

# **Hawai'i Community Foundation**

(A Nonprofit Organization)

**Financial Statements**

**December 31, 2015 and 2014**

**Hawai'i Community Foundation**  
**(A Nonprofit Organization)**  
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## **Independent Auditor's Report**

To the Board of Governors of  
Hawai'i Community Foundation

### **Report on the Financial Statements**

I have audited the accompanying financial statements of Hawai'i Community Foundation (the "Foundation"), which comprise the statements of assets, liabilities and net assets (modified cash basis) as of December 31, 2015 and 2014, and the related statements of revenues and expenses and changes in net assets (modified cash basis) 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 described in Note 1; 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.

### ***Auditor's Responsibility***

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Foundation as of December 31, 2015 and 2014, and its revenues, expenses and changes in net assets for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

***Basis of Accounting***

I draw attention to Note 1 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. My opinion is not modified with respect to this matter.

***Other Matters - Supplementary Information***

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The pooled income fund investments schedules on pages 26 and 27 are presented for purposes of additional analysis and are 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 audits 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*James P. Hesselman, CPA, LLC*

Honolulu, Hawai'i  
July 14, 2016

**Hawai'i Community Foundation**  
**(A Nonprofit Organization)**  
**Statement of Assets, Liabilities and Net Assets (Modified Cash Basis)**  
**December 31, 2015**

|                                   | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|-----------------------------------|-----------------------|---------------------------|---------------------------|-----------------------|
| <b>Assets</b>                     |                       |                           |                           |                       |
| Investments, at fair value        |                       |                           |                           |                       |
| Combined investment funds         | \$ 339,839,605        | \$ 3,194,364              | \$ 5,303,505              | \$ 348,337,474        |
| Money market mutual funds         | 54,098,188            | 7,465,628                 | 3,446                     | 61,567,262            |
| Mutual funds                      | 39,290,362            | 1,393,329                 | 653,287                   | 41,336,978            |
| Common stocks                     | 6,207,769             | -                         | -                         | 6,207,769             |
| U.S. government bonds             | 12,683,856            | -                         | -                         | 12,683,856            |
| Corporate bonds                   | 12,762,132            | -                         | -                         | 12,762,132            |
| Municipal bonds                   | 3,763,497             | -                         | -                         | 3,763,497             |
| Privately managed investment fund | 1,493,512             | -                         | -                         | 1,493,512             |
| Real estate limited partnerships  | 18,490,000            | -                         | -                         | 18,490,000            |
| Total investments                 | <u>488,628,921</u>    | <u>12,053,321</u>         | <u>5,960,238</u>          | <u>506,642,480</u>    |
| Cash and cash equivalents         | 262,636               | -                         | -                         | 262,636               |
| Property, net                     | 371,894               | -                         | -                         | 371,894               |
| Security deposit and other        | 207,838               | -                         | -                         | 207,838               |
| Total assets                      | <u>\$ 489,471,289</u> | <u>\$ 12,053,321</u>      | <u>\$ 5,960,238</u>       | <u>\$ 507,484,848</u> |
| <b>Liabilities and Net Assets</b> |                       |                           |                           |                       |
| <b>Liabilities</b>                |                       |                           |                           |                       |
| Contract funds held for           |                       |                           |                           |                       |
| Tobacco Fund                      | \$ 44,010,505         | \$ -                      | \$ -                      | \$ 44,010,505         |
| Gift annuity liabilities          | 946,880               | -                         | -                         | 946,880               |
| Funds held as agency endowments   | 1,447,895             | -                         | -                         | 1,447,895             |
| Other                             | 3,889                 | -                         | -                         | 3,889                 |
| Total liabilities                 | <u>46,409,169</u>     | <u>-</u>                  | <u>-</u>                  | <u>46,409,169</u>     |
| <b>Net assets</b>                 |                       |                           |                           |                       |
| Unrestricted                      | 443,062,120           | -                         | -                         | 443,062,120           |
| Temporarily restricted            | -                     | 12,053,321                | -                         | 12,053,321            |
| Permanently restricted            | -                     | -                         | 5,960,238                 | 5,960,238             |
| Total net assets                  | <u>443,062,120</u>    | <u>12,053,321</u>         | <u>5,960,238</u>          | <u>461,075,679</u>    |
| Total liabilities and net assets  | <u>\$ 489,471,289</u> | <u>\$ 12,053,321</u>      | <u>\$ 5,960,238</u>       | <u>\$ 507,484,848</u> |

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

**Hawai'i Community Foundation**  
**(A Nonprofit Organization)**  
**Statement of Assets, Liabilities and Net Assets (Modified Cash Basis)**  
**December 31, 2014**

|                                   | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|-----------------------------------|-----------------------|---------------------------|---------------------------|-----------------------|
| <b>Assets</b>                     |                       |                           |                           |                       |
| Investments, at fair value        |                       |                           |                           |                       |
| Combined investment funds         | \$ 331,778,925        | \$ 3,499,847              | \$ 5,244,061              | \$ 340,522,833        |
| Money market mutual funds         | 53,842,681            | 4,201,937                 | -                         | 58,044,618            |
| Mutual funds                      | 31,985,210            | 1,704,441                 | 653,677                   | 34,343,328            |
| Common stocks                     | 5,914,848             | -                         | -                         | 5,914,848             |
| U.S. government bonds             | 10,784,441            | -                         | -                         | 10,784,441            |
| Corporate bonds                   | 13,574,925            | -                         | -                         | 13,574,925            |
| Municipal bonds                   | 2,725,832             | -                         | -                         | 2,725,832             |
| Privately managed investment fund | 8,189,378             | -                         | -                         | 8,189,378             |
| Real estate limited partnerships  | 15,487,000            | -                         | -                         | 15,487,000            |
| Total investments                 | <u>474,283,240</u>    | <u>9,406,225</u>          | <u>5,897,738</u>          | <u>489,587,203</u>    |
| Cash and cash equivalents         | 422,642               | -                         | -                         | 422,642               |
| Property, net                     | 372,424               | -                         | -                         | 372,424               |
| Security deposit and other        | 254,332               | -                         | -                         | 254,332               |
| Total assets                      | <u>\$ 475,332,638</u> | <u>\$ 9,406,225</u>       | <u>\$ 5,897,738</u>       | <u>\$ 490,636,601</u> |
| <b>Liabilities and Net Assets</b> |                       |                           |                           |                       |
| <b>Liabilities</b>                |                       |                           |                           |                       |
| Contract funds held for           |                       |                           |                           |                       |
| Tobacco Fund                      | \$ 45,499,331         | \$ -                      | \$ -                      | \$ 45,499,331         |
| Gift annuity liabilities          | 1,148,906             | -                         | -                         | 1,148,906             |
| Funds held as agency endowments   | 1,390,087             | -                         | -                         | 1,390,087             |
| Other                             | 101,377               | -                         | -                         | 101,377               |
| Total liabilities                 | <u>48,139,701</u>     | <u>-</u>                  | <u>-</u>                  | <u>48,139,701</u>     |
| <b>Net assets</b>                 |                       |                           |                           |                       |
| Unrestricted                      | 427,192,937           | -                         | -                         | 427,192,937           |
| Temporarily restricted            | -                     | 9,406,225                 | -                         | 9,406,225             |
| Permanently restricted            | -                     | -                         | 5,897,738                 | 5,897,738             |
| Total net assets                  | <u>427,192,937</u>    | <u>9,406,225</u>          | <u>5,897,738</u>          | <u>442,496,900</u>    |
| Total liabilities and net assets  | <u>\$ 475,332,638</u> | <u>\$ 9,406,225</u>       | <u>\$ 5,897,738</u>       | <u>\$ 490,636,601</u> |

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

**Hawai'i Community Foundation**  
**(A Nonprofit Organization)**  
**Statement of Revenues and Expenses and**  
**Changes in Net Assets (Modified Cash Basis)**  
**Year Ended December 31, 2015**

|  | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|--|-----------------------|---------------------------|---------------------------|-----------------------|
| <b>Revenues</b>  |                       |                           |                           |                       |
| Contributions available for grant making and programs        | \$ 19,077,414         | \$ 3,800,963              | \$ -                      | \$ 22,878,377         |
| Contracts and grants   | 296,364               | 2,352,000                 | -                         | 2,648,364             |
| Contracts and grants – Tobacco Fund                          | 1,453,217             | -                         | -                         | 1,453,217             |
| Investment return expendable for grant making and operations | 20,099,591            | 234,895                   | -                         | 20,334,486            |
| Income from perpetual trusts                                 | 2,501,615             | 446,829                   | -                         | 2,948,444             |
| Service and administrative fees                              | 1,409,752             | -                         | -                         | 1,409,752             |
| Net assets released from restrictions                        |                       |                           |                           |                       |
| Satisfaction of program restrictions                         | 3,784,393             | (3,784,393)               | -                         | -                     |
| Other  | 95,591                | -                         | -                         | 95,591                |
| Total revenues   | <u>48,717,937</u>     | <u>3,050,294</u>          | <u>-</u>                  | <u>51,768,231</u>     |
| <b>Expenses</b>  |                       |                           |                           |                       |
| Grants and scholarships                                      | 28,148,290            | -                         | -                         | 28,148,290            |
| Grants – Tobacco Fund  | 1,325,759             | -                         | -                         | 1,325,759             |
| Program services   | 5,228,234             | -                         | -                         | 5,228,234             |
| Finance and administration                                   | 3,294,235             | -                         | -                         | 3,294,235             |
| Charitable services and donor relations                      | 3,187,749             | -                         | -                         | 3,187,749             |
| Total expenses   | <u>41,184,267</u>     | <u>-</u>                  | <u>-</u>                  | <u>41,184,267</u>     |
| Change in net assets from operating activities               | 7,533,670             | 3,050,294                 | -                         | 10,583,964            |
| <b>Nonoperating activities</b>                               |                       |                           |                           |                       |
| Contributions designated for investment of principal         | 15,642,783            | -                         | 62,500                    | 15,705,283            |
| Investment return designated for reinvestment                | (7,845,161)           | (361,217)                 | -                         | (8,206,378)           |
| Change in value of split-interest agreements                 | 537,891               | (41,981)                  | -                         | 495,910               |
| Total nonoperating activities                                | <u>8,335,513</u>      | <u>(403,198)</u>          | <u>62,500</u>             | <u>7,994,815</u>      |
| Total change in net assets                                   | 15,869,183            | 2,647,096                 | 62,500                    | 18,578,779            |
| <b>Net assets</b>  |                       |                           |                           |                       |
| January 1, 2015  | 427,192,937           | 9,406,225                 | 5,897,738                 | 442,496,900           |
| December 31, 2015  | <u>\$ 443,062,120</u> | <u>\$ 12,053,321</u>      | <u>\$ 5,960,238</u>       | <u>\$ 461,075,679</u> |

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

**Hawai'i Community Foundation**  
**(A Nonprofit Organization)**  
**Statement of Revenues and Expenses and**  
**Changes in Net Assets (Modified Cash Basis)**  
**Year Ended December 31, 2014**

|  | Unrestricted          | Temporarily<br>Restricted | Permanently<br>Restricted | Total                 |
|--|-----------------------|---------------------------|---------------------------|-----------------------|
| <b>Revenues</b>  |                       |                           |                           |                       |
| Contributions available for grant making and programs        | \$ 12,575,182         | \$ 1,731,485              | \$ -                      | \$ 14,306,667         |
| Contracts and grants   | 451,921               | 2,404,000                 | -                         | 2,855,921             |
| Contracts and grants – Tobacco Fund                          | 1,500,279             | -                         | -                         | 1,500,279             |
| Investment return expendable for grant making and operations | 15,830,558            | 250,629                   | -                         | 16,081,187            |
| Income from perpetual trusts                                 | 2,511,353             | 439,000                   | -                         | 2,950,353             |
| Service and administrative fees                              | 1,202,547             | -                         | -                         | 1,202,547             |
| Net assets released from restrictions                        |                       |                           |                           |                       |
| Satisfaction of program restrictions                         | 3,400,650             | (3,400,650)               | -                         | -                     |
| Other  | 72,075                | -                         | -                         | 72,075                |
| Total revenues   | <u>37,544,565</u>     | <u>1,424,464</u>          | <u>-</u>                  | <u>38,969,029</u>     |
| <b>Expenses</b>  |                       |                           |                           |                       |
| Grants and scholarships                                      | 28,547,152            | -                         | -                         | 28,547,152            |
| Grants – Tobacco Fund  | 1,500,279             | -                         | -                         | 1,500,279             |
| Program services   | 5,066,335             | -                         | -                         | 5,066,335             |
| Finance and administration                                   | 3,161,052             | -                         | -                         | 3,161,052             |
| Charitable services and donor relations                      | 2,247,018             | -                         | -                         | 2,247,018             |
| Total expenses   | <u>40,521,836</u>     | <u>-</u>                  | <u>-</u>                  | <u>40,521,836</u>     |
| Change in net assets from operating activities               | (2,977,271)           | 1,424,464                 | -                         | (1,552,807)           |
| <b>Nonoperating activities</b>                               |                       |                           |                           |                       |
| Contributions designated for investment of principal         | 8,706,648             | -                         | 155,799                   | 8,862,447             |
| Investment return designated for reinvestment                | 9,324,680             | (7,870)                   | -                         | 9,316,810             |
| Change in value of split-interest agreements                 | (188,353)             | 275,389                   | -                         | 87,036                |
| Total nonoperating activities                                | <u>17,842,975</u>     | <u>267,519</u>            | <u>155,799</u>            | <u>18,266,293</u>     |
| Total change in net assets                                   | 14,865,704            | 1,691,983                 | 155,799                   | 16,713,486            |
| <b>Net assets</b>  |                       |                           |                           |                       |
| January 1, 2014  | 412,327,233           | 7,714,242                 | 5,741,939                 | 425,783,414           |
| December 31, 2014  | <u>\$ 427,192,937</u> | <u>\$ 9,406,225</u>       | <u>\$ 5,897,738</u>       | <u>\$ 442,496,900</u> |

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



**Hawai'i Community Foundation**  
(A Nonprofit Organization)  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

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**1. Organization and Summary of Significant Accounting Policies**

Hawai'i Community Foundation (the "Foundation") is a statewide public community foundation. Its mission is to help people make a difference by inspiring the spirit of giving, and by investing in people and solutions to benefit every island community. The significant accounting policies followed are described below.

**Basis of Accounting**

The Foundation's policy is to prepare its financial statements on the basis of cash receipts and disbursements, except that investments are carried at fair value, major property items are capitalized, noncash gifts and bequests are recorded at fair value at the date received, and changes in the fair value of investments and depreciation expense are included in the Statement of Revenues and Expenses and Changes in Net Assets (modified cash basis). Accordingly, the accompanying financial statements are not intended to present financial position and changes in net assets in conformity with accounting principles generally accepted in the United States of America (i.e., "GAAP").

Some of the more significant differences between GAAP accounting and the Foundation's modified cash basis of accounting include: contribution income under GAAP is recorded when an irrevocable pledge is received rather than when the cash is received; grants expense under GAAP is recorded when a binding commitment to disburse funds is communicated to the grant recipient, rather than when the cash is disbursed; a financial interest in an irrevocable trust under GAAP is recorded when an entity is named as the remainder interest beneficiary, rather than when the gift is received; assets held in trust by others are recognized under GAAP in the Statement of Assets, Liabilities and Net Assets based on the fair value of such assets, but are not recognized under the modified cash basis of accounting until transferred to the Foundation; and the financial statements of supporting organizations over which the Foundation has control are not consolidated into the Foundation's financial statements.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements 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. Actual results could differ from those estimates.

**Risks and Uncertainties**

The Foundation invests in or holds a variety of investment vehicles, including common stock, corporate and governmental obligations, mutual funds, and investment partnerships. These investments are exposed to interest rate, market, credit and other risks depending on the nature of the specific investment. Accordingly, it is at least reasonably possible that these factors will result in changes in the value of the Foundation's investments, which could materially affect amounts reported in the financial statements.

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(A Nonprofit Organization)  
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**December 31, 2015 and 2014**

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**Measure of Operations**

In the Statement of Revenues and Expenses and Changes in Net Assets, the Foundation includes in its definition of operations all revenues and expenses except for contributions designated for investment of principal and any associated releases of restrictions thereon, investment income designated for reinvestment, and changes in value of split-interest agreements.

**Cash and Cash Equivalents**

The Foundation considers all highly liquid debt investments with original maturities of three months or less when purchased to be cash equivalents, except for cash management funds maintained in the investment portfolio. The Foundation maintains its cash and cash equivalent balances with a high credit quality bank in Honolulu. Balances are secured by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation's balances are generally in excess of federally insured limits. Management believes the Foundation is not exposed to any significant credit risk with respect to its cash balances.

**Investments**

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for a discussion of fair value measurements.

Certain trust form component funds are placed in investment trust accounts called combined investment funds. The investment trust accounts are operated using the "market value unit method." Under this method, each component fund within the combined investment funds is assigned a number of units based upon the relationship of the market value of the funds' investments to all the combined investment funds' investments at the time of entry into the investment accounts. Combined investment funds earnings are allocated and distributed to participating funds based on their respective units in the accounts.

Certain corporate form component funds are also combined for investment management purposes in combined investment funds. Monthly investment earnings are allocated and distributed to participating funds based on average daily balances.

The primary investment objective of the combined investment funds is to provide for long term growth of capital and earnings without undue exposure to risk. The combined investment funds are also invested to preserve the real value (after inflation) of its assets while providing maximum earnings for grantmaking. Investment guidelines provide for a total rate of return net of fees, and define asset allocation targets and ranges. Investment performance is measured on both an absolute and relative basis compared to a targeted composite index.

Net realized and unrealized gains and losses on investments are reflected in the Statement of Revenues and Expenses and Changes in Net Assets.

**Payout Policy**

The Foundation adheres to a payout policy in order to preserve the growth of its endowment assets and to ensure that the Foundation has a steady and growing stream of earnings to meet community needs.

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The payout that the Foundation distributes from the combined investment funds to each participating component fund for grants and program expenses is calculated by multiplying a fixed percentage by a base. The fixed percentage is reviewed periodically in light of evolving trends with respect to investment returns and the rate of inflation. The Foundation's payout percentage factor was 4% in 2015 and 2014. However, if the market value of a component fund drops below the contributions to the principal, then the payout percentage factor is reduced to 2%. Additionally, administrative service fees are paid to the Foundation from the combined investment funds to provide for the cost of administration.

The base is a 48-month rolling average unit market value of the combined investment funds, multiplied by the current number of units in the combined investment funds. Computation of the payout is made annually.

To the extent the payout exceeds interest and dividend income for the period, it is made from accumulated realized and/or unrealized gains.

**Property**

Property is stated at cost if purchased or fair value if donated at the date received. Property purchased with a cost in excess of \$500 and a useful life exceeding one year is capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of such property (5 to 7 years), or lease term, if shorter. Gains or losses from the disposition of property are included in current operations.

**Fund Management**

To ensure observation of limitations and restrictions placed on the use of resources available to the Foundation, the accounts of the Foundation are managed as individual charitable funds, according to their nature and purpose. The Foundation's funds are as follows:

***Operating Fund***

The operating fund includes service fees, grants, contributions, and other revenues used to support the operating expenses of the Foundation.

***Board Discretionary Funds***

The board discretionary funds include contributions from donors who do not place any restrictions on their gifts, with the intention that the payout be used for general charitable purposes. Principal contributions are generally invested in perpetuity under the Foundation's Declaration of Trust. The Board of Governors determines how the payout is to be distributed.

***Designated, Donor Advised, and Field of Interest Funds***

The designated, donor advised, and field of interest funds include contributions from donors who indicate a field of charitable endeavor to which the payout is to be directed, who name specific charities to be income recipients, or who describe a group of individuals on whose behalf funds are to be expended. Principal contributions are generally invested in perpetuity under the Foundation's Declaration of Trust. Because of the Board of Governor's power to modify any restriction or condition in the distribution of funds, the amounts in these funds have been classified as unrestricted in the accompanying financial statements.

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***Pooled Income Fund***

The pooled income fund was created to increase the endowment assets of the Foundation and to promote support to community charities. Donors contribute to the Foundation and receive income for life. Generally, at a donor's death, the residue of the gift is transferred to establish a board discretionary or designated fund, and earnings thereafter are distributed in accordance with the donor's instructions given at the time of the gift. The pooled income fund is considered temporarily restricted until, at the time of a donor's death, the funds are transferred to establish a board discretionary, designated, donor advised, or field of interest (component) fund of the Foundation.

***Gift Annuities***

The Foundation has entered into several charitable gift annuities whereby the Foundation has received a transfer of assets from a donor and is obligated to pay the donor quarterly payments for the remainder of their lifetime. Upon death of the donor, the agreements generally stipulate that a portion of the residual balance be paid out to specified beneficiary organizations and the balance shall be retained by the Foundation. Contribution revenue from gift annuities is recognized at the date assets are received, net of gift annuity liabilities recorded. Gift annuity liabilities pertain to the Foundation's liability to the primary donor, based on the present value of payments to be made to the donor over their estimated remaining lifetime, and to the specified beneficiary organization based on their percentage interest in any residual net asset. The present value of payments to be made to the primary donors is calculated annually based on published mortality tables and discount rates ranging from 1.6% to 7.6%.

**Classification of Net Assets**

Financial statements of not-for-profit organizations measure aggregate net assets based on the absence or existence of donor-imposed restrictions. To meet this objective net assets are classified as unrestricted, temporarily restricted or permanently restricted.

Brief definitions of the three net asset classes are presented below:

***Unrestricted***

Net assets that are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in permanently or temporarily restricted net assets.

GAAP provides that if the governing body of an organization has the ability to modify a donor restriction or condition (i.e. variance power), the contribution should be classified as an unrestricted net asset. The Foundation's variance power is promulgated in its By-Laws, Declarations of Trust and gift instruments. Accordingly, all net assets and related activity over which the Foundation maintains variance power are classified as unrestricted net assets in the Foundation's financial statements. Although these assets are classified as unrestricted, the Foundation's policies and procedures for administering its charitable funds are to always follow the donor's intent as closely as possible.

***Temporarily Restricted***

Net assets that include contributions and pledges whose use by the Foundation is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled or otherwise removed by the actions of the Foundation. This classification includes income and appreciation

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which can be expended but for which restrictions have not yet been met. Foundation net assets that are temporarily restricted are primarily comprised of the pooled income fund, special purpose funds, and charitable gift annuities.

***Permanently Restricted***

Net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Foundation. Foundation net assets that are permanently restricted consist of permanent endowment funds that are not subject to the Foundation's variance power.

**Fair Value of Financial Instruments**

Investments are recorded at fair value as described above and in Note 3. The carrying amount of cash approximates fair value due to its short term nature. Funds held for other organizations and funds held as agency endowments are recorded at the fair values of the corresponding assets. Gift annuity liabilities are carried at the present value of the total future payments to annuitants and beneficiaries, based on discount rates in effect at the date of the gift.

**Functional Allocation of Expenses**

The costs of providing the Foundation's programs and other services have been summarized on a functional basis in the Statement of Revenues and Expenses and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Program services represent those costs associated with evaluating, recommending and monitoring applications, grants and programs. Finance and administration represents those costs associated with operational management, oversight of the Foundation's policies and procedures, and management of the Foundation's investment portfolio. Charitable services and donor relations, represent fundraising costs associated with communicating and assisting the general public along with potential and existing donors regarding the most effective ways to meet their charitable giving goals.

**Advertising Costs**

Advertising costs are charged to expense as incurred and are nominal.

**Income Taxes**

The Foundation has received a determination from the Internal Revenue Service that its stated purpose is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the Foundation is exempt from federal and state income and excise taxes, except on unrelated business income.

Management believes the Foundation's tax years prior to 2012 are no longer subject to examination by the Internal Revenue Service. Management is not aware of any significant uncertain tax positions taken on previously filed tax returns.

**Reclassifications**

Certain 2014 footnote disclosures have been reclassified to conform to the 2015 presentation. These reclassifications have no effect on the 2014 change in net assets as previously reported.

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**2. Contributions**

Contributions for the years ended December 31, 2015 and 2014 consisted of the following:

|                            | <b>2015</b>          | <b>2014</b>          |
|----------------------------|----------------------|----------------------|
| Contributions to principal | \$ 15,705,283        | \$ 8,862,447         |
| Contributions to income    | 22,878,377           | 14,306,667           |
|                            | <u>\$ 38,583,660</u> | <u>\$ 23,169,114</u> |

In 2015, six donors made contributions of \$1 million or more, aggregating approximately \$20 million. In 2014, five donors made contributions of \$1 million or more, aggregating approximately \$7 million.

Contributions to principal are gifts intended to be invested in perpetuity. Distributions from these gifts are disbursed as grants or program expenditures to support charitable endeavors as provided in the payout policy.

Contributions to income consist of gifts intended to be paid out in their entirety as charitable grants and are available for use immediately.

**3. Fair Value Measurements**

Generally accepted accounting principles provide a framework for establishing fair value measurements. That framework provides a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

This fair value hierarchy consists of three broad levels:

- Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets and have the highest priority;
- Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument;
- Level 3 inputs consist of significant unobservable inputs and include situations where is little, if any, market activity for the investment. The inputs require significant judgment or estimates, such as those associated with discounted cash flow methodologies and appraisals.

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When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

Fair values of assets measured on a recurring basis are as follows as of December 31, 2015:

| December 31, 2015                | Fair Value            | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs Other Than Active Markets (Level 2) | Significant Unobservable Inputs (Level 3) |
|----------------------------------|-----------------------|--|---|---|
| <b>Common stock</b>              |                       |  |   |   |
| Basic materials                  | \$ 1,569,070          | \$ 1,569,070   | \$ -  | \$ -                                      |
| Capital goods                    | 5,028,750             | 5,028,750  | -   | -   |
| Communication services           | 1,859,220             | 1,859,220  | -   | -   |
| Consumer goods                   | 15,087,815            | 15,087,815   | -   | -   |
| Energy                           | 3,737,000             | 3,737,000  | -   | -   |
| Financials                       | 10,969,178            | 10,969,178   | -   | -   |
| Health care                      | 7,865,095             | 7,865,095  | -   | -   |
| Technology                       | 12,047,018            | 12,047,018   | -   | -   |
| Utilities                        | 1,714,191             | 1,714,191  | -   | -   |
| Other                            | 897,594               | 897,594  | -   | -   |
| Total common stock               | <u>60,774,931</u>     |  |   |   |
| <b>Mutual and Other Funds</b>    |                       |  |   |   |
| Large cap                        | 92,429,274            | 92,429,274   | -   | -   |
| Mid cap                          | 21,736,703            | 21,736,703   | -   | -   |
| Small cap                        | 722,956               | 722,956  | -   | -   |
| Alternatives                     | 6,065,377             | 6,065,377  | -   | -   |
| Emerging markets                 | 4,557,820             | 4,557,820  | -   | -   |
| International                    | 73,221,567            | 73,221,567   | -   | -   |
| Real estate                      | 5,813,028             | 5,813,028  | -   | -   |
| Fixed income                     | 56,441,699            | 56,441,699   | -   | -   |
| Total mutual/other funds         | <u>260,988,424</u>    |  |   |   |
| Money market mutual funds        | 75,379,985            | 75,379,985   | -   | -   |
| U.S. Treasury bonds              | 16,467,605            | -  | 16,467,605  | -   |
| U.S. Gov't agency securities     | 20,200,701            | -  | 20,200,701  | -   |
| Corporate bonds                  | 42,344,620            | -  | 42,344,620  | -   |
| Municipal bonds                  | 8,772,351             | -  | 8,772,351   | -   |
| Mortgage-backed securities       | 1,730,351             | -  | 1,730,351   | -   |
| Privately managed equity fund    | 1,493,512             | -  | 1,493,512   | -   |
| Real estate limited partnerships | 18,490,000            | -  | -   | 18,490,000                                |
| Total                            | <u>\$ 506,642,480</u> | <u>\$ 397,143,340</u>  | <u>\$ 91,009,140</u>  | <u>\$ 18,490,000</u>                      |

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Fair values of assets measured on a recurring basis are as follows as of December 31, 2014:

| December 31, 2014                | Fair Value            | Prices in Active Markets for Identical Assets (Level 1) | Observable Inputs Other Than Active Markets (Level 2) | Significant Unobservable Inputs (Level 3) |
|----------------------------------|-----------------------|---|---|---|
| <b>Common stock</b>              |                       |   |   |   |
| Basic materials                  | \$ 3,025,196          | \$ 3,025,196  | \$ -  | \$ -                                      |
| Capital goods                    | 3,336,033             | 3,336,033   | -   | -   |
| Communication services           | 1,266,495             | 1,266,495   | -   | -   |
| Consumer goods                   | 13,271,137            | 13,271,137  | -   | -   |
| Energy                           | 4,934,251             | 4,934,251   | -   | -   |
| Financials                       | 11,894,277            | 11,894,277  | -   | -   |
| Health care                      | 8,947,870             | 8,947,870   | -   | -   |
| Technology                       | 12,790,058            | 12,790,058  | -   | -   |
| Utilities                        | 1,665,712             | 1,665,712   | -   | -   |
| Other                            | 1,752,065             | 1,752,065   | -   | -   |
| Total common stock               | <u>62,883,094</u>     |   |   |   |
| <b>Mutual and Other Funds</b>    |                       |   |   |   |
| Large cap                        | 87,219,451            | 87,219,451  | -   | -   |
| Mid cap                          | 20,415,113            | 20,415,113  | -   | -   |
| Small cap                        | 6,395,964             | 6,395,964   | -   | -   |
| Alternatives                     | 89,577                | 89,577  | -   | -   |
| Emerging markets                 | 3,016,283             | 3,016,283   | -   | -   |
| International                    | 70,168,544            | 70,168,544  | -   | -   |
| Natural resources                | 1,673,429             | 1,673,429   | -   | -   |
| Real estate                      | 6,783,400             | 6,783,400   | -   | -   |
| Fixed income                     | 47,832,470            | 47,832,470  | -   | -   |
| Total mutual/other funds         | <u>243,594,231</u>    |   |   |   |
| Money market mutual funds        | 67,083,448            | 67,083,448  | -   | -   |
| U.S. Treasury bonds              | 18,076,719            | -   | 18,076,719  | -   |
| U.S. Gov't agency securities     | 16,947,524            | -   | 16,947,524  | -   |
| Corporate bonds                  | 47,907,530            | -   | 47,907,530  | -   |
| Municipal bonds                  | 7,761,370             | -   | 7,761,370   | -   |
| Mortgage-backed securities       | 1,656,909             | -   | 1,656,909   | -   |
| Privately managed equity fund    | 8,189,378             | -   | 8,189,378   | -   |
| Real estate limited partnerships | 15,487,000            | -   | -   | 15,487,000                                |
| Total                            | <u>\$ 489,587,203</u> | <u>\$ 373,560,773</u>                                   | <u>\$ 100,539,430</u>                                 | <u>\$ 15,487,000</u>                      |

Investments in corporate bonds are investment grade and diversified among multiple industry sectors, primarily with U.S. based issuers. Investment in privately managed investment fund is in a limited partnership that invests substantially all of its investable assets in a master investment fund related to the limited partnership. The master fund invests primarily in privately managed investment funds with investment strategies that include long and short positions, distressed debt, event driven, arbitrage and emerging markets, with geographic emphasis on both U.S. and global



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markets. The Foundation may make semi-annual withdrawals with 90 days written notice. There are no unfulfilled capital commitments with respect to this investment.

Following is a description of the valuation methodologies used for assets at fair value.

*Common stock:* Valued at the closing price reported on active stock exchanges.

*Money market, mutual and exchange traded funds:* Valued at the closing price reported on active stock exchanges.

*Corporate bonds:* Corporate bonds are valued primarily by pricing models that incorporate available trade, bid and other market information.

*U.S. government and municipal obligations:* These securities are valued by pricing models that incorporate available trade, bid and other market information.

*Mortgage-backed securities:* This asset group consists of collateralized mortgage obligations and mortgage pass-thru pools. The securities are valued by pricing models that incorporate available trade, bid and other market information.

*Privately managed equity fund:* Valued at partner's capital, as reported by the investment manager, which represents redemption value.

*Real estate limited partnerships:* Valued based on valuations performed by the custodial bank or independent appraisers, which generally utilize a discounted cash flow approach.

*Additional Disclosures for Level 3 investments:*

|  | <b>Real<br/>Estate<br/>Limited<br/>Partnerships</b> |
|--|---|
| <b>December 31, 2014</b>   |   |
| Beginning balance  | \$ 11,973,255                                       |
| Gains or losses (realized and unrealized)<br>included in changes in net assets | 3,513,745   |
| Ending balance   | <u>\$ 15,487,000</u>                                |
| <b>December 31, 2015</b>   |   |
| Beginning balance  | \$ 15,487,000                                       |
| Gains or losses (realized and unrealized)<br>included in changes in net assets | 18,403,000  |
| Distribution of partnership gain   | (15,400,000)  |
| Ending balance   | <u>\$ 18,490,000</u>                                |

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**4. Investments**

The Foundation's investments at December 31, 2015 and 2014 were as follows:

|   | <b>2015</b>           | <b>2014</b>           |
|---|-----------------------|-----------------------|
| <b>Combined investment funds</b>            |                       |                       |
| Common stock                                | \$ 54,567,162         | \$ 56,968,246         |
| U.S. Treasury and other government agencies | 23,984,450            | 24,239,802            |
| Corporate bonds                             | 29,582,488            | 34,332,605            |
| Municipal bonds                             | 5,008,854             | 5,035,538             |
| Mutual and other funds                      | 219,651,446           | 209,250,903           |
| Money market mutual funds                   | 13,812,723            | 9,038,830             |
| Mortgage-backed securities                  | 1,730,351             | 1,656,909             |
| Total combined investment funds             | <u>348,337,474</u>    | <u>340,522,833</u>    |
| Money market mutual funds                   | 61,567,262            | 58,044,618            |
| Mutual funds                                | 41,336,978            | 34,343,328            |
| Common stocks                               | 6,207,769             | 5,914,848             |
| U.S. Treasury and other agency bonds        | 12,683,856            | 10,784,441            |
| Corporate bonds                             | 12,762,132            | 13,574,925            |
| Municipal bonds                             | 3,763,497             | 2,725,832             |
| Privately managed investment fund           | 1,493,512             | 8,189,378             |
| Real estate limited partnerships            | 18,490,000            | 15,487,000            |
|   | <u>\$ 506,642,480</u> | <u>\$ 489,587,203</u> |

Investment return consisted of the following for 2015:

|  | <b>Unrestricted</b>  | <b>Temporarily Restricted</b> | <b>Total</b>         |
|--|----------------------|-------------------------------|----------------------|
| <b>Composition of Investment Return</b>  |                      |                               |                      |
| Interest and dividends   | \$ 10,618,074        | \$ 234,895                    | \$ 10,852,969        |
| Realized and unrealized losses   | (12,309,798)         | (361,217)                     | (12,671,015)         |
| Limited partnership distributions  | 16,416,000           | -                             | 16,416,000           |
| Less investment fees   | (2,469,846)          | -                             | (2,469,846)          |
|  | <u>\$ 12,254,430</u> | <u>\$ (126,322)</u>           | <u>\$ 12,128,108</u> |
| <b>As Presented in the Statement of Revenues, Expenses and Changes in Net Assets</b> |                      |                               |                      |
| Investment return expendable for grant making and operations                         | \$ 20,099,591        | \$ 234,895                    | \$ 20,334,486        |
| Investment return designated for reinvestment  | (7,845,161)          | (361,217)                     | (8,206,378)          |
|  | <u>\$ 12,254,430</u> | <u>\$ (126,322)</u>           | <u>\$ 12,128,108</u> |

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Investment return consisted of the following for 2014:

|  | Unrestricted         | Temporarily<br>Restricted | Total                |
|--|----------------------|---------------------------|----------------------|
| <b>Composition of Investment Return</b>  |                      |                           |                      |
| Interest and dividends   | \$ 10,612,451        | \$ 250,629                | \$ 10,863,080        |
| Realized and unrealized gains  | 15,891,578           | (7,870)                   | 15,883,708           |
| Limited partnership distributions  | 1,019,000            | -                         | 1,019,000            |
| Less investment fees   | <u>(2,367,791)</u>   | <u>-</u>                  | <u>(2,367,791)</u>   |
|  | <u>\$ 25,155,238</u> | <u>\$ 242,759</u>         | <u>\$ 25,397,997</u> |
| <b>As Presented in the Statement of Revenues, Expenses and Changes in Net Assets</b> |                      |                           |                      |
| Investment return expendable for grant making and operations                         | \$ 15,830,558        | \$ 250,629                | \$ 16,081,187        |
| Investment return designated for reinvestment  | <u>9,324,680</u>     | <u>(7,870)</u>            | <u>9,316,810</u>     |
|  | <u>\$ 25,155,238</u> | <u>\$ 242,759</u>         | <u>\$ 25,397,997</u> |

Investment fees consist primarily of trustee, investment management and custodial fees paid to the Foundation's trustees, Bank of Hawaii, First Hawaiian Bank, and Central Pacific Bank, as well as to other investment managers.

**5. Property**

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

|   | 2015              | 2014              |
|---|-------------------|-------------------|
| Equipment                                       | \$ 939,699        | \$ 900,927        |
| Furniture and fixtures                          | 83,749            | 68,204            |
| Software  | 488,632           | 487,208           |
| Property used for program purposes              | 129,100           | 129,100           |
| Leasehold improvements                          | <u>52,087</u>     | <u>19,728</u>     |
|   | 1,693,267         | 1,605,167         |
| Less: Accumulated depreciation and amortization | <u>1,421,833</u>  | <u>1,333,203</u>  |
|   | 271,434           | 271,964           |
| Artwork   | <u>100,460</u>    | <u>100,460</u>    |
|   | <u>\$ 371,894</u> | <u>\$ 372,424</u> |

Depreciation and amortization expense was \$88,628 and \$86,888 in 2015 and 2014, respectively.

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**6. Leases**

The Foundation has several noncancelable operating leases for office space, expiring at various dates through December 2020. The future minimum rental payments for these leases are as follows:

| <b>Years ending</b> |                     |
|---------------------|---------------------|
| 2016                | \$ 216,500          |
| 2017                | 216,400             |
| 2018                | 253,300             |
| 2019                | 238,500             |
| 2020                | 269,300             |
|                     | <u>\$ 1,194,000</u> |

Rental expense for the years ended December 31, 2015 and 2014 was \$372,922 and \$357,315, respectively.

**7. Retirement Plan**

The Foundation has a defined contribution retirement plan covering all employees. Contributions are based upon a percentage of the employees' compensation and are funded currently. Contributions to the plan were approximately \$416,808 and \$437,541 for the years ended December 31, 2015 and 2014, respectively.

**8. Perpetual Trusts and Supporting Organizations**

The Foundation is a beneficiary of income from assets held in perpetual trust by other organizations. The three most significant of these trusts are the Robert E. Black Memorial Trust (the "Black Trust"), the Prisanlee Trust, and the Parker Ranch Foundation Trust.

The Foundation is an income beneficiary of 70% of the income of the Black Trust, a supporting organization of the type described in Section 509(a)(3) of the Internal Revenue Code. At December 31, 2015, the fair value of the Black Trust's assets, which consists of marketable securities, was approximately \$47,392,000; the Foundation's 70% interest was approximately \$33,174,000. At December 31, 2014, the fair value of the Black Trust's assets was approximately \$50,768,000; the Foundation's 70% interest was approximately \$35,538,000.

The Foundation is an income beneficiary of 100% of the income of the Prisanlee Trust, a supporting organization, 27% of which is distributed to specific organizations. At December 31, 2015 and 2014, the fair value of the Prisanlee Trust's assets, which consists of marketable securities, was approximately \$13,298,000 and \$14,426,000 respectively.

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The Foundation is an income beneficiary of 20% of the income of the Parker Ranch Foundation Trust. At December 31, 2015, the audited book value of the Parker Ranch Foundation Trust's net assets, which consists of real property, investments, inventories and other assets, net of liabilities, was approximately \$219,479,000; the Foundation's 20% interest was approximately \$43,896,000. At December 31, 2014, the audited book value of the Parker Ranch Foundation Trust's net assets was approximately \$222,397,000; the Foundation's 20% interest was approximately \$44,479,000.

In 2012, the Foundation participated in the formation of Hawai'i Leadership Forum ("HLF"), a nonprofit organization formed to serve as a supporting organization to the Foundation with a focus on creating and operating leadership programs for individuals in the State of Hawai'i. The majority of HLF's directors are appointed by the board of governors of the Foundation. In 2015 and 2014, the Foundation made grants to HLF amounting to \$1,262,000 and \$1,800,000, respectively.

The Foundation's interests in these perpetual trusts and supporting organizations are not included in the accompanying modified cash basis financial statements.

Income from perpetual trusts for 2015 and 2014 consisted of the following:

| <b>Constituent</b>                        | <b>Fund</b>       | <b>2015</b>         | <b>2014</b>         |
|---|-------------------|---------------------|---------------------|
| Robert E. Black Memorial Trust            | Robert E. Black   | \$ 1,428,700        | \$ 1,382,500        |
| Parker Ranch Foundation Trust             | Richard Smart     | 446,829             | 439,000             |
| Prisanlee Trust                           | Prisanlee         | 703,333             | 650,000             |
|   | Hawaii Children's |                     |                     |
| Wodehouse Trust                           | Trust             | 271,415             | 410,005             |
| Mary Wentworth Deering Trust              | Leahi             | 60,052              | 57,156              |
| F.S. and Mary Lyman Trust                 | Hopper            | 35,104              | 7,387               |
| Frank & Katherine Woodford Memorial Trust | Hopper            | 1,560               | 2,982               |
|   | Discretionary     |                     |                     |
| Kilgo Charitable Trust                    | General Fund      | 1,451               | 1,323               |
|   |                   | <u>\$ 2,948,444</u> | <u>\$ 2,950,353</u> |

**9. Tobacco Prevention and Control Trust Fund**

The Foundation is party to a contract with the State of Hawai'i, Department of Health (the "State"), to be the primary administrator for the Tobacco Prevention and Control Trust Fund (the "Tobacco Fund"). This task involves oversight of investment management and performance of the funds held and the selecting and supporting of programmatic initiatives aimed at delivering direct services associated with tobacco prevention and control. Amounts held by the Foundation are refundable to the State should the State choose to terminate this contract. Such amounts are recorded as contract funds held for Tobacco Fund in the Statement of Assets, Liabilities and Net Assets.

Pursuant to the contract with the State, it is the Foundation's responsibility to make grant disbursements based on general guidelines established by the State and other parties. Accordingly, grant disbursements are generally accounted for as exchange transactions and reflected as

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disbursements in the Statement of Revenues and Expenses and Changes in Net Assets. To the extent that grant disbursements are made pursuant to direction by the State or its agents, such disbursements are accounted for as agency transactions.

At December 31, 2015 and 2014, the Foundation held amounts of \$44,010,505 and \$45,499,331, respectively, related to the Tobacco Fund. As allowed under the agreement with the State, these amounts are invested in money market and other mutual funds, corporate and government bonds, and domestic and international equities.

**10. Charitable Gift Annuities**

Assets and liabilities associated with charitable gift annuities at December 31, 2015 and 2014 were:

|                           | <b>2015</b>         | <b>2014</b>         |
|---------------------------|---------------------|---------------------|
| Assets                    | \$ 807,556          | \$ 348,751          |
| Liabilities               | 946,880             | 1,148,906           |
| Net assets                | <u>\$ (139,324)</u> | <u>\$ (800,155)</u> |
| Composition of net assets |                     |                     |
| Unrestricted              | \$ (291,858)        | \$ (827,713)        |
| Temporarily restricted    | 152,534             | 27,558              |
|                           | <u>\$ (139,324)</u> | <u>\$ (800,155)</u> |

Assets are carried at fair market value and consist primarily of money market funds. Unrestricted net assets (deficit) represent contracts whose liabilities exceed the related assets. Contribution revenue from charitable gift annuities amounted to \$160,025 in 2015.

As required by State law, the Foundation must maintain assets equal to the sum of its reserves on its outstanding annuity agreements, plus a surplus of ten percent of the reserves or \$100,000 whichever is higher. Such assets are segregated from the Foundation's other unrestricted assets.

**11. Funds Held As Agency Endowments**

Agency endowments represent endowment funds established by unaffiliated nonprofit organizations for their own benefit with the Foundation. At December 31, 2015 and 2014, agency endowment funds had a combined value of \$1,447,895 and \$1,390,087, respectively.

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The following table summarizes the activity in these funds for the years ended December 31, 2015 and 2014:

|   |                     |
|---|---------------------|
| <b>Funds held as agency endowments, January 1, 2014</b>   | \$ 1,303,961        |
| Amounts raised  | 380,172             |
| Investment income   | 30,568              |
| Net appreciation of investments                           | 42,349              |
| Grants  | (353,394)           |
| Other   | (13,569)            |
| <b>Funds held as agency endowments, December 31, 2014</b> | <u>1,390,087</u>    |
| Amounts raised  | 493,630             |
| Investment income   | 27,245              |
| Net depreciation of investments                           | (45,180)            |
| Grants  | (403,605)           |
| Other   | (14,282)            |
| <b>Funds held as agency endowments, December 31, 2015</b> | <u>\$ 1,447,895</u> |

**12. Service and Administrative Fees**

The Foundation's operating fund receives fees from its board discretionary, designated, donor advised, and field of interest funds, and from other foundations and organizations for performing certain philanthropic service and administrative functions.

Service and administrative fees for the years ended December 31, 2015 and 2014 presented in the accompanying Statement of Revenues and Expenses and Changes in Net Assets exclude fees from its board discretionary, designated, donor advised and field of interest funds, as follows:

|   | <b>2015</b>         | <b>2014</b>         |
|---|---------------------|---------------------|
| Total service and administrative fees   | \$ 8,794,344        | \$ 8,169,655        |
| Less: Fees received from board discretionary,<br>designated, donor advised, and field of interest funds | <u>7,384,592</u>    | <u>6,967,108</u>    |
| Service and administrative fees from third parties  | <u>\$ 1,409,752</u> | <u>\$ 1,202,547</u> |

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**13. Net Assets**

The Foundation manages many of its unrestricted funds as endowed funds in accordance with donor preferences. Accordingly, the Foundation further classifies its net assets as follows:

| <b>As of December 31, 2015</b>                                  | <b>Unrestricted</b>   | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>          |
|---|-----------------------|-------------------------------|-------------------------------|-----------------------|
| <b>Endowment Funds</b>  |                       |                               |                               |                       |
| Board-designated endowments                                     |                       |                               |                               |                       |
| Board discretionary funds                                       | \$ 21,624,898         | \$ -                          | \$ -                          | \$ 21,624,898         |
| Designated  | 124,443,524           | -                             | -                             | 124,443,524           |
| Donor advised, advisory board and field of interest             | 245,691,326           | -                             | -                             | 245,691,326           |
| Donor-restricted endowments                                     |                       |                               |                               |                       |
| Social programs   | -                     | 1,889,981                     | 5,960,238                     | 7,850,219             |
| Subtotal endowment funds  | <u>391,759,748</u>    | <u>1,889,981</u>              | <u>5,960,238</u>              | <u>399,609,967</u>    |
| <b>Non-Endowment Funds</b>                                      |                       |                               |                               |                       |
| Operating fund  | 7,780,763             | 382,053                       | -                             | 8,162,816             |
| Designated, donor advised, advisory board and field of interest | 43,521,609            | -                             | -                             | 43,521,609            |
| Restricted for social programs                                  | -                     | 8,250,952                     | -                             | 8,250,952             |
| Pooled income funds   | -                     | 1,327,002                     | -                             | 1,327,002             |
| Gift annuities  | -                     | 152,534                       | -                             | 152,534               |
| Special projects  | -                     | 50,799                        | -                             | 50,799                |
| Subtotal non-endowment funds                                    | <u>51,302,372</u>     | <u>10,163,340</u>             | <u>-</u>                      | <u>61,465,712</u>     |
| Total net assets  | <u>\$ 443,062,120</u> | <u>\$ 12,053,321</u>          | <u>\$ 5,960,238</u>           | <u>\$ 461,075,679</u> |
| <br>  |                       |                               |                               |                       |
| <b>As of December 31, 2014</b>                                  | <b>Unrestricted</b>   | <b>Temporarily Restricted</b> | <b>Permanently Restricted</b> | <b>Total</b>          |
| <b>Endowment Funds</b>  |                       |                               |                               |                       |
| Board-designated endowments                                     |                       |                               |                               |                       |
| Board discretionary funds                                       | \$ 21,935,954         | \$ -                          | \$ -                          | \$ 21,935,954         |
| Designated  | 103,319,511           | -                             | -                             | 103,319,511           |
| Donor advised, advisory board and field of interest             | 253,544,645           | -                             | -                             | 253,544,645           |
| Donor-restricted endowments                                     |                       |                               |                               |                       |
| Social programs   | -                     | 2,101,419                     | 5,897,738                     | 7,999,157             |
| Subtotal endowment funds  | <u>378,800,110</u>    | <u>2,101,419</u>              | <u>5,897,738</u>              | <u>386,799,267</u>    |
| <b>Non-Endowment Funds</b>                                      |                       |                               |                               |                       |
| Operating fund  | 7,323,124             | -                             | -                             | 7,323,124             |
| Designated, donor advised, advisory board and field of interest | 41,069,703            | -                             | -                             | 41,069,703            |
| Restricted for social programs                                  | -                     | 5,833,755                     | -                             | 5,833,755             |
| Pooled income funds   | -                     | 1,376,258                     | -                             | 1,376,258             |
| Gift annuities  | -                     | 27,558                        | -                             | 27,558                |
| Special projects  | -                     | 67,235                        | -                             | 67,235                |
| Subtotal non-endowment funds                                    | <u>48,392,827</u>     | <u>7,304,806</u>              | <u>-</u>                      | <u>55,697,633</u>     |
| Total net assets  | <u>\$ 427,192,937</u> | <u>\$ 9,406,225</u>           | <u>\$ 5,897,738</u>           | <u>\$ 442,496,900</u> |



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Changes in endowment net assets for the fiscal years ending December 31, 2015 and 2014 were as follows:

| Endowment Net Assets                              | Unrestricted          | Temporarily Restricted | Permanently Restricted | Total                 |
|---|-----------------------|------------------------|------------------------|-----------------------|
| <b>January 1, 2014</b>                            | \$ 357,626,508        | \$ 1,868,944           | \$ 5,741,939           | \$ 365,237,391        |
| Interest and dividends, net of investment expense | 1,749,383             | 184,260                | -                      | 1,933,643             |
| Limited partnership distributions                 | 1,019,000             | -                      | -                      | 1,019,000             |
| Net realized/unrealized gains (losses)            | 16,313,160            | 193,316                | -                      | 16,506,476            |
| Contributions                                     | 13,533,429            | 51,642                 | 155,799                | 13,740,870            |
| Grants and program expenses                       | (11,117,106)          | (196,743)              | -                      | (11,313,849)          |
| Other changes                                     | (324,264)             | -                      | -                      | (324,264)             |
| <b>December 31, 2014</b>                          | <u>378,800,110</u>    | <u>2,101,419</u>       | <u>5,897,738</u>       | <u>386,799,267</u>    |
| Interest and dividends, net of investment expense | 1,776,621             | 167,060                | -                      | 1,943,681             |
| Limited partnership distributions                 | 16,416,000            | -                      | -                      | 16,416,000            |
| Net realized/unrealized gains (losses)            | (11,274,555)          | (195,142)              | -                      | (11,469,697)          |
| Contributions                                     | 18,797,967            | -                      | 62,500                 | 18,860,467            |
| Grants and program expenses                       | (12,623,024)          | (183,356)              | -                      | (12,806,380)          |
| Other changes                                     | (133,371)             | -                      | -                      | (133,371)             |
| <b>December 31, 2015</b>                          | <u>\$ 391,759,748</u> | <u>\$ 1,889,981</u>    | <u>\$ 5,960,238</u>    | <u>\$ 399,609,967</u> |

***Interpretation of UPMIFA***

The Board of Governors of the Foundation, in consultation with legal counsel, has determined that the Foundation is not subject to the State's Uniform Prudent Management of Institutional Funds Act (UPMIFA) for those funds over which the Foundation maintains variance power (as described in Note 1). For those funds over which the Foundation does not maintain variance power, the Board has interpreted that UPMIFA does apply and therefore donor-restricted permanent endowments are preserved based on the fair value of the original gift. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

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**14. Operating Fund**

The following table summarizes the activity in the operating fund for the years ended December 31, 2015 and 2014:

|  | <b>2015</b>  | <b>2014</b>  |
|--|--------------|--------------|
| <b>Revenues</b>  |              |              |
| Service and administrative fees                        | \$ 8,794,344 | \$ 8,169,655 |
| Interest and dividends                                 | 128,686      | 140,021      |
| Contributions  | 1,206,736    | 265,497      |
| Investment gains/(losses) and other income             | (60,274)     | (8,438)      |
| Total revenues   | 10,069,492   | 8,566,735    |
| <b>Expenses</b>  |              |              |
| Finance and administration                             | 3,294,235    | 3,161,052    |
| Program services                                       | 2,857,357    | 2,852,576    |
| Charitable services and donor relations                | 3,187,749    | 2,247,018    |
| Total expenses   | 9,339,341    | 8,260,646    |
| Change in net assets before transfers from other funds | 730,151      | 306,089      |
| <b>Transfers from other funds</b>                      | 109,541      | 144,665      |
| Total change in net assets                             | 839,692      | 450,754      |
| <b>Net assets</b>                                      |              |              |
| Beginning of year                                      | 7,323,124    | 6,872,370    |
| End of year  | \$ 8,162,816 | \$ 7,323,124 |

**15. Related Parties**

The Foundation's board of governors is composed of business and civic leaders in the State of Hawai'i. Certain of these business leaders have past and present affiliations with the three financial institutions that provide trustee services for the Foundation (see Note 4). Additionally, certain board members or officers may have affiliations with other nonprofit organizations that may be the recipient of Foundation grants. The Foundation's conflict of interest policies require that persons in potential conflict situations abstain from participating in decision-making processes.

**16. Subsequent Events**

Management has reviewed and considered whether events occurring after year end should be reflected or disclosed in these financial statements. The date through which this review was conducted was July 14, 2016, the date the financial statements were available to be issued.

# **Supplementary Information**

**Hawai'i Community Foundation**  
(A Nonprofit Organization)  
**Schedule of Pooled Income Fund Investments**  
**December 31, 2015 and 2014**

**Supplementary Information**

|                                      | <b>2015</b>    |                     |                     |
|--------------------------------------|----------------|---------------------|---------------------|
|                                      | <b>Units</b>   | <b>Cost</b>         | <b>Fair Value</b>   |
| <b>Fixed income funds</b>            |                |                     |                     |
| Federated Total Return Bond Fund     | 115,878        | \$ 1,281,613        | \$ 1,234,103        |
| Bishop Street High Grade Income Fund | 8,160          | 82,550              | 79,973              |
| Total fixed income funds             | <u>124,038</u> | <u>1,364,163</u>    | <u>1,314,076</u>    |
| <b>Money market funds</b>            |                |                     |                     |
| Dreyfus Cash Management              |                | 8,513               | 8,513               |
| Blackrock Liquidity Fund             |                | 4,413               | 4,413               |
|                                      |                | <u>\$ 1,377,089</u> | <u>\$ 1,327,002</u> |
| <br>                                 |                |                     |                     |
|                                      | <b>2014</b>    |                     |                     |
|                                      | <b>Units</b>   | <b>Cost</b>         | <b>Fair Value</b>   |
| <b>Fixed income funds</b>            |                |                     |                     |
| Federated Total Return Bond Fund     | 116,037        | \$ 1,283,367        | \$ 1,281,046        |
| Bishop Street High Grade Income Fund | 8,113          | 82,083              | 81,453              |
| Total fixed income funds             | <u>124,150</u> | <u>1,365,450</u>    | <u>1,362,499</u>    |
| <b>Money market funds</b>            |                |                     |                     |
| Dreyfus Cash Management              |                | 9,317               | 9,317               |
| Blackrock Liquidity Fund             |                | 4,442               | 4,442               |
|                                      |                | <u>\$ 1,379,209</u> | <u>\$ 1,376,258</u> |

**Hawai'i Community Foundation**  
(A Nonprofit Organization)  
**Schedule of Changes in Pooled Income**  
**Fund Investments**

**Years Ended December 31, 2015 and 2014**

**Supplementary Information**

|                                      | Cost                |                          |                       |                      |
|--------------------------------------|---------------------|--------------------------|-----------------------|----------------------|
|                                      | January 1,<br>2015  | Purchases /<br>Additions | Sales /<br>Maturities | December 31,<br>2015 |
| <b>Fixed income funds</b>            |                     |                          |                       |                      |
| Federated Total Return Bond Fund     | \$ 1,283,367        | \$ -                     | \$ (1,754)            | \$ 1,281,613         |
| Bishop Street High Grade Income Fund | 82,083              | 467                      | -                     | 82,550               |
| Total fixed income funds             | 1,365,450           | 467                      | (1,754)               | 1,364,163            |
| <b>Money market funds</b>            |                     |                          |                       |                      |
| Dreyfus Cash Management              | 9,317               | 45,175                   | (45,979)              | 8,513                |
| Blackrock Liquidity Fund             | 4,442               | 2,360                    | (2,389)               | 4,413                |
| Total money market funds             | 13,759              | 47,535                   | (48,368)              | 12,926               |
|                                      | <u>\$ 1,379,209</u> | <u>\$ 48,002</u>         | <u>\$ (50,122)</u>    | <u>\$ 1,377,089</u>  |

|                                      | Cost                |                          |                       |                      |
|--------------------------------------|---------------------|--------------------------|-----------------------|----------------------|
|                                      | January 1,<br>2014  | Purchases /<br>Additions | Sales /<br>Maturities | December 31,<br>2014 |
| <b>Fixed income funds</b>            |                     |                          |                       |                      |
| Aberdeen Core Income Fund            | \$ 1,190,348        | \$ -                     | \$ (1,190,348)        | \$ -                 |
| Federated Total Return Bond Fund     | -                   | \$ 1,283,367             | \$ -                  | \$ 1,283,367         |
| Bishop Street High Grade Income Fund | 81,649              | 434                      | -                     | 82,083               |
| Total fixed income funds             | 1,271,997           | 1,283,801                | (1,190,348)           | 1,365,450            |
| <b>Money market funds</b>            |                     |                          |                       |                      |
| Dreyfus Cash Management              | 19,644              | 1,315,427                | (1,325,754)           | 9,317                |
| Blackrock Liquidity Fund             | 4,413               | 2,427                    | (2,398)               | 4,442                |
| Total money market funds             | 24,057              | 1,317,854                | (1,328,152)           | 13,759               |
|                                      | <u>\$ 1,296,054</u> | <u>\$ 2,601,655</u>      | <u>\$ (2,518,500)</u> | <u>\$ 1,379,209</u>  |