

SAMUEL N. AND MARY CASTLE FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Independent Auditors' Report

To the Board of Trustees
Samuel N. and Mary Castle Foundation

We have audited the accompanying financial statements of Samuel N. and Mary Castle Foundation (a nonprofit organization), which comprise the statements of assets and net assets as of December 31, 2017 and 2016, and the related statements of revenues and expenses and changes in net assets 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 the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditors' 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 of 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 assets and net assets of Samuel N. and Mary Castle Foundation as of December 31, 2017 and 2016, and its revenues, expenses and changes in net assets for the years then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Ohta Chum Juen LLP".

Honolulu, Hawaii
June 20, 2018

SAMUEL N. AND MARY CASTLE FOUNDATION
 Statements Of Assets And Net Assets
 December 31, 2017 And 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 872,388	\$ 732,729
Investment securities, at fair value		
Corporate stocks	4,597,580	5,065,951
Government securities	5,620,618	6,271,906
Corporate bonds	4,958,093	4,870,147
Mutual funds	<u>32,046,846</u>	<u>26,400,803</u>
	<u>47,223,137</u>	<u>42,608,807</u>
Undivided interest in land held for lease, at cost	<u>63,985</u>	<u>68,555</u>
	<u>\$48,159,510</u>	<u>\$43,410,091</u>

NET ASSETS

Unrestricted	<u>\$48,159,510</u>	<u>\$43,410,091</u>
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The accompanying notes are an integral part
 of the financial statements.

SAMUEL N. AND MARY CASTLE FOUNDATION
 Statements Of Revenues And Expenses
 And Changes In Net Assets
 Years Ended December 31, 2017 And 2016

	<u>2017</u>	<u>2016</u>
Revenues		
Net unrealized gains on investments	\$ 5,749,417	\$ 1,080,674
Net realized gains on investments	852,170	850,340
Dividends	654,659	725,155
Interest	289,767	276,962
Other	74,707	39,071
Rent	<u>13,378</u>	<u>14,663</u>
Total revenues	<u>7,634,098</u>	<u>2,986,865</u>
Expenses		
Grants and donations through Henry and Dorothy Castle Memorial Fund	1,567,999	1,322,194
Direct grants and donations	688,196	717,500
Fiscal management fees	247,152	235,085
Personnel expense	234,066	203,216
Investment advisory fees	56,576	53,819
Office rent and parking	25,438	26,842
Federal excise tax	24,000	-
Audit and tax return fees	14,429	14,639
Operating expense	11,673	11,109
Conference expense, including travel	8,362	11,764
Meeting expense	2,837	2,474
Printing and publications	1,646	1,207
Insurance, directors/officers liability	1,250	2,426
General excise taxes	844	913
Real estate expense	205	206
License and fees	<u>6</u>	<u>6</u>
Total expenses	<u>2,884,679</u>	<u>2,603,400</u>
Change In Net Assets	4,749,419	383,465
Net Assets, Beginning Of Year	<u>43,410,091</u>	<u>43,026,626</u>
Net Assets, End Of Year	<u>\$48,159,510</u>	<u>\$43,410,091</u>

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

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2017 And 2016

1. Organization

The Samuel N. and Mary Castle Foundation (Foundation) is a tax-exempt private foundation incorporated primarily for charitable, benevolent, and educational purposes through grants and donations awarded by the trustees of the Foundation.

All assets of the Foundation are unrestricted and can be expended in accordance with the provisions of the Foundation's charter and at the discretion of the trustees of the Foundation.

2. Summary Of Significant Accounting Policies

Basis Of Accounting

The Foundation's financial statements are prepared on a modified cash basis; consequently certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Such basis of accounting is considered to be a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Foundation classifies its net assets and its revenues and expenses based on the existence or absence of donor-imposed restrictions. Unrestricted net assets represent resources over which the trustees have discretionary control.

Cash Equivalents

Cash equivalents include investment securities with original maturities of three months or less.

Investments

Investments in debt and equity securities are stated at fair value and realized and unrealized gains and losses are reflected in the statement of revenues and expenses and changes in net assets. Gains or losses on sale of investments are based on the specific identification method.

Fair Value Of Financial Instruments

The Foundation records certain assets at fair value in accordance with Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2017 And 2016

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted market prices that are traded less frequently than exchange-traded instruments. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate-debt securities, and certain alternative investments.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private debt and equity instruments and alternative investments.

Risks And Uncertainties

The Foundation may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those such changes could materially affect the amounts reported in the financial statements.

Subsequent Events

Management has evaluated subsequent events that may require disclosure in these financial statements through June 20, 2018, the date the financial statements were available to be issued.

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2017 And 2016

3. Henry And Dorothy Castle Memorial Fund

The Foundation's charter provides that the first charge against income each year shall be directed to the Henry and Dorothy Castle Memorial Fund (Fund). The purpose of this Fund is to provide resources for the training and education of children through grants and donations awarded by the trustees of the Foundation. For the years ended December 31, 2017 and 2016, grants and donations through the Fund totaled \$1,567,999 and \$1,322,194, respectively.

4. Investments In Securities

At December 31, 2017 and 2016, investments in securities were as follows:

	<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>
Corporate stocks	\$ 3,417,156	\$ 4,597,580
Government securities	5,623,878	5,620,618
Corporate bonds	4,907,506	4,958,093
Mutual funds	<u>22,749,897</u>	<u>32,046,846</u>
	<u>\$36,698,437</u>	<u>\$47,223,137</u>

	<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>
Corporate stocks	\$ 4,416,414	\$ 5,065,951
Government securities	6,315,460	6,271,906
Corporate bonds	4,883,034	4,870,147
Mutual funds	<u>22,218,616</u>	<u>26,400,803</u>
	<u>\$37,833,524</u>	<u>\$42,608,807</u>

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2017 And 2016

The following table presents the Foundation's fair value hierarchy for those assets measured at fair value on December 31, 2017 and 2016.

	2017			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment Securities:				
Corporate stocks	\$ 4,597,580	\$4,597,580	\$ -	\$ -
Government securities	5,620,618	-	5,620,618	-
Corporate bonds	4,958,093	-	4,958,093	-
Mutual funds	<u>32,046,846</u>	<u>-</u>	<u>32,046,846</u>	<u>-</u>
	<u>\$47,223,137</u>	<u>\$4,597,580</u>	<u>\$42,625,557</u>	<u>\$ -</u>

	2016			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment Securities:				
Corporate stocks	\$ 5,065,951	\$5,065,951	\$ -	\$ -
Government securities	6,271,906	-	6,271,906	-
Corporate bonds	4,870,147	-	4,870,147	-
Mutual funds	<u>26,400,803</u>	<u>-</u>	<u>26,400,803</u>	<u>-</u>
	<u>\$42,608,807</u>	<u>\$5,065,951</u>	<u>\$37,542,856</u>	<u>\$ -</u>

5. Fiscal Management Fee

The Foundation's financial affairs are managed by Bank of Hawaii Trust Services Group (Fiscal Agent). For this service, the Fiscal Agent charges a monthly fee to the Foundation based on percentage rates applied to different levels of asset values. Fiscal management fees for the years ended December 31, 2017 and 2016 amounted to \$247,152 and \$235,085, respectively.

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2017 And 2016

6. Lease Arrangements

As Lessee

The Foundation leases office space under an operating lease expiring in November 2021. At December 31, 2017, future minimum lease payments were as follows:

Year Ending December 31,

2018	\$11,120
2019	11,320
2020	11,530
2021	<u>10,735</u>
	<u>\$44,705</u>

Total rent expense in 2017 and 2016 amounted to \$10,913 and \$10,710, respectively.

As Lessor

The Foundation leases its fee interest in real property to others under operating leases expiring in August 2041. The lease rent is subject to adjustment in September 2018 and every 10 years thereafter.

At December 31, 2017, future minimum rental income was as follows:

Year Ending December 31,

2018	\$ 13,100
2019	13,100
2020	13,100
2021	13,100
2022	13,100
Thereafter	<u>244,560</u>
	<u>\$310,060</u>

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2017 And 2016

7. Retirement Plan

The Foundation provides a tax-sheltered annuity plan for its participating employee. Employer contributions are included in personnel expense and amounted to \$21,375 and \$19,250 for 2017 and 2016, respectively.

8. Tax Status

The Foundation is a private foundation exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. The Foundation is, however, liable for private foundation excise taxes on its net investment income and net gains realized from investment transactions.

The Foundation recognizes the effect of income tax positions only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Foundation has evaluated its tax positions and determined that there were no uncertain tax positions at December 31, 2017.

For years ended before December 31, 2014, the Foundation is no longer subject to examinations by taxing authorities.

SCHEDULE 1

SAMUEL N. AND MARY CASTLE FOUNDATION
Schedules Of Changes In Cash Balances
Years Ended December 31, 2017 And 2016

	<u>2017</u>	<u>2016</u>
Balance, Beginning Of Year	\$ 1,851	\$ 19
Receipts		
Proceeds from sales or redemptions of:		
Cash management funds	9,608,475	13,191,650
Corporate stocks	2,174,647	4,544,765
Government securities	2,151,465	2,228,918
Mutual funds	1,696,900	5,786,946
Corporate bonds	1,682,409	1,445,902
Land held for lease	100,000	90,000
Dividends	654,659	725,155
Interest	325,602	308,609
Other	74,707	39,071
Rent	<u>13,378</u>	<u>14,663</u>
	<u>18,482,242</u>	<u>28,375,679</u>
Disbursements		
Purchases of:		
Cash management funds	9,746,398	13,155,453
Corporate bonds	1,699,927	1,914,979
Mutual funds	1,677,593	4,330,099
Government securities	1,484,943	2,497,781
Corporate stocks	986,966	3,872,135
Grants and donations through Henry and Dorothy Castle Memorial Fund	1,567,999	1,322,194
Direct grants and donations	688,196	717,500
Fiscal management fees	247,152	235,085
Personnel expense	234,066	203,216
Investment advisory fees	56,576	53,819
Office rent and parking	25,438	26,842
Federal excise tax	24,000	-
Audit and tax return fees	14,429	14,639
Operating expense	11,673	11,109
Conference expense, including travel	8,362	11,764
Meeting expense	2,837	2,474
Printing and publications	1,646	1,207
Insurance, directors/officers liability	1,250	2,426
General excise and foreign taxes	844	913
Real estate expense	205	206
License and fees	<u>6</u>	<u>6</u>
	<u>18,480,506</u>	<u>28,373,847</u>
Balance, End Of Year	<u>\$ 3,587</u>	<u>\$ 1,851</u>

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Summary Of Grants And Donations
Year Ended December 31, 2017

<u>Purpose</u>	<u>Amount</u>	<u>Percent</u>
Education	\$1,772,999	78.6%
Human Services	463,196	20.5
Culture and Arts	<u>20,000</u>	<u>0.9</u>
Total grants and donations	<u>\$2,256,195</u>	<u>100.0%</u>

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Grants And Donations
Year Ended December 31, 2017

Direct Grants And Donations

Organization	Purpose	Amount
<u>Human Services</u>		
Catholic Charities	To Strengthen Existing Family Support Programs	\$ 57,000
Catholic Charities	Mary Tenney Castle Emergency Fund for Families with Young Children	50,000
Family Support Hawaii	To Strengthen Existing Family Support Programs	55,000
Helping Hands Hawaii	To Strengthen Existing Family Support Programs	30,000
Imua Family Services	To Strengthen Existing Family Support Programs	50,000
Partners in Development Foundation	To Strengthen Existing Family Support Programs	45,000
Special Olympics Hawaii	Construction of Sports and Wellness Center	100,000
The Salvation Army	To Strengthen Existing Family Support Programs	47,196
YWCA of Hawaii Island	To Support Child and Family Programs and to Support Pre-School Capital Improvements	29,000
		<u>463,196</u>
<u>Education</u>		
Family Hui Hawaii	Hui at School Family Engagement Program	25,000
Kokua Kalihi Valley Comprehensive Family Services	Family Literacy Project	30,000
Maui Family Support Services	To Support Early Head Start Program	50,000
Parents and Children Together (P.A.C.T.)	Homeless Pre-School Project	50,000
YMCA of Hawaii Island	Kindergarten Readiness Program	50,000
		<u>205,000</u>
<u>Culture and Arts</u>		
Hawaii Theatre Center	Theatrical Programs for Pre-School Children	10,000
Honolulu Theatre for Youth	Support for 2017 Season Theatrical Productions	10,000
		<u>20,000</u>
	Total direct grants and donations	<u>688,196</u>

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Grants And Donations
Year Ended December 31, 2017

Henry And Dorothy Castle Memorial Fund

Organization	Purpose	Amount
<u>Education</u>		
Ae Kamalii Pre-School	Tuition Assistance for Low-Income Families	\$ 15,000
All God's Children Pre-School	Tuition Assistance to Children from Low-Income Families	5,000
Aloha School Early Learning Center of Hanalei	Purchase of Playground Equipment	3,800
Aloha School Early Learning Center of Hanalei	Tuition Assistance to Children from Low-Income Families	15,000
Armed Services YMCA of Honolulu	Renovation of the Wheeler Pre-School Facility	20,000
Catholic Diocese of Honolulu - Hawaii Catholic Schools	Tuition Assistance for Low-Income Families in Catholic Pre-Schools	50,000
Chaminade University of Honolulu	L. Robert Allen Montessorri Lab School Program Support	10,000
Chaminade University of Honolulu	Early Education Student Scholarships for 2017-18 and 2018-19 Academic Years	125,000
Christian Liberty Academy	Construction of the New Early Childhood Education Building	50,000
Erikson Institute	Pre-School Teacher Training in Early Education Mathematics	84,938
Erikson Institute	Pre-School Teacher Training in Early Literacy	83,908
First United Methodist Church Pre-School	Tuition Assistance to Children from Low-Income Families	20,000
Good Shepherd Pre-School	Tuition Assistance for Low-Income Families	10,000
Hanalani Schools	Tuition Assistance to Children from Low-Income Families	10,000
HANO (Hawaii Alliance of Nonprofit Organizations)	Training for Early Childhood Centers Staff	7,700
Hawaii Arts Alliance	Pre-K Arts Program (3rd Year Support)	20,000
Hawaii Association of Independent Schools	Early Childhood Education Track for 2017 Hawaii Schools of the Future Conference	5,000
Hawaii Children's Action Network	Support for Early Learning Academy and Public Pre-School Induction Activities	25,000
Hawaii Children's Action Network	Operating Support (\$5,000 for Support of the Pre-School Directors Conference in 2018 and \$25,000 for a Public Outreach and Education Campaign in Collaboration with EOEL)	130,000
Hawaii Montessori School	Tuition Assistance to Children from Low-Income Families	15,000
Hui Noeau Visual Arts Center	Pre-School Arts Program	17,000

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Grants And Donations
Year Ended December 31, 2017

Henry And Dorothy Castle Memorial Fund

Organization	Purpose	Amount
<u>Education (continued)</u>		
Iao Pre-School	Tuition Assistance to Children from Low-Income Families	\$ 5,000
Ka Hale O Na Keiki Pre-School	Tuition Assistance to Children from Low-Income Families	15,000
Kamaaina Care (Kamaaina Kids)	Tuition Assistance to Children from Low-Income Families at 3 Pre-School sites: Ewa, Barbers Point and Maili	15,000
Kauai Christian Academy	Pre-School Playground Update	25,000
KCAA Pre-Schools of Hawaii	Muriel Pre-School and Mother Rice Pre-School Campus Improvements	100,000
KCAA Pre-Schools of Hawaii	Tuition Assistance for Students from Low-Income Families	15,000
Makiki Christian Church Pre-School	Tuition Assistance to Children from Low-Income Families	10,000
Makua Lani Christian Academy	Purchase of Playground Structure	25,000
Manoa Valley Church Pre-School	Pre-School Accreditation	10,000
Maui Preparatory Academy	Capital Improvements to the Pre-School Facility and Support for School Outreach to Pre-School Open Doors Students	25,000
Mililani Presbyterian Church Pre-School	Pre-School Renovations	25,000
Montessori Community School	Tuition Assistance for Students from Low-Income Families	10,000
Na Kamalii Hoaloha Pre-School	Tuition Assistance to Children from Low-Income Families	10,000
Rainbow School	Tuition Assistance for Low-Income Families	13,500
Roots School	Pre-School Renovation	25,000
Saint Mark Lutheran Church and School	Construction of Early Learning Center	150,000
Seagull Schools	Tuition Assistance for Low-Income Families	10,000
St. Andrew's Priory School	Phase I of Pre-School Renovations	55,000
St. Theresa School	Pre-School Building Repairs	13,653
Storybook Theater	Pre-K Reading Program	7,500
Trinity Lutheran Church Pre-School	Capital Improvements	25,000
University of Hawaii Foundation	Early Education Scholarships for Current and Prospective Pre-School Teachers	125,000
Waikiki Community Center	Classroom Construction	25,000
Waikiki Community Center	Tuition Assistance to Children from Low-Income Families	20,000
Wailuku Union Church Pre-School	Shade Cover for Playground plus Capital Campaign Plan	50,000

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Grants And Donations
Year Ended December 31, 2017

Henry And Dorothy Castle Memorial Fund

<u>Organization</u>	<u>Purpose</u>	<u>Amount</u>
<u>Education (continued)</u>		
Wailuku Union Church Pre-School	Tuition Assistance to Children from Low-Income Families	\$ 16,000
YWCA of Hawaii Island	Tuition Assistance for Students from Low-Income Families	<u>20,000</u>
	Total grants and donations through Henry and Dorothy Castle Memorial Fund	<u>1,567,999</u>
	Total grants and donations, direct and through Henry and Dorothy Castle Memorial Fund	<u><u>\$ 2,256,195</u></u>

See accompanying independent auditors' report.