

SAMUEL N. AND MARY CASTLE FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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, 2010 and 2009, 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, 2010 and 2009, 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
June 15, 2011

SAMUEL N. AND MARY CASTLE FOUNDATION
 Statements Of Assets And Net Assets
 December 31, 2010 And 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,138,822	\$ 974,154
Investment securities, at fair value		
Corporate stocks	6,397,616	2,702,661
Government securities	5,579,190	5,954,483
Corporate bonds	3,710,578	3,465,348
Mutual funds	<u>25,377,597</u>	<u>26,076,753</u>
	<u>41,064,981</u>	<u>38,199,245</u>
Undivided interest in land held for lease, at cost	<u>82,266</u>	<u>86,837</u>
	<u>\$42,286,069</u>	<u>\$39,260,236</u>

NET ASSETS

Unrestricted	<u>\$42,286,069</u>	<u>\$39,260,236</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, 2010 And 2009

	<u>2010</u>	<u>2009</u>
Revenues		
Net realized gains on investments	\$ 4,371,819	\$ -
Dividends	513,711	519,470
Interest	464,668	475,174
Other	18,436	54,318
Rent	15,459	17,553
Net unrealized gains on investments	<u>-</u>	<u>10,127,283</u>
 Total revenues	 <u>5,384,093</u>	 <u>11,193,798</u>
Expenses		
Grants and donations through Henry and Dorothy Castle Memorial Fund	1,044,400	1,215,000
Direct grants and donations	524,090	507,840
Fiscal management fees	209,906	169,804
Net unrealized losses on investments	203,995	-
Personnel expense	137,619	136,241
Federal excise tax	122,000	15,500
Investment advisory fees	48,391	25,022
Office rent and parking	25,899	23,330
Conference expense, including travel	12,930	9,259
Audit and tax return fees	12,639	12,282
Operating expense	7,146	6,584
Real estate expense	3,980	2,652
Insurance, directors/officers liability	2,301	2,250
Meeting expense	1,666	2,419
General excise taxes	691	800
Membership dues	500	500
Printing and publications	102	1,266
License and fees	5	5
Net realized losses on investments	<u>-</u>	<u>3,558,931</u>
 Total expenses	 <u>2,358,260</u>	 <u>5,689,685</u>
 Change In Net Assets	 3,025,833	 5,504,113
 Net Assets, Beginning Of Year	 <u>39,260,236</u>	 <u>33,756,123</u>
 Net Assets, End Of Year	 <u>\$42,286,069</u>	 <u>\$ 39,260,236</u>

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

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2010 And 2009

1. Organization

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

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

2. Summary Of Significant Accounting Policies

Basis Of Accounting

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

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

Cash Equivalents

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

Investments

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

Fair Value Of Financial Instruments

The Foundation records certain assets at fair value in accordance with Accounting Standards Codification (ASC) 820 (formerly Statement of Financial Accounting Standards No. 157), *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2010 And 2009

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

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

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

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

Risks And Uncertainties

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

Subsequent Events

Management has evaluated subsequent events that may require disclosure in these financial statements through June 15, 2011, the date the financial statements were available to be issued.

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2010 And 2009

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, 2010 and 2009, grants and donations through the Fund totaled \$1,044,400 and \$1,215,000, respectively.

4. Investments In Securities

At December 31, 2010 and 2009, investments in securities were as follows:

	2010	
	Cost	Fair Value
Corporate stocks	\$ 5,480,786	\$ 6,397,616
Government securities	5,462,782	5,579,190
Corporate bonds	3,475,217	3,710,578
Mutual funds	<u>22,657,673</u>	<u>25,377,597</u>
	<u>\$37,076,458</u>	<u>\$41,064,981</u>

	2009	
	Cost	Fair Value
Corporate stocks	\$ 2,287,058	\$ 2,702,661
Government securities	5,980,872	5,954,483
Corporate bonds	3,338,769	3,465,348
Mutual funds	<u>22,400,028</u>	<u>26,076,753</u>
	<u>\$34,006,727</u>	<u>\$38,199,245</u>

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2010 And 2009

The following table presents the Foundation's fair value hierarchy for those assets measured at fair value on December 31, 2010 and 2009.

	2010			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment Securities:				
Corporate stocks	\$ 6,397,616	\$6,397,616	\$ -	\$ -
Government securities	5,579,190	-	5,579,190	-
Corporate bonds	3,710,578	-	3,710,578	-
Mutual funds	<u>25,377,597</u>	<u>-</u>	<u>25,377,597</u>	<u>-</u>
	<u>\$41,064,981</u>	<u>\$6,397,616</u>	<u>\$34,667,365</u>	<u>\$ -</u>

	2009			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment Securities:				
Corporate stocks	\$ 2,702,661	\$2,702,661	\$ -	\$ -
Government securities	5,954,483	-	5,954,483	-
Corporate bonds	3,465,348	-	3,465,348	-
Mutual funds	<u>26,076,753</u>	<u>-</u>	<u>26,076,753</u>	<u>-</u>
	<u>\$38,199,245</u>	<u>\$2,702,661</u>	<u>\$35,496,584</u>	<u>\$ -</u>

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 charges a monthly fee to the Foundation based on percentage rates applied to different levels of asset values. Fiscal management fees for the years ended December 31, 2010 and 2009 amounted to \$209,906 and \$169,804, respectively.

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2010 And 2009

6. Lease Arrangements

As Lessee

The Foundation leases office space under an operating lease expiring in November 2016. At December 31, 2010, future minimum lease payments were as follows:

Year Ending December 31,

2011	\$10,970
2012	9,500
2013	9,770
2014	10,110
2015	10,380
Thereafter	<u>9,800</u>
	<u>\$60,530</u>

Total rent expense in 2010 and 2009 amounted to \$10,726 and \$10,321, 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, 2010, future minimum rental income was as follows:

Year Ending December 31,

2011	\$ 16,840
2012	16,840
2013	16,840
2014	16,840
2015	16,840
Thereafter	<u>432,390</u>
	<u>\$516,590</u>

SAMUEL N. AND MARY CASTLE FOUNDATION
Notes To Financial Statements
December 31, 2010 And 2009

7. Retirement Plan

The Foundation provides a tax-sheltered annuity plan for its employee. Employer contributions are included in personnel expense and amounted to \$12,402 for 2010 and 2009.

8. 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, 2010 And 2009

	<u>2010</u>	<u>2009</u>
Balance, Beginning Of Year	\$ -	\$ -
Receipts		
Proceeds from sales or redemptions of:		
Cash management funds	13,431,089	35,339,503
Mutual funds	25,169,913	13,362,730
Corporate stocks	3,503,461	17,196,724
Government securities	2,172,047	5,328,914
Corporate bonds	636,348	1,480,565
Land held for lease	76,000	76,000
Commercial paper	-	525,000
Dividends	513,711	519,470
Interest	464,668	475,174
Other	18,436	54,318
Rent	<u>15,459</u>	<u>17,553</u>
	<u>46,001,132</u>	<u>74,375,951</u>
Disbursements		
Purchases of:		
Mutual funds	21,453,253	22,790,440
Cash management funds	13,595,758	34,399,878
Corporate stocks	6,360,450	7,469,879
Government securities	1,686,308	6,202,297
Corporate bonds	751,098	857,703
Commercial paper	-	525,000
Grants and donations through Henry and Dorothy		
Castle Memorial Fund	1,044,400	1,215,000
Direct grants and donations	524,090	507,840
Fiscal management fees	209,906	169,804
Personnel expense	137,619	136,241
Federal excise tax	122,000	15,500
Investment advisory fees	48,391	25,022
Office rent and parking	25,899	23,330
Conference expense, including travel	12,930	9,259
Audit and tax return fees	12,639	12,282
Operating expense	7,146	6,584
Real estate expense	3,980	2,652
Insurance, directors/officers liability	2,301	2,250
Meeting expense	1,666	2,419
General excise and foreign taxes	691	800
Membership dues	500	500
Printing and publications	102	1,266
License and fees	<u>5</u>	<u>5</u>
	<u>46,001,132</u>	<u>74,375,951</u>
Balance, End Of Year	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Summary Of Grants And Donations
Year Ended December 31, 2010

<u>Purpose</u>	<u>Amount</u>	<u>Percent</u>
Education	\$1,250,400	79.7%
Human Services	189,000	12.0
Culture and Arts	125,000	8.0
Public and Societal Benefit	<u>4,090</u>	<u>0.3</u>
Total grants and donations	<u>\$1,568,490</u>	<u>100.0%</u>

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Grants And Donations
Year Ended December 31, 2010

Direct Grants And Donations

Organization	Purpose	Amount
<u>Education</u>		
Hawaii Council for the Humanities	Support of Public Humanities Programs	\$ 15,000
Hawaii Nature Center	Professional Development for Preschool Teachers	15,000
Kauai Christian Academy	Capital Campaign for School Gymnasium	60,000
Seabury Hall	Construction of Creative Arts Center	100,000
University of Hawaii Foundation	3-year PK-Grade 3 Project in the Windward, Oahu DOE Complex	<u>75,000</u>
		<u>265,000</u>
<u>Human Services</u>		
Catholic Charities	Mary Tenney Castle Emergency Fund for Families with Young Children	50,000
Hawaii Mothers' Milk	Facility Renovations	15,000
Honolulu Armed Services YMCA of the USA	Support of Programs for Military Families with Young Children	25,000
Kapiolani Health Foundation	Capital Campaign to Renovate Hospital/Neo-Natal Care Facilities	<u>50,000</u>
		<u>140,000</u>
<u>Culture And Arts</u>		
Friends of the D.T. Fleming Arboretum at Pu'u Mahoe, Inc.	Workshop and Parking Expansion Project	15,000
Mission Houses Museum	3-year Educational Outreach Program	<u>100,000</u>
		<u>115,000</u>
<u>Public and Societal Benefit</u>		
Council on Foundations	General Operation Support	<u>4,090</u>
		<u>4,090</u>
	Total direct grants and donations	<u>524,090</u>

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Grants And Donations
Year Ended December 31, 2010

Henry And Dorothy Castle Memorial Fund

Organization	Purpose	Amount
<u>Education</u>		
Ae Kamali'i Preschool	Playground Improvements	\$ 12,000
Ae Kamali'i Preschool	Tuition Assistance to Children from Low-Income Families	19,000
The Aloha School Early Learning Center	Tuition Assistance to Children from Low-Income Families	20,000
Bishop Museum	Preschool Teacher Training to Use Museum Materials	11,900
Chaminade University	Renewal of Castle Colleagues Preschool Directors' Management Training Program	80,000
Chaminade University	Early Education Student Scholarships (\$35,000) and Partial Support for Early Childhood Development Professor (\$35,000) (1st Year Payment of a \$105,000 Pledge)	70,000
Chaminade University	Early Education Student Scholarships	35,000
E Malama I Na Keiki O Lanai Preschool	Tuition Assistance to Children from Low-Income Families	27,000
First United Methodist Church Preschool	Tuition Assistance to Children from Low-Income Families	16,000
First United Methodist Church Preschool	Purchase of Furniture for Classrooms	12,000
Friendship Bible Church	Capital Improvements and Renovation of Preschool	30,000
Good Beginnings Alliance	Operating Support	60,000
Good Beginnings Alliance	Hawaii Island Early Childhood Conference	8,000
Good Beginnings Alliance	3-year Campaign to Build Public Awareness of Children's Issues	50,000
Hanalani Schools	Completion of Early Education Center Capital Project	50,000
Hawaii Montessori School	Tuition Assistance to Children from Low-Income Families	8,000
Iao Preschool	Tuition Assistance to Children from Low-Income Families	10,000
Imua Family Services	Preschool Teacher Training	5,000
Ka Hale O Na Keiki Preschool	Renovation of Classrooms	10,000
Ka Hale O Na Keiki Preschool	Classroom Renovation	4,000
Kahului Baptist Preschool	Tuition Assistance to Children from Low-Income Families	20,000
Kama'aina Care, Inc.	Preschool Teacher Training	10,000
Kama'aina Care, Inc.	Tuition Assistance to Children from Low-Income Families	10,000
KCAA Preschools of Hawaii	Tuition Assistance to Children from Low-Income Families	20,000
KCAA Preschools of Hawaii	Capital Improvements	25,000
KCAA Preschools of Hawaii	Data Collection and Individual Child Assessment at the P-3 Farrington Complex	25,000
Le Jardin Windward Oahu Academy	Junior School Playground Structure	25,000
Manoa Valley Church Preschool	Preschool Renovation	35,000
Rainbow School	Renovation of Preschool Classrooms in Mililani	15,000
Saint Michael's School	Capital Improvements	5,000
Seagull Schools	Tuition Assistance to Children from Low-Income Families	10,000
Springs of Living Water	Capital Improvement and Equipment	10,000
St. Andrew's Priory School	Preschool Playground Equipment	10,000
St. Joseph Early Learning Center	Playground and School Facility Renovations	20,000

See accompanying independent auditors' report.

SAMUEL N. AND MARY CASTLE FOUNDATION
Grants And Donations
Year Ended December 31, 2010

Henry And Dorothy Castle Memorial Fund

Organization	Purpose	Amount
<u>Education (continued)</u>		
St. Timothy's Children's Center	Preschool Construction Needed to Re-Open School in 2011	\$ 50,000
Star of the Sea Early Learning Center	Classroom and Playground Renovation Project	25,000
The Storybook Theater of Hawaii	Children Programs in Kauai	7,500
University of Hawaii Foundation	Early Education Scholarships for Current or Prospective Preschool Teachers	50,000
Variety School of Hawaii	Early Childhood Program	15,000
Waianae Coast Early Childhood Services	Tuition Assistance to Children from Low-Income Families	20,000
Waianae Day Care Services	Capital Improvements to Preschool and Infant-Toddler Sites	15,000
YWCA Hawaii Island		
Development Preschool	Tuition Assistance to Children from Low-Income Families	20,000
YWCA of Hawai'i Island	Continuing Education for Preschool Teachers	5,000
		<u>985,400</u>
<u>Human Services</u>		
Aloha United Way	Farrington Complex Early Childhood Screening Project (\$10,000 a year for 3 years)	20,000
Bay Clinic	Pediatric Care Management Program	14,000
Grantmakers for Children, Youth and Families	Operating Support	3,000
Grantmakers for Children, Youth and Families	2011 Operating Support and Annual Conference	2,000
Kauai Independent Daycare Services	Time For Me Program for At-Risk Children on Kauai	10,000
		<u>49,000</u>
<u>Culture And Arts</u>		
Honolulu Theatre for Youth	Support for 2010 Season Theatrical Productions	10,000
		<u>10,000</u>
	Total grants and donations through Henry and Dorothy Castle Memorial Fund	<u>1,044,400</u>
	Total grants and donations, direct and through Henry and Dorothy Castle Memorial Fund	<u>\$ 1,568,490</u>

See accompanying independent auditors' report.