

SAMUEL N. AND MARY CASTLE FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

Independent Auditors' Report

The Trustees
Samuel N. and Mary Castle Foundation

We have audited the accompanying statements of assets and net assets of Samuel N. and Mary Castle Foundation as of December 31, 2008 and 2007, and the related statements of revenues and expenses and changes in net assets for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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, 2008 and 2007, and the revenues, expenses and changes in net assets for the years then ended, on the basis of accounting described in Note 2.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, on the basis of accounting described in Note 2, in all material respects in relation to the basic financial statements taken as a whole.



Honolulu, Hawaii
April 3, 2009

SAMUEL N. AND MARY CASTLE FOUNDATION
 Statements Of Assets And Net Assets
 December 31, 2008 And 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 1,913,779	\$ 3,132,662
Investment securities, at fair value		
Corporate stocks	11,773,302	16,973,303
Government securities	5,377,912	5,589,207
Corporate bonds	3,829,887	4,476,579
Mutual funds	<u>10,769,836</u>	<u>19,426,749</u>
	<u>31,750,937</u>	<u>46,465,838</u>
Undivided interest in land held for lease, at cost	<u>91,407</u>	<u>91,407</u>
	<u>\$33,756,123</u>	<u>\$49,689,907</u>

NET ASSETS

Unrestricted	<u>\$33,756,123</u>	<u>\$49,689,907</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, 2008 And 2007

	<u>2008</u>	<u>2007</u>
Revenues		
Dividends	\$ 947,833	\$ 448,694
Interest	584,542	664,021
Other	28,321	30,311
Rent	14,769	14,803
Net realized and unrealized gains on investments	<u>-</u>	<u>2,398,816</u>
Total revenues	<u>1,575,465</u>	<u>3,556,645</u>
Expenses		
Net realized and unrealized losses on investments	15,041,000	-
Grants and donations through Henry and Dorothy Castle Memorial Fund	1,074,175	1,072,034
Direct grants and donations	994,900	1,117,900
Fiscal management fees	199,036	228,644
Personnel expense	130,792	122,842
Office rent and parking	22,726	23,133
Audit and tax return fees	11,978	12,373
Conference expense, including travel	11,894	7,708
Federal excise tax	9,000	87,000
Operating expense	7,052	8,337
Insurance, directors/officers liability	2,250	2,475
Meeting expense	2,204	2,337
Printing and publications	943	985
General excise taxes	686	600
Membership dues	500	400
Real estate expense	108	2,614
License and fees	<u>5</u>	<u>5</u>
Total expenses	<u>17,509,249</u>	<u>2,689,387</u>
Change In Net Assets	(15,933,784)	867,258
Net Assets, Beginning Of Year	<u>49,689,907</u>	<u>48,822,649</u>
Net Assets, End Of Year	<u>\$ 33,756,123</u>	<u>\$49,689,907</u>

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

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2008 And 2007

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.

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2008 And 2007

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 that such changes could materially affect the amounts reported in the statement of assets and net assets.

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, 2008 and 2007, grants and donations through the Fund totaled \$1,074,175 and \$1,072,034, respectively.

4. Investments In Securities

At December 31, 2008 and 2007, investments in securities were as follows:

	<u>2008</u>	
	<u>Cost</u>	<u>Fair Value</u>
Corporate stocks	\$14,709,528	\$11,773,302
Government securities	5,011,031	5,377,912
Corporate bonds	4,033,681	3,829,887
Mutual funds	<u>13,931,462</u>	<u>10,769,836</u>
	<u>\$37,685,702</u>	<u>\$31,750,937</u>

	<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>
Corporate stocks	\$15,328,802	\$16,973,303
Government securities	5,414,675	5,589,207
Corporate bonds	4,507,062	4,476,579
Mutual funds	<u>15,672,920</u>	<u>19,426,749</u>
	<u>\$40,923,459</u>	<u>\$46,465,838</u>

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2008 And 2007

5. Fiscal Management Fee

The Foundation's financial affairs are managed by Bank of Hawaii Investment Services Group (Fiscal Agent). For this service, the Fiscal Agent is to receive five-tenths of 1% on the first \$20 million of marketable securities, four-tenths of 1% on the next \$30 million, and three-tenths of 1% thereafter, in addition to five-tenths of 1% on the value of real estate and \$10,000 for fiscal administration. Fiscal management fees for the years ended December 31, 2008 and 2007 amounted to \$199,036 and \$228,644, respectively.

6. Lease Arrangements

As Lessee

The Foundation leases office space under an operating lease expiring in November 2011. At December 31, 2008, future minimum lease payments were as follows:

<u>Year Ending December 31,</u>	
2009	\$10,320
2010	10,730
2011	<u>10,170</u>
	<u>\$31,220</u>

Total rent expense in 2008 and 2007 amounted to \$10,317 and \$9,922, 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, 2008, future minimum rental income was as follows:

<u>Year Ending December 31,</u>	
2009	\$ 18,716
2010	18,716
2011	18,716
2012	18,716
2013	18,716
Thereafter	<u>517,840</u>
	<u>\$611,420</u>

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2008 And 2007

7. Retirement Plan

The Foundation provides a tax-sheltered annuity plan for its employee. Employer contributions are included in personnel expense and amounted to \$12,536 and \$11,250 for 2008 and 2007, respectively.

8. Commitments

As of December 31, 2008, the trustees have approved grants and donations of \$27,500 payable through December 31, 2010.

9. Tax Status

The Foundation is a private foundation exempt from federal income tax under Section 509(a) 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.

SCHEDULE 1

SAMUEL N. AND MARY CASTLE FOUNDATION
Schedules Of Changes In Cash Balances
Years Ended December 31, 2008 And 2007

	<u>2008</u>	<u>2007</u>
Balance, Beginning Of Year	\$ -	\$ 271,005
Receipts		
Proceeds from sales or redemptions of:		
Cash management funds	23,025,934	24,387,296
Corporate stocks	9,986,469	10,600,214
Mutual funds	8,348,579	15,283,577
Government securities	6,086,767	5,969,903
Corporate bonds	1,920,789	2,750,296
Commercial paper	553,722	-
Land held for lease	-	76,000
Dividends	947,833	448,694
Interest	584,542	664,021
Other	28,321	30,311
Rent	<u>14,769</u>	<u>14,803</u>
	<u>51,497,725</u>	<u>60,225,115</u>
Disbursements		
Purchases of:		
Cash management funds	21,905,774	24,321,138
Corporate stocks	11,808,694	10,780,731
Mutual funds	7,918,458	16,883,752
Government securities	5,441,148	3,882,960
Corporate bonds	1,500,402	1,839,430
Commercial paper	455,000	98,722
Grants and donations through Henry and Dorothy		
Castle Memorial Fund	1,074,175	1,072,034
Direct grants and donations	994,900	1,117,900
Fiscal management fees	199,036	228,644
Personnel expense	130,792	122,842
Office rent and parking	22,726	23,133
Audit and tax return fees	11,978	12,373
Conference expense, including travel	11,894	7,708
Federal excise tax	9,000	87,000
Operating expense	7,052	8,337
Insurance, directors/officers liability	2,250	2,475
Meeting expense	2,204	2,337
Printing and publications	943	985
General excise and foreign taxes	686	600
Membership dues	500	400
Real estate expense	108	2,614
License and fees	<u>5</u>	<u>5</u>
	<u>51,497,725</u>	<u>60,496,120</u>
Balance, End Of Year	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditors' report.

SCHEDULE 2

SAMUEL N. AND MARY CASTLE FOUNDATION
 Summary Of Grants And Donations
 Year Ended December 31, 2008

<u>Purpose</u>	<u>Amount</u>	<u>Percent</u>
Education	\$1,622,575	78.4%
Human Services	341,500	16.5
Culture and Arts	<u>105,000</u>	<u>5.1</u>
Total grants and donations	<u>\$2,069,075</u>	<u>100.0%</u>

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Grants And Donations
Year Ended December 31, 2008

Direct Grants And Donations

Organization	Purpose	Amount
<u>Education</u>		
Academy of the Pacific	Capital Improvement Project	\$ 25,000
Hanahau'oli School	Capital Campaign	50,000
Hanalani Schools	Capital Campaign	100,000
Hawaii Community Foundation	Workshops for Preschool Boards and Staff	4,300
Hawaii Nature Center	Design and Construction of Education Center	35,000
The Kaimuki Christian Church	Classroom Renovation Project	25,000
Montessori School of Maui	Capital Campaign	150,000
Nonprofit Finance Fund	Nonprofit Business Analyses for Preschools	29,100
North Hawaii Women and Children's Services	Hawaii Resources for School Success Program	10,000
Saint Mark Lutheran School	Playground Upgrade and Gym Soundproofing	35,000
St. Andrew's Priory School	Strategic Resource/Development Planning	25,000
Teach for America, Hawaii Chapter	Operating Support for Teach for America-Hawaii Site	50,000
Variety School of Hawaii	Purchase of Library Equipment and Furniture	5,000
University of Hawaii Foundation	1st and 2nd Year Payments (3-year pledge) to Support Salary of PK-3 Director in Hawaii's Capturing the Momentum Initiative	55,000
		598,400
<u>Human Services</u>		
Bay Clinic, Inc.	Purchase of Ultrasound Machine for Prenatal Unit	15,000
Boys and Girls Club of Hawaii	Construction of Windward Clubhouse	50,000
Catholic Charities	Capital Campaign to Renovate and Expand Facilities	75,000
Catholic Charities	Mary Tenney Castle Emergency Fund	25,000
Council on Foundations	Operating Support	1,500
Hamakua Health Center	Purchase of Equipment for Dental Van Project	15,000
Hospice of Hilo	Construction of Inpatient Facility	75,000
International Dyslexia Association	Professional Development Program	15,000
North Kohala Community Resource Center	Operating Support	5,000
Waianae Coast Comprehensive Health Center	Purchase of Medical Equipment for Pediatric Clinic	15,000
		291,500

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
 Grants And Donations
 Year Ended December 31, 2008

Direct Grants And Donations

Organization	Purpose	Amount
<u>Culture And Arts</u>		
The Contemporary Museum	Educational Project	\$ 10,000
Hawaii Opera Theatre	Residency Educational Program Season 2008-2009	5,000
Hawaii Theatre Center	Theatre for Young Audiences Program	10,000
Honolulu Symphony	Youth Music Education Program	20,000
Honolulu Theatre for Youth	Support for 2008 Season Theatrical Productions	10,000
Sacred Hearts Academy	Capital Campaign to Construct Performing Arts Center	<u>50,000</u>
		<u>105,000</u>
	Total direct grants and donations	<u>994,900</u>

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Grants And Donations
Year Ended December 31, 2008

Henry And Dorothy Castle Memorial Fund

Organization	Purpose	Amount
<u>Education</u>		
Aloha School	Purchase of Equipment	\$ 5,000
Calvary By The Sea Lutheran Church Preschool	Architectural Plan and Facility Plan	35,000
Central Christian School	Preschool Construction and Furnishings Project	35,000
Chaminade University	Early Education Students Scholarships	30,000
Chaminade University	Support for the Castle Colleagues Preschool Directors' Management Training Program for Academic Year 2008-2009	80,000
Christian Liberty School	Construction of Early Education Center	75,000
First United Methodist Church Preschool	Renovation of Playground	6,000
Friendship Bible Church	Planning for Renovation Project	25,000
Good Beginnings Alliance	Operating Support (\$50,000), Makawao School Project Support (\$5,000) and PK-3 Summit Support (\$10,000)	65,000
Good Beginnings Alliance	Tuition for Hawaii Early Education Curricular Specialists to Attend PK-3 Curricular Program at Harvard University	4,875
Good Beginnings Alliance	Operating Support and Makawao School Project	60,000
Good Shepherd Lutheran Church	Preschool Expansion Project	50,000
Good Shepherd Lutheran Preschool	Finish Planning for Preschool/Day Care Center	25,000
Hawaii Coalition of Christian Churches	Furnishing, Equipment and Curricular Materials for Preschool	25,000
Iao Preschool	Capital Improvements	30,000
Kama'aina Care, Inc. (Kama'aina Kids)	Renovation Project	50,000
Kauai Christian Academy	Preschool Classroom Construction	25,000
KCAA Preschools of Hawaii	Implementation of Phase II of the "Excellence in Education Campaign"	50,000
Makiki Christian Church Preschool	Support for Continuing Teacher Education	5,000
Mililani Baptist Church Preschool	Playground Upgrades	25,000
Mililani Community Church	Planning and Construction of Preschool	25,000
Mililani Community Church Preschool	Capital Campaign	50,000
Mililani Presbyterian Church	Capital Construction and Renovation of Preschool Facilities	25,000
North Kohala Community Resource Center	Preschool Teacher Training Program for Stars Preschool	5,000
North Kohala Community Resource Center	Curriculum Development for Kohala Stars Preschool	7,000

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Grants And Donations
Year Ended December 31, 2008

Henry And Dorothy Castle Memorial Fund

Organization	Purpose	Amount
<u>Education (continued)</u>		
Our Savior Lutheran School Palama Settlement	Playground Upgrade and WASC Accreditation Pre-K Capital Improvement: \$23,500; Facility Planning: \$20,000; Low Income Preschool Program Support (Boost Camp): \$12,100	\$ 25,000 55,600
Parents and Children Together	Home Instruction for Parents Program (training and instructional materials)	15,000
Partners in Development	Capacity Building Project for Traveling Preschool and Other Early Education Projects	25,000
Rainbow School	Materials for NAEYC Re-Accreditation	5,000
Saint Joseph School	Equipment Purchase	700
Star of the Sea Early Learning Center	Playground Renovation Project	25,000
University of Hawaii Foundation	Early Education Scholarships for Teachers in A.A., B.A. or M.A. Programs System-Wide	50,000
YWCA of Hawai'i Island	Continuing Education of Teaching Staff	5,000
		<u>1,024,175</u>
<u>Human Services</u>		
Imua Family Services	Early Intervention Services Demonstration Project	25,000
Pearl City Foundation	Planning for Community Center	25,000
		<u>50,000</u>
	Total grants and donations through Henry and Dorothy Castle Memorial Fund	<u>1,074,175</u>
	Total grants and donations, direct and through Henry and Dorothy Castle Memorial Fund	<u>\$ 2,069,075</u>

See accompanying independent auditors' report.