial statements were available to be issued, and it was determined that all subsequent events had been properly accounted for.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

2. Investments

a. Marketable Securities

Marketable securities stated at fair value at December 31, 2019 and 2018 were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Gains/(Losses)</u>
2019:			
Mutual funds	\$ 90,025,066	\$ 82,348,252	\$ 7,676,814
U.S. treasuries	183,247,999	183,293,756	(45,757)
Equity securities	9,847,639	5,559,687	4,287,952
Other	864,796	864,796	-
	<u>\$ 283,985,500</u>	<u>\$ 272,066,491</u>	<u>\$ 11,919,009</u>
2018:			
Mutual funds	\$ 32,293,308	\$ 30,450,884	\$ 1,842,424
Equity securities	10,279,501	10,520,584	(241,083)
U.S. treasuries	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>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

2. Investments (continued)

b. For-Profit Limited Partnership

At December 31, 2019 and 2018, the cost and fair value, respectively, were as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gains</u>
December 31, 2019:			
Investment at fair value	<u>\$ 174,768,607</u>	<u>\$ 211,826,932</u>	<u>\$ 37,058,325</u>
Investment at cost	<u>\$ 9,999,000</u>	<u>N/A</u>	<u>N/A</u>
	<u>Cost</u>	<u>Fair Value (Unaudited)</u>	<u>Fair Value Over Cost (Unaudited)</u>
December 31, 2018	<u>\$ 125,484,842</u>	<u>\$ 145,200,914</u>	<u>\$ 19,716,072</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, 2019 and 2018, the Trust had outstanding funding commitments of approximately \$25,122,000 and \$22,961,000, respectively.

c. Real Estate

At December 31, 2019 and 2018, the cost and fair value of real estate were as follows:

	<u>Cost</u>	<u>Fair Value (Unaudited)</u>	<u>Fair Value Over Cost (Unaudited)</u>
December 31, 2019	<u>\$ 58,423,209</u>	<u>\$ 371,116,122</u>	<u>\$ 312,692,913</u>
December 31, 2018	<u>\$ 55,858,253</u>	<u>\$ 535,453,986</u>	<u>\$ 479,595,733</u>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

2. Investments (continued)

c. Real Estate (continued)

Investment in real estate at December 31, 2019 and 2018 consisted of the following:

	Held For			Total
	Use	Sale	Development	
2019:				
Land	\$ 961,843	\$ 126,920	\$ 223,025	\$ 1,311,788
Building and improvements	62,508,266	-	-	62,508,266
Furniture, fixtures and equipment	309,523	-	-	309,523
	<u>63,779,632</u>	<u>126,920</u>	<u>223,025</u>	<u>64,129,577</u>
Accumulated depreciation and amortization	<u>(26,469,010)</u>	<u>-</u>	<u>-</u>	<u>(26,469,010)</u>
	37,310,622	126,920	223,025	37,660,567
Construction in progress (see Note 9)	<u>-</u>	<u>-</u>	<u>20,762,642</u>	<u>20,762,642</u>
Investment in real estate, net	<u>37,310,622</u>	<u>\$ 126,920</u>	<u>\$20,985,667</u>	<u>\$58,423,209</u>
2018:				
Land	\$ 968,333	\$ 367,544	\$ 223,025	\$ 1,558,902
Building and improvements	<u>58,160,925</u>	<u>-</u>	<u>-</u>	<u>58,160,925</u>
	59,129,258	367,544	223,025	59,719,827
Accumulated depreciation and amortization	<u>(24,788,983)</u>	<u>-</u>	<u>-</u>	<u>(24,788,983)</u>
	34,340,275	367,544	223,025	34,930,844
Construction in progress (see Note 9)	<u>-</u>	<u>-</u>	<u>20,927,409</u>	<u>20,927,409</u>
Investment in real estate, net	<u>\$34,340,275</u>	<u>\$ 367,544</u>	<u>\$21,150,434</u>	<u>\$55,858,253</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 three condominium properties.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

2. Investments (continued)

c. Real Estate (continued)

For the year ended December 31, 2019, the Trust received proceeds of approximately \$295,405,000 and recognized a gain of approximately \$294,769,000 related to the sale of its interest in the land under certain condominiums and properties. 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.

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, 2019 and 2018, the Trust capitalized approximately \$323,000 and \$364,000 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, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 24,700,805	\$ 24,185,451
Building and Improvements	50,223,101	49,242,059
Furniture, Fixtures and Equipment	<u>6,242,613</u>	<u>6,750,085</u>
	81,166,519	80,177,595
Accumulated Depreciation and Amortization	<u>(26,953,017)</u>	<u>(25,555,095)</u>
	54,213,502	54,622,500
Construction in Progress (see Note 9)	<u>5,698,219</u>	<u>4,048,614</u>
Property and Equipment, Net	<u>\$ 59,911,721</u>	<u>\$ 58,671,114</u>

For the years ended December 31, 2019 and 2018, the Trust capitalized approximately \$78,000 and \$49,000 of interest costs, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018:

	2019	2018
Mutual Funds:		
Money market funds	\$ 39,361,391	\$ 8,584,181
Large blend	17,082,870	6,449,723
Large growth	11,671,344	5,009,499
Foreign large blend	8,735,203	5,337,519
Foreign small/mid value	7,922,160	6,912,386
Diversified emerging markets	5,252,098	-
Total mutual funds	<u>90,025,066</u>	<u>32,293,308</u>
Equity Securities:		
Consumer goods	5,814,288	4,944,102
Financial	1,695,963	1,461,999
Services	1,383,367	891,371
Industrial goods	370,523	227,728
Consumer entertainment	206,458	154,928
Technology	377,040	82,848
Total equity securities	<u>9,847,639</u>	<u>7,762,976</u>
U.S. Treasuries	183,247,999	10,279,501
Other	864,796	535,225
Total investments at fair value	<u>\$ 283,985,500</u>	<u>\$ 50,871,010</u>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018 (unaudited), the fair value of investments in for-profit limited partnerships was approximately \$211,827,000 and \$145,201,000, respectively. Fair values are based on information provided by the respective investment manager at the most recent valuation date.

As of December 31, 2019 and 2018, the fair value of investment in real estate was approximately \$371,116,000 and \$535,454,000, respectively (unaudited), and included land, buildings and improvements, net of accumulated depreciation and construction in progress (see Note 2.c.). 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, 2019 and 2018, the carrying amount of notes payable was approximately \$11,546,000 and \$11,913,000, 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, 2019 and 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, 2019 and 2018

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, 2019 and 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 \$734,100 and \$676,600 for the years ended December 31, 2019 and 2018, 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 \$2,000 and \$2,600 for the years ended December 31, 2019 and 2018, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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 2019 and 2018, 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:

	2019	2018
Benefit Obligation, Beginning of Year	\$ 1,254,340	\$ 1,402,017
Service cost	40,187	50,151
Interest cost	54,689	50,922
Actuarial loss (gain)	135,284	(223,286)
Benefits paid	(23,808)	(25,464)
Benefit Obligation, End of Year	<u>1,460,692</u>	<u>1,254,340</u>
Fair Value of Plan Assets, Beginning of Year		
Employer contribution	23,808	25,464
Benefits paid	(23,808)	(25,464)
Fair Value of Plan Assets, End of Year	<u>-</u>	<u>-</u>
Accrued Postretirement Benefit Liability	<u>\$ (1,460,692)</u>	<u>\$ (1,254,340)</u>
Change in Net Period Benefit Cost Not Yet Recognized		
Beginning of year	\$ 740,860	\$ 554,824
Current year	(190,331)	186,036
Current Net Periodic Benefit Cost Not Yet Recognized	<u>\$ 550,529</u>	<u>\$ 740,860</u>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

6. Employee Benefit Plans (continued)

c. Postretirement Benefit Plan (continued)

The components of net periodic benefit cost were as follows:

	<u>2019</u>	<u>2018</u>
Service Cost	\$ 40,187	\$ 50,151
Interest Cost	54,689	50,922
Amortization of Unrecognized Net Transition Obligation	<u>(55,047)</u>	<u>(37,250)</u>
Net Periodic Benefit Cost	<u>\$ 39,829</u>	<u>\$ 63,823</u>

The prior service costs that will be amortized into net periodic benefit cost in 2020 are approximately \$42,000.

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

	<u>2019</u>	<u>2018</u>
Benefit Obligation:		
Discount rate	3.45%	4.42%
Expected long-term rate of return on plan assets	n/a	n/a
Health care trend rates	6.25%-5.00%	6.50%-5.00%
Year of ultimate trend	2025	2025
Net Periodic Benefit Cost (Years Ended):		
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

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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,	
2020	\$ 32,590
2021	48,063
2022	67,336
2023	68,209
2024	78,746
2025-2029	383,344

The Trust expects to contribute approximately \$33,000 to its postretirement benefit plan in 2020.

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	\$ 83,393	\$ (70,221)
Total Service and Interest Cost	8,221	(6,745)

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 \$828,000 and \$863,000 outstanding on the loan at December 31, 2019, and 2018, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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 \$3,912,000 and \$4,075,000 outstanding on the loan at December 31, 2019, and 2018, 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. In September 2019, the Trust amended the loan agreement to reduce the interest rate to 3.25 percent. At December 31, 2019 and 2018, the loans had outstanding balances of approximately \$1,015,000 and \$1,052,000, 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 \$5,047,000 and \$5,165,000 outstanding on the loan at December 31, 2019 and 2018 respectively. In April 2020, the Trust amended the loan agreement to reduce the interest to 3.15 percent.

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 percent and requires the Trust to make monthly principal and interest payments of \$3,779. In September 2019, the Trust amended the loan agreement to reduce the interest to 3.625 percent. There was a balance of approximately \$744,000 and \$758,000 outstanding on the loan at December 31, 2019 and 2018, respectively. In April 2020, the Trust amended the loan agreement to reduce the interest rate to 3.25 percent.

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 2020. As of December 31, 2019 and 2018, there were no outstanding draws on the line of credit.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

7. Notes Payable (continued)

All loans, including any outstanding line of credit draws, are secured by approximately \$22.2 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, 2019.

The approximate annual principal payments on notes payable at December 31, 2019 were as follows:

Years ending December 31,	
2020	\$ 390,000
2021	403,000
2022	4,526,000
2023	1,031,000
2024	162,000
Thereafter	<u>5,034,000</u>
	<u>\$ 11,546,000</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, 2019 were approximately as follows:

Years ending December 31,	
2020	\$ 14,481,000
2021	14,277,000
2022	14,082,000
2023	13,957,000
2024	13,976,000
Thereafter	<u>512,652,000</u>
Total	<u>\$ 583,425,000</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, 2019 and 2018, amounted to approximately \$2,208,000 and \$3,506,000, respectively, and is included on the statements of activities as rental income, net.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

9. Commitments

The Trust entered into contracts with various third parties related to its development projects and construction in progress. At December 31, 2019, these contracts totaled approximately \$16,800,000, of which the Trust had incurred approximately \$10,444,000 as of December 31, 2019.

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 \$2,800,000 of marketable securities, as defined in the agreement. As of December 31, 2019, 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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 6,319,823	\$ 5,156,791
Accounts receivable, net	1,348,295	2,650,340
Investment receivable	2,709,802	899,489
Investments:		
Marketable securities	283,985,500	50,871,010
For-profit limited partnership	221,825,932	125,484,842
Real estate	58,423,209	55,858,253
Notes receivable	<u>13,000,000</u>	<u>13,000,000</u>
Financial Assets, at year end.	587,612,561	253,920,725
Less those unavailable for general expenditure within one year due to:		
For-profit limited partnership that cannot be liquidated within one year	(132,180,557)	(45,034,546)
Real estate that cannot be liquidated within one year	(58,423,209)	(55,858,253)
Notes receivable that cannot be liquidated within one year	<u>(13,000,000)</u>	<u>(13,000,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 384,008,795</u>	<u>\$ 140,027,926</u>

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2019 and 2018

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, 2019, are expected to generate approximately \$14,481,000 during the year 2020. 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, 2019

	<u>Cost Basis</u>	<u>Appraisal Basis (Unaudited)</u>
Investment Land:		
Oahu:		
Waikiki	\$ 448,004	\$ 190,459,933
Other Oahu**	478,683	4,049,165
Hawaii:		
Kona:		
Developed	49,198	84,561,659
Undeveloped	223,025	61,745,278
Leased for agriculture	112,877	2,450,800
Other Hawaii	1	5,392,800
Total investment land	<u>1,311,788</u>	<u>348,659,635</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
Keaau*	290,149	290,149
Maui**	2,905,208	2,952,018
Molokai**	225,205	225,205
Punaluu	1	3,638,400
Wahiawa*	439,715	439,715
Waianae	514,634	630,000
Total land used for tax exempt purposes	<u>24,700,805</u>	<u>31,598,530</u>
Total land	<u>\$ 26,012,593</u>	<u>\$ 380,258,165</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, Kapolei, Keaau, 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.

**Other Oahu, Kona, Maui, and Molokai kipukas includes properties that were not included in the appraisal described in the note above as the purchase was made after January 1, 2015. As such, the "appraisal basis" value includes the purchase price of the property and the "appraisal basis" of the property evaluated at January 1, 2015.

See accompanying independent auditor's report.