

# **Lili‘uokalani Trust**

Financial Statements  
December 31, 2020 and 2019  
Together with Independent Auditor’s Report



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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, 2020 and 2019, 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, 2020 and 2019, 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.

*KMH LLP*

KMH LLP

Honolulu, Hawaii

June 25, 2021

# Lili‘uokalani Trust

Statements of Financial Position  
December 31, 2020 and 2019

	<u>Assets</u>	
	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 13,526,127	\$ 6,319,823
Accounts receivable, net	1,293,712	1,348,295
Investment receivable	812,742	2,709,802
Prepaid expenses and other assets	<u>789,838</u>	<u>607,367</u>
Total current assets	16,422,419	10,985,287
Property and Equipment, Net	63,274,234	59,911,721
Investments:		
Marketable securities	182,858,260	283,985,500
For-profit limited partnership	367,995,600	221,825,932
Real estate	63,047,752	58,423,209
Notes Receivable	13,250,000	13,000,000
Deferred Rent Receivable	18,442,163	18,165,720
Other Assets	<u>376,471</u>	<u>408,027</u>
Total assets	<u>\$ 725,666,899</u>	<u>\$ 666,705,396</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities:		
Accounts payable and other accrued liabilities	\$ 3,428,546	\$ 2,376,804
Accrued vacation	80,705	1,425,675
Deferred revenue	1,209,000	380,000
Notes payable	<u>567,855</u>	<u>389,785</u>
Total current liabilities	5,286,106	4,572,264
Accrued Postretirement Benefits	1,473,094	1,460,692
Deferred Revenue, Less Current Portion	1,226,120	1,077,831
Notes Payable, Less Current Portion	<u>13,047,172</u>	<u>11,156,420</u>
Total liabilities	<u>21,032,492</u>	<u>18,267,207</u>
Commitments and Contingencies		
Net Assets Without Donor Restrictions	<u>704,634,407</u>	<u>648,438,189</u>
Total liabilities and net assets	<u>\$ 725,666,899</u>	<u>\$ 666,705,396</u>

See accompanying notes to financial statements.

## Lili‘uokalani Trust

### Statements of Activities

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues, Gains, and Other Support:		
Investment return, net:		
Rental income, net	\$ 13,003,017	\$ 29,117,050
Net realized gains on sales of real estate	2,893,700	294,768,966
Investment income, net	<u>92,043,400</u>	<u>54,800,145</u>
Total investment return, net	107,940,117	378,686,161
Donations	1,186,304	9,980
Other	<u>17,532</u>	<u>118,545</u>
Total revenues, gains and other support	<u>109,143,953</u>	<u>378,814,686</u>
Expenses:		
Program services	20,272,720	21,209,654
Program support services	7,388,196	6,399,413
Endowment management services	<u>25,311,704</u>	<u>5,810,680</u>
Total expenses	<u>52,972,620</u>	<u>33,419,747</u>
Total revenues, gains and other support over expenses	56,171,333	345,394,939
Pension-Related Changes Other Than Net Periodic Pension Costs	<u>24,885</u>	<u>(190,331)</u>
Increase in net assets	56,196,218	345,204,608
Net Assets Without Donor Restrictions at Beginning of Year	<u>648,438,189</u>	<u>303,233,581</u>
Net Assets Without Donor Restrictions at End of Year	<u>\$ 704,634,407</u>	<u>\$ 648,438,189</u>

See accompanying notes to financial statements.

# Lili‘uokalani Trust

## Statement of Functional Expenses For the Year Ended December 31, 2020

	Program Services	Support Services			Total Expenses
		Program Support	Endowment Management	Total	
Salaries	\$ 11,052,835	\$ 2,419,498	\$ 2,172,964	\$ 4,592,462	\$ 15,645,297
Employee Benefits and Payroll Taxes	2,470,856	539,469	473,104	1,012,573	3,483,429
Professional Services	764,547	821,702	485,976	1,307,678	2,072,225
Insurance	755,983	111,042	98,449	209,491	965,474
Repairs and Maintenance	612,581	157,133	137,729	294,862	907,443
Information Technology	3,372	536,567	213,232	749,799	753,171
Financial Assistance	723,937	20,507	-	20,507	744,444
Occupancy Expense	168,316	296,774	150,030	446,804	615,120
Trustees' Fees	-	304,545	304,545	609,090	609,090
Taxes	228,460	202,181	174,569	376,750	605,210
Partnerships and Collaborations	535,087	-	-	-	535,087
Telephone	355,358	65,497	33,536	99,033	454,391
Utilities	334,620	5,471	42,661	48,132	382,752
Equipment Rental	79,960	143,977	42,771	186,748	266,708
Supplies	122,095	64,836	48,706	113,542	235,637
Travel and Meals	36,039	27,457	35,051	62,508	98,547
Education	18,465	44,412	22,411	66,823	85,288
Publications	6,653	31,126	6,886	38,012	44,665
Dues	2,308	20,227	8,524	28,751	31,059
Real Estate Management Fees	-	-	14,660	14,660	14,660
Other Expenses	62,578	455,110	212,111	667,221	729,799
Total expenses before impairment, depreciation and amortization	18,334,050	6,267,531	4,677,915	10,945,446	29,279,496
Loss on Impairment of Property and Equipment and Investments in Real Estate	40,057	770,534	18,836,071	19,606,605	19,646,662
Depreciation and Amortization	1,898,613	350,131	1,797,718	2,147,849	4,046,462
Total	\$ 20,272,720	\$ 7,388,196	\$ 25,311,704	\$ 32,699,900	\$ 52,972,620

See accompanying notes to financial statements.

# Lili‘uokalani Trust

## Statement of Functional Expenses For the Year Ended December 31, 2019

	Program Services	Support Services			Total Expenses
		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 and Investments in Real Estate	-	-	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 Cash Flows

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 21,240,723	\$ 34,897,629
Cash paid to suppliers for goods and services	(22,792,117)	(30,558,201)
Cash paid to employees for services	(15,645,297)	(13,597,265)
Net investment income received	12,619,321	8,781,863
Other cash receipts (payments)	<u>48,976</u>	<u>(114,861)</u>
Net cash used in operating activities	<u>(4,528,394)</u>	<u>(590,835)</u>
Cash Flows from Investing Activities:		
Proceeds from the sales or maturities of marketable securities and other	527,216,981	94,030,300
Purchase of marketable securities and other	(398,796,580)	(319,319,478)
Proceeds from the sales or maturities of limited partnership interests	53,704,677	13,340,120
Purchases of limited partnership interests	(144,496,455)	(72,575,664)
Proceeds from the sales of real estate	2,937,096	295,405,198
Proceeds from the sales of property and equipment	1,322,531	-
Purchases of real estate	(24,143,120)	(4,427,193)
Purchases of property and equipment	(7,829,254)	(4,332,198)
Issuance of notes receivable	<u>(250,000)</u>	<u>-</u>
Net cash provided by investing activities	<u>9,665,876</u>	<u>2,121,085</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable	2,512,500	-
Repayment of notes payable	<u>(443,678)</u>	<u>(367,218)</u>
Net cash provided by (used in) financing activities	<u>2,068,822</u>	<u>(367,218)</u>
Net increase in cash and cash equivalents	7,206,304	1,163,032
Cash and Cash Equivalents at Beginning of Year	<u>6,319,823</u>	<u>5,156,791</u>
Cash and Cash Equivalents at End of Year	<u>\$ 13,526,127</u>	<u>\$ 6,319,823</u>
Supplemental Disclosure of Cash Flow Information--		
Cash Paid During the Year for Interest	<u>\$ 397,538</u>	<u>\$ 401,827</u>
Supplemental Disclosure of Non Cash Activity--		
Loss on Impairment of Property and Equipment and Investments in Real Estate	<u>\$ 19,646,662</u>	<u>\$ 216,002</u>
Donation of Real Estate	<u>\$ 1,185,000</u>	<u>\$ -</u>

See accompanying notes to financial statements.

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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 the 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 and include amounts designated by Trustees for specific purposes. In 2020, the Board of Trustees designated \$6,500,000 to be utilized for renovations of certain properties.

*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, 2020 and 2019

## 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, property and equipment, investments in marketable securities, for-profit limited partnerships, 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 the minimum investment return.

In each of the years 2020 and 2019, 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 \$6,860,000 and \$5,550,000 in excess of federally insured limits at December 31, 2020 and 2019, respectively.

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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, 2020 and 2019, management's estimated allowance was approximately \$319,000 and \$238,000, 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, 2020 and 2019

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

### j. Investments

The Trust's investments, which include marketable securities, non-controlling interests in for-profit limited partnerships, and real estate, are accounted for in accordance with Accounting Standards Codification (ASC) 321, *Investments – Equity Securities*, and ASC 958-325, *Not-for-Profit Entities – Investments - Others*. 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 for-profit limited partnerships, 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.

### 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 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 net assets without donor restrictions in the year in which the changes occur, (b) measure the funded status of a plan as of the date of its year-end statement of financial position and (c) 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.

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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.

During 2020, due to the impact of the coronavirus pandemic, the Trust reevaluated its strategy related to real estate held for development. As a result, the Trust determined that it would not realize the benefits for certain costs that were previously capitalized. Accordingly, the Trust recognized an impairment loss of approximately \$19,647,000. In 2019, the Trust evaluated its real estate held for use and identified improvements that were determined to be impaired. Accordingly, the Trust recognized an impairment loss of approximately \$216,000.

### 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, 2020 and 2019

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

### q. Recently Adopted Accounting Pronouncement

In 2020, the Trust adopted ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which was issued by FASB in August 2018. This ASU removed, modified and added certain disclosure requirements of ASC Topic 820.

In 2020, the Trust also adopted ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which was issued by FASB in March 2020. This ASU provides optional expedients and exceptions for generally accepting accounting principles to contract modification and hedging relationships, subject to meeting certain criteria that reference LIBOR or another reference rate expected to be discontinued.

### 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.

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

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

### r. Recent Accounting Pronouncements (continued)

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958)*. This ASU requires a not-for-profit organized to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also requires additional qualitative disclosures. This ASU will be effective for fiscal years beginning after June 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.

### s. Risks and Uncertainties

Financial instruments that potentially subject the Trust to significant concentrations of credit risk consists primarily of cash, cash equivalent and investments. While the majority of cash and cash equivalent accounts exceed available depository insurance limits, the Trust has not experienced losses in these accounts and management believes there is no significant credit risk related to cash and cash equivalents. The Trust also attempts to limit its risk in investment by maintaining a diversified investment portfolio with limited concentration in any given region, industry or economic characteristics.

On March 10, 2020, the World Health Organization declared the coronavirus outbreak to be a worldwide pandemic. It has had a broad and negative impact on commerce and financial markets around the world. The United States and global markets experienced significant adverse impact resulting from uncertainty caused by the pandemic. The Trust continues to closely monitor these conditions, including the financial impact to the Trust, its investment portfolio, and the portfolio's liquidity. The impact of the pandemic on the Trust's operational and financial performance will depend on the duration and spread of the outbreak, all of which at present, cannot be determined. Accordingly, the extent to which the pandemic may impact the Trust's financial position, changes in net assets, and cash flows is uncertain; and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

### t. Subsequent Events

The Trust has evaluated subsequent events through June 25, 2021, 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, 2020 and 2019

### 2. Investments

#### a. Marketable Securities

Marketable securities stated at fair value at December 31, 2020 and 2019 were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Gains/(Losses)</u>
2020:			
Mutual funds	\$ 167,354,310	\$ 133,949,343	\$ 33,404,967
U.S. treasuries	15,444,430	14,900,476	543,954
Other	59,520	59,520	-
	<u>\$ 182,858,260</u>	<u>\$ 148,909,339</u>	<u>\$ 33,948,921</u>
2019:			
Mutual funds	\$ 90,025,066	\$ 82,348,252	\$ 7,676,814
Equity securities	183,247,999	183,293,756	(45,757)
U.S. treasuries	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>

## Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

### 2. Investments (continued)

#### b. For-Profit Limited Partnership

At December 31, 2020 and 2019, the cost and fair value, respectively, were as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Gains</u>
2020:			
Investment at fair value	<u>\$ 272,525,904</u>	<u>\$ 357,996,600</u>	<u>\$ 85,470,696</u>
Investment at cost	<u>\$ 9,999,000</u>	<u>N/A</u>	<u>N/A</u>
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>

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, 2020 and 2019, the Trust had outstanding funding commitments of approximately \$71,254,000 and \$25,122,000, respectively.

At December 31, 2020, the for-profit limited partnership recorded at fair value consists of:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Currently Eligible)</u>	<u>Redemption Notice Period</u>
Public Growth Equities	\$ 195,906,108	\$ -	Monthly, Daily, Weekly	3 - 30 days
Private Investments	40,675,262	60,804,635	Illiquid	N/A
Diversifiers	<u>121,415,230</u>	<u>10,449,481</u>	Daily, Monthly, Quarterly, Semi- Annually, Annually	2 - 180 days
Total	<u>\$ 357,996,600</u>	<u>\$ 71,254,116</u>		

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 2. Investments (continued)

### b. For-Profit Limited Partnership (continued)

Public Growth Equities represent a claim to assets and earnings in a company. This class includes mandates that focus on emerging, global, U.S. and international markets. Investments are mostly liquid. This is a diversified portfolio of equity managers, therefore, in addition to the typical risks with equities, severe economic contraction and unexpected severe inflation are added risks.

Private Investments consist of investments in private partnerships which have direct ownership interests that are not registered for sale on public exchanges. Investments typically consist of new companies that have significant growth potential and/or companies that could benefit from operational efficiencies and synergies. Risks for this asset class includes long lockup periods as it takes several years to build a private portfolio and monetize the assets. In addition, assets are not as easily valued as public equities which have daily pricing. Private investments cannot be redeemed by the investee. Distributions are received through liquidation of the underlying assets of the investees. The timing of the liquidation of underlying assets are unknown.

Diversifiers consists of hedge funds which may use shorting or hedging, and leverage and derivatives. This asset class includes mandates focusing on multi-strategy, event driven, global sectors, U.S. sector, managed futures, credit opportunities, distressed securities, and long/short strategies. Risks include less liquidity and transparency than equity managers with higher fees. Although hedge funds typically promote preservation of capital, they often participate in the upside of a market.

### c. Real Estate

At December 31, 2020 and 2019, the cost and fair value of real estate were as follows:

	Cost	Fair Value (Unaudited)	Fair Value Over Cost (Unaudited)
December 31, 2020	<u>\$ 63,047,752</u>	<u>\$ 566,360,674</u>	<u>\$ 503,312,922</u>
December 31, 2019	<u>\$ 58,423,209</u>	<u>\$ 371,116,122</u>	<u>\$ 312,692,913</u>

## Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

### 2. Investments (continued)

#### c. Real Estate (continued)

Investment in real estate at December 31, 2020 and 2019 consisted of the following:

	Held For			Total
	Use	Sale	Development	
2020:				
Land	\$ 8,934,235	\$ 1,269,510	\$ 223,025	\$10,426,770
Building and improvements	77,354,826	-	-	77,354,826
Furniture, fixtures and equipment	592,483	-	-	592,483
	<u>86,881,544</u>	<u>1,269,510</u>	<u>223,025</u>	<u>88,374,079</u>
Accumulated depreciation and amortization	<u>(28,245,048)</u>	<u>-</u>	<u>-</u>	<u>(28,245,048)</u>
	58,636,496	1,269,510	223,025	60,129,031
Construction in progress (see Note 9)	<u>-</u>	<u>-</u>	<u>2,918,721</u>	<u>2,918,721</u>
Investment in real estate, net	<u>\$58,636,496</u>	<u>\$ 1,269,510</u>	<u>\$ 3,141,746</u>	<u>\$63,047,752</u>
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>

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

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 2. Investments (continued)

### c. Real Estate (continued)

At December 31, 2020, real estate held for sale consists of a residential property, which was donated in 2020, and the Trust's interest in the land under three condominium properties. At December 31, 2019, real estate held for sale consists of the Trust's interest in the land under three condominium properties.

For the year ended December 31, 2020, the Trust received proceeds of approximately \$2,937,000 and recognized a gain of approximately \$2,894,000 related to the sale of its interest in the land under certain condominiums and properties. 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.

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, 2020 and 2019, the Trust capitalized approximately \$310,000 and \$323,000 of interest costs, respectively.

## 3. Property and Equipment

Property and equipment at December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 28,101,324	\$ 24,700,805
Building and Improvements	51,459,788	50,223,101
Furniture, Fixtures and Equipment	<u>5,621,069</u>	<u>6,242,613</u>
	85,182,181	81,166,519
Accumulated Depreciation and Amortization	<u>(27,891,223)</u>	<u>(26,953,017)</u>
	57,290,958	54,213,502
Construction in Progress (see Note 9)	<u>5,983,276</u>	<u>5,698,219</u>
Property and Equipment, Net	<u>\$ 63,274,234</u>	<u>\$ 59,911,721</u>

For the years ended December 31, 2020 and 2019, the Trust capitalized approximately \$87,000 and \$78,000 of interest costs, respectively.

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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, 2020 and 2019.

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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, 2020 and 2019:

	2020	2019
Mutual Funds:		
Large blend	\$ 59,119,312	\$ 17,082,870
Money market funds	41,129,531	39,361,391
Large growth	40,771,440	11,671,344
Diversified emerging markets	17,166,977	5,252,098
Foreign large blend	9,167,050	8,735,203
Foreign small/mid value	-	7,922,160
Total mutual funds	<u>167,354,310</u>	<u>90,025,066</u>
Equity Securities:		
Consumer goods	-	5,814,288
Financial	-	1,695,963
Services	-	1,383,367
Industrial goods	-	370,523
Consumer entertainment	-	206,458
Technology	-	377,040
Total equity securities	<u>-</u>	<u>9,847,639</u>
U.S. Treasuries	15,444,430	183,247,999
Other	59,520	864,796
Total investments at fair value	<u>\$ 182,858,260</u>	<u>\$ 283,985,500</u>

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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, 2020 and 2019, the fair value of investments in for-profit limited partnerships was approximately \$357,997,000 and \$211,827,000, respectively. Fair values are based on information provided by the respective investment manager at the most recent valuation date.

As of December 31, 2020 and 2019, the fair value of investment in real estate was approximately \$566,361,000 and \$371,116,000, 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, 2020 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, 2020 and 2019, the carrying amount of notes payable was approximately \$13,615,000 and \$11,546,000, 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.

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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, 2020 and 2019.

In January 2020, the Trust entered into an unsecured loan agreement (a form of a program related investment to another tax-exempt organization) to lend \$250,000 to an unrelated third-party. The unsecured loan agreement bears interest at 1.00 percent and requires semi-annual interest payments. Principal payments will begin semi-annually on September 30, 2021 until the principal has been paid. The balance of \$250,000 is outstanding at December 31, 2020.

## 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 \$749,100 and \$734,100 for the years ended December 31, 2020 and 2019, 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 \$4,000 and \$2,000 for the years ended December 31, 2020 and 2019, respectively.

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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 2020 and 2019, 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:

	2020	2019
Benefit Obligation, Beginning of Year	\$ 1,460,692	\$ 1,254,340
Service cost	50,057	40,187
Interest cost	49,832	54,689
Actuarial (gain) loss	(66,454)	135,284
Benefits paid	(21,033)	(23,808)
Benefit Obligation, End of Year	<u>1,473,094</u>	<u>1,460,692</u>
Fair Value of Plan Assets, Beginning of Year		
Employer contribution	21,033	23,808
Benefits paid	(21,033)	(23,808)
Fair Value of Plan Assets, End of Year	<u>-</u>	<u>-</u>
Accrued Postretirement Benefit Liability	<u>\$ (1,473,094)</u>	<u>\$ (1,460,692)</u>
Change in Net Period Benefit Cost Not Yet Recognized		
Beginning of year	\$ 550,529	\$ 740,860
Current year	24,885	(190,331)
Current Net Periodic Benefit Cost Not Yet Recognized	<u>\$ 575,414</u>	<u>\$ 550,529</u>

## Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

### 6. Employee Benefit Plans (continued)

#### c. Postretirement Benefit Plan (continued)

The components of net periodic benefit cost were as follows:

	<u>2020</u>	<u>2019</u>
Service Cost	\$ 50,057	\$ 40,187
Interest Cost	49,832	54,689
Amortization of Unrecognized Net Transition Obligation	<u>(41,569)</u>	<u>(55,047)</u>
Net Periodic Benefit Cost	<u>\$ 58,320</u>	<u>\$ 39,829</u>

The prior service costs that will be amortized into net periodic benefit cost in 2021 are approximately \$42,000.

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

	<u>2020</u>	<u>2019</u>
Benefit Obligation:		
Discount rate	2.74%	3.45%
Expected long-term rate of return on plan assets	n/a	n/a
Health care trend rates	6.50%-5.00%	6.25%-5.00%
Year of ultimate trend	2027	2025
Net Periodic Benefit Cost (Years Ended):		
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

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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,	
2021	\$ 57,126
2022	72,969
2023	73,492
2024	75,580
2025	78,536
2026-2030	309,127

The Trust expects to contribute approximately \$57,000 to its postretirement benefit plan in 2021.

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	\$ 88,561	\$ (74,529)
Total Service and Interest Cost	9,991	(8,203)

## 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. In October 2020, the Trust amended the loan agreement to reduce the interest rate to 2.50 percent. The maturity date of the loan was extended to July 1, 2022. There was a balance of approximately \$791,000 and \$828,000 outstanding on the loan at December 31, 2020, and 2019, respectively.

## Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

### 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. In October 2020, the Trust amended the loan agreement to reduce the interest rate to 2.50 percent. There was a balance of approximately \$3,740,000 and \$3,912,000 outstanding on the loan at December 31, 2020, and 2019, 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. In October 2020, the Trust amended the loan agreement to reduce the interest rate to 2.50 percent. At December 31, 2020 and 2019, the loans had outstanding balances of approximately \$968,000 and \$1,015,000, 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. In April 2020 and October 2020, the Trust amended the loan agreement to reduce the interest to 3.15 percent and 2.50 percent, respectively. There was a balance of approximately \$4,911,000 and \$5,047,000 outstanding on the loan at December 31, 2020 and 2019 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 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. In April 2020 and October 2020, the Trust amended the loan agreement to reduce the interest rate to 3.25 percent and 3.00 percent, respectively. There was a balance of approximately \$723,000 and \$744,000 outstanding on the loan at December 31, 2020 and 2019, respectively.

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 7. Notes Payable (continued)

On April 30, 2020, the Trust entered into a \$2,512,000 commercial term loan agreement with the aforementioned bank to finance the purchase of a fee simple land parcel as the site for an Early Childhood Center. The loan matures on May 18, 2030, bears interest at 3.15 percent and requires the trust to make monthly and interest payments of \$12,112. In October 2020, the Trust amended the loan agreement to reduce the interest rate to 3.00 percent. There was a balance of approximately \$2,482,000 outstanding on the loan at December 31, 2020.

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 2022. As of December 31, 2020 and 2019, there were no outstanding draws on the line of credit.

All loans, including any outstanding line of credit draws, are secured by approximately \$31.1 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, 2020.

The approximate annual principal payments on notes payable at December 31, 2020 were as follows:

Years ending December 31,	
2021	\$ 568,000
2022	4,620,000
2023	1,144,000
2024	292,000
2025	4,296,000
Thereafter	<u>2,695,000</u>
	<u>\$ 13,615,000</u>

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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, 2020 were approximately as follows:

Years ending December 31,	
2021	\$ 15,916,000
2022	15,315,000
2023	15,129,000
2024	15,030,000
2025	14,921,000
Thereafter	<u>503,726,000</u>
Total	<u>\$ 580,037,000</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, 2020 and 2019, amounted to approximately \$454,000 and \$2,208,000, respectively, and is included on the statements of activities as rental income, net.

## 9. Commitments

The Trust entered into contracts with various third parties related to its development projects and construction in progress. At December 31, 2020, these contracts totaled approximately \$12,628,000, of which the Trust had incurred approximately \$8,173,000 as of December 31, 2020.

In October 2012, the Trust executed a security 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 security agreement requires the Trust to pay the full amount of the security agreement within forty-five days of receiving supporting evidence of the cost incurred. The security agreement does not bear interest and is secured by approximately \$2,000,000 of marketable securities. As of December 31, 2020, no claim was requested related to the security agreement.

## Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

### 10. Liquidity Disclosure

The Trust's financial assets available within one year of the balance sheet date for general expenditures at December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Financial Assets:		
Cash and cash equivalents	\$ 13,526,127	\$ 6,319,823
Accounts receivable, net	1,293,712	1,348,295
Investment receivable	812,742	2,709,802
Investments:		
Marketable securities	182,858,260	283,985,500
For-profit limited partnership	367,995,600	221,825,932
Real estate	63,047,752	58,423,209
Notes receivable	<u>13,250,000</u>	<u>13,000,000</u>
Financial Assets, at year end	642,784,193	587,612,561
Less those unavailable for general expenditure within one year due to:		
For-profit limited partnership that cannot be liquidated within one year	(257,117,328)	(132,180,557)
Real estate that cannot be liquidated within one year	(63,047,752)	(58,423,209)
Notes receivable that cannot be liquidated within one year	(13,250,000)	(13,000,000)
Board designated net assets	<u>(6,500,000)</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 302,869,113</u>	<u>\$ 384,008,795</u>

# Lili'uokalani Trust

Notes to Financial Statements  
December 31, 2020 and 2019

## 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, 2020, are expected to generate approximately \$15,916,000 during the year 2021. 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), or utilize the Board designated net assets.