Lili`uokalani Trust

Financial Statements and Supplemental Schedule
December 31, 2007 and 2006
Together with Independent Auditor's Report

KMH LLP

A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Trustees of
Lili`uokalani Trust:

We have audited the accompanying statements of financial position of Lili`uokalani Trust (the Trust) as of December 31, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Trust'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
June 19, 2008

Lili`uokalani Trust

Statements of Financial Position
December 31, 2007 and 2006

Assets

	2007	2006
Current Assets:		
Cash and cash equivalents	$ 2,202,267	$ 1,720,726
Accounts receivable	1,445,156	1,376,078
Prepaid expenses and other assets	975,517	923,942
Total current assets	4,622,940	4,020,746
Property and equipment, net	41,737,813	41,953,073
Other property	6,357,405	578,823
Investments	45,399,915	24,212,126
Deferred rent receivable	17,479,115	19,814,721
Prepaid benefit cost	931,226	478,087
Total assets	$ 116,528,414	$ 91,057,576

Liabilities and Net Assets

	2007	2006
Current Liabilities:		
Accounts payable and other accrued liabilities	$ 938,498	$ 931,089
Accrued vacation	748,333	721,441
Deferred revenue	667,000	281,000
Notes payable	30,000	29,000
Total current liabilities	2,383,831	1,962,530
Accrued postretirement benefits	1,088,034	1,041,783
Deferred revenue, less current portion	2,184,339	2,426,369
Notes payable, less current portion	1,182,232	1,212,087
Total liabilities	6,838,436	6,642,769
Commitments and Contingencies		
Net Assets:		
Unrestricted:		
Board designated for set aside liabilities	3,002,684	3,018,000
Undesignated	106,623,484	81,337,633
	109,626,168	84,355,633
Temporarily restricted	63,810	59,174
Total net assets	109,689,978	84,414,807
Total liabilities and net assets	$ 116,528,414	$ 91,057,576

See accompanying notes to financial statements.

Lili`uokalani Trust

Statements of Activities
For the Years Ended December 31, 2007 and 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Other Suppport:						
Rent	$ 16,664,596	$ -	$ 16,664,596	$ 19,740,102	$ -	$ 19,740,102
Real property and general excise tax reimbursements	6,589,179	-	6,589,179	6,980,777	-	6,980,777
Donations	-	15,785	15,785	333	16,937	17,270
Net realized gains on sales of property	24,695,588	-	24,695,588	94,977	-	94,977
Net realized and unrealized gains on investments	275,213	-	275,213	1,771,730	-	1,771,730
Income from investments	1,248,414	-	1,248,414	581,659	-	581,659
Other	101,859	-	101,859	124,598	-	124,598
	49,574,849	15,785	49,590,634	29,294,176	16,937	29,311,113
Net assets released from restrictions	11,149	(11,149)	-	11,699	(11,699)	-
Total revenues, gains, and other support	49,585,998	4,636	49,590,634	29,305,875	5,238	29,311,113
Expenses:						
Program services	11,849,138	-	11,849,138	10,781,051	-	10,781,051
Support services	12,810,221	-	12,810,221	14,516,976	-	14,516,976
Total expenses	24,659,359	-	24,659,359	25,298,027	-	25,298,027
Total revenues, gains, and other support over expenses	24,926,639	4,636	24,931,275	4,007,848	5,238	4,013,086
Pension-related changes other than net periodic pension costs	343,896	-	343,896	642,695	-	642,695
Increase in net assets	25,270,535	4,636	25,275,171	4,650,543	5,238	4,655,781
Net Assets at Beginning of Year	84,355,633	59,174	84,414,807	79,705,090	53,936	79,759,026
Net Assets at End of Year	$ 109,626,168	$ 63,810	$ 109,689,978	$ 84,355,633	$ 59,174	$ 84,414,807

See accompanying notes to financial statements.

Lili`uokalani Trust

Statements of Functional Expenses
For the Years Ended December 31, 2007 and 2006

	2007					2006				
		Support Services					Support Services			
	Program Services	Program Support	Endowment Management	Total	Total Expenses	Program Services	Program Support	Endowment Management	Total	Total Expenses
Salaries	$ 5,565,000	$ 1,392,677	$ 429,555	$ 1,822,232	$ 7,387,232	$ 5,281,564	$ 1,365,038	$ 378,845	$ 1,743,883	$ 7,025,447
Real Property Taxes	-	23,736	6,589,146	6,612,882	6,612,882	-	44,500	7,012,557	7,057,057	7,057,057
Financial Assistance	2,483,539	-	-	-	2,483,539	2,100,389	-	-	-	2,100,389
Employee Benefits and Payroll Taxes	1,281,035	345,958	74,568	420,526	1,701,561	1,105,844	319,695	98,978	418,673	1,524,517
Excise Taxes	-	-	1,138,251	1,138,251	1,138,251	-	-	1,323,665	1,323,665	1,323,665
Repairs and Maintenance	677,589	63,422	8,626	72,048	749,637	536,014	148,149	4,574	152,723	688,737
Insurance	488,203	95,933	41,727	137,660	625,863	353,474	62,104	44,975	107,079	460,553
Trustees' Fees	-	189,000	166,500	355,500	355,500	-	166,550	166,550	333,100	333,100
Utilities	253,642	66,146	5,669	71,815	325,457	233,141	69,278	4,034	73,312	306,453
Supplies	130,663	162,118	13,123	175,241	305,904	138,641	133,241	14,009	147,250	285,891
Professional Services	13,208	107,581	62,543	170,124	183,332	294	171,737	1,020,518	1,192,255	1,192,549
Other Expenses	3,816	86,553	42,500	129,053	132,869	16,530	61,737	23,939	85,676	102,206
Security	-	8,932	121,394	130,326	130,326	-	9,275	122,447	131,722	131,722
Travel And Meals	92,086	25,639	-	25,639	117,725	107,535	24,599	21,579	46,178	153,713
Telephone	92,305	19,691	4,677	24,368	116,673	115,963	26,595	4,153	30,748	146,711
Equipment Rental	62,687	32,318	3,536	35,854	98,541	54,336	26,919	2,150	29,069	83,405
Occupancy Expense	24,043	27,637	41,456	69,093	93,136	4,466	28,078	42,117	70,195	74,661
General Real Estate Expenses	-	-	73,644	73,644	73,644	-	-	44,903	44,903	44,903
Conferences	37,408	3,164	19,776	22,940	60,348	58,840	16,721	13,671	30,392	89,232
Education	35,714	19,144	-	19,144	54,858	31,380	7,774	-	7,774	39,154
Publications	4,508	32,653	508	33,161	37,669	3,908	27,018	716	27,734	31,642
Dues	12,712	9,109	8,591	17,700	30,412	2,410	8,318	11,253	19,571	21,981
Leasing Commission	-	-	29,814	29,814	29,814	-	-	24,398	24,398	24,398
Real Estate Management Fees	-	-	8,854	8,854	8,854	-	-	6,250	6,250	6,250
Grants Awarded	2,292	-	-	-	2,292	4,346	-	-	-	4,346
Interest	-	-	-	-	-	-	186,620	-	186,620	186,620
Total expenses before depreciation and amortization	11,260,450	2,711,411	8,884,458	11,595,869	22,856,319	10,149,075	2,903,946	10,386,281	13,290,227	23,439,302
Depreciation and Amortization	588,688	123,379	1,090,973	1,214,352	1,803,040	631,976	129,048	1,097,701	1,226,749	1,858,725
Total	$ 11,849,138	$ 2,834,790	$ 9,975,431	$ 12,810,221	$ 24,659,359	$ 10,781,051	$ 3,032,994	$ 11,483,982	$ 14,516,976	$ 25,298,027

See accompanying notes to financial statements.

Lili`uokalani Trust

Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities:		
Increase in net assets	$ 25,275,171	$ 4,655,781
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized gains on sales of property	(24,695,588)	(94,977)
Net realized and unrealized gains on investments	(275,213)	(1,771,730)
Depreciation and amortization	1,803,040	1,858,725
Increase in accounts receivable	(69,078)	(323,656)
Increase in prepaids expenses and other assets	(51,575)	(232,699)
Decrease (increase) in deferred rent receivable	2,335,606	(1,184,178)
Increase in prepaid benefit cost	(453,139)	(1,576,976)
Increase in accounts payable and other accrued liabilities	7,409	431,613
Increase in accrued vacation	26,892	64,017
Increase in deferred revenue	143,970	2,418,065
Increase in accrued postretirement benefits	46,251	243,523
Net cash provided by operating activities	4,093,746	4,487,508
Cash Flows from Investing Activities:		
Proceeds from the sales or maturities of investments	36,934,373	2,558,512
Purchases of investments	(57,846,949)	(3,405,781)
Purchases of other property	(5,778,582)	-
Proceeds from the sales of property	24,853,236	563,758
Purchases of property and equipment	(1,745,428)	(899,407)
Net cash used in investing activities	(3,583,350)	(1,182,918)
Cash Flows from Financing Activities--		
Repayment of notes payable	(28,855)	(2,927,353)
Net increase in cash	481,541	377,237
Cash and Cash Equivalents at Beginning of Year	1,720,726	1,343,489
Cash and Cash Equivalents at End of Year	$ 2,202,267	$ 1,720,726
Supplemental Disclosure of Cash Flow Information--		
Cash paid for interest, net of capitalized interest	$ -	$ 195,261

See accompanying notes to financial statements.

1. Summary of Operations and Significant Accounting Policies

a. Operations

Lili`uokalani Trust (the Trust) was created in 1909 by the late Queen Lili`uokalani, Hawaii's last reigning monarch. The Trust is dedicated to providing support and services to orphan and destitute children, with preference given to those of Hawaiian ancestry. Income of the Trust is derived principally from rental income received from long-term leases on owned real estate and sales of certain real property located in the state of Hawaii.

b. Basis of Presentation

The Trust's net assets and activities are classified based on the existence or absence of donor-imposed restrictions as follows:

- **Unrestricted Net Assets** – Net assets not subject to donor-imposed stipulations. The portion of unrestricted net assets that the board of trustees has designated for a specific purpose is presented separately from the undesignated net assets in the accompanying statements of financial position. The board of trustees retains full control over such designated funds and may use them for any purpose.

- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Trust and/or the passage of time.

- **Permanently Restricted Net Assets** – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Trust. The donors of these assets generally permit the use of the income earned on related investments for general or specific purposes. The Trust has no permanently restricted net assets.

c. Management Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of real property, investments, prepaid benefit costs, and accrued postretirement benefits. Actual results could differ from those estimates.

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

d. Income Taxes

In 2007, the Trust was recognized by the Internal Revenue Service as exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (Code) and is classified as a private operating foundation under Section 4942. As an exempt private operating foundation, the Trust is not subject to the excise tax on net investment income of private foundations. To maintain its private operating foundation status, the Code requires the distribution, for charitable purposes, of 85 percent of the lesser of adjusted net income or the minimum investment return (i.e., five percent of the aggregate fair market value of investment assets less cash deemed to be held for charitable purposes). The distribution must not be less than 2/3 of minimum investment return.

In 2006, the Trust did not expend sufficient amounts for charitable purposes to maintain its status as a private operating foundation and did not have distribution carryovers from prior years to compensate for the distribution shortfall. Accordingly, the Trust was subject to the excise tax on net investment income and recorded a tax liability in the accompanying 2006 financial statements of approximately $200,000. In 2007, the Trust expended sufficient amounts for charitable purposes to maintain its status as a private operating foundation.

e. Cash and Cash Equivalents

The Trust primarily maintains its cash in bank deposit accounts and had approximately $2,408,000 and $1,824,000 in excess of federally insured limits at December 31, 2007 and 2006, respectively. The Trust has not experienced losses in these accounts and management believes there is no significant credit risk related to cash.

The Trust considers cash on hand, deposit accounts and financial instruments with original maturities of three months or less at the date of purchase to be cash and cash equivalents.

f. Accounts Receivable

Accounts receivable consists primarily of percentage rent receivable from lessees. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible and recoveries of previously written off receivables are recorded when received. For the years ended December 31, 2007 and 2006, respectively, management determined that an allowance for uncollectible accounts was not considered necessary.

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

g. Prepaid and Other Assets

Prepaid and other assets consist primarily of deferred leasing commissions. Deferred leasing commissions are amortized on a straight-line basis over the term of the related leases.

h. Property and Equipment

Property and equipment are recorded at cost, except that land acquired in the original deed of trust is recorded at the appraisal value at date of grant. Exempt property represents property used for program services and non-exempt property represents property held for use as income-producing property or property held for development or sale. Maintenance and repairs are expensed as incurred and expenditures for renewals or betterments are capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Furniture, fixtures and equipment	3 to 7 years
Buildings and improvements	Shorter of lease term or 30 years

i. Investments

Investments include marketable securities and investments in limited partnerships. Investments in marketable securities are reported at fair value based on quoted market prices. Unrealized gains and losses are included in change in net assets. Investments in limited partnerships are reported at cost.

Investments in limited partnerships are considered to be impaired when a decline in fair value below carrying value is judged to be other than temporary. The Trust evaluates these investments for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded in investment income and a new cost basis in the investment is established.

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

j. Deferred Rent Receivable

The Trust, as lessor, has lease agreements that provide for scheduled rent increases over the terms of the leases. Rental income is recognized on a straight-line basis over the term of the lease. The difference between rental income per the lease agreements and amounts recognized on a straight-line basis are recorded as deferred rent receivable on the accompanying statements of financial position.

k. Deferred Revenue

Deferred revenue consists of rents received in advance of the due date and lease extension premiums. Lease extension premiums are amortized on a straight-line basis over the life of the related leases.

l. Employee Benefit Plans

The Trust elected to adopt Financial Accounting Standards Board (FASB) Statement on Financial Accounting Standards (SFAS) No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, *an amendment of FASB Statements No. 87, 88, 106, and 132(R).* SFAS No. 158 requires the Trust to recognize on its statement of financial position the funded status of defined benefit pension and other postretirement benefit plans. The Trust must recognize actuarial gains and losses, prior service cost, and any remaining transition amounts from the initial application of SFAS Nos. 87 and 106 when recognizing a plan's funded status, with the offset to unrestricted net assets.

m. Donations

The Trust reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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

n. Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets (asset groups) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset (asset groups) may not be recoverable. Recoverability of assets (asset groups) to be held and used is measured by a comparison of the carrying amount of an asset (asset groups) to future net cash flows expected to be generated by the asset (asset groups). If future net cash flows are less than the carrying value of an asset (asset group), an impairment loss is recognized to the extent the asset's (asset group's) carrying value exceeds its fair value. Assets (asset groups) to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

o. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements,"* which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. SFAS No. 157 also establishes a hierarchy which prioritizes fair value measurements using various levels. SFAS No. 157 must be adopted by the first quarter of the fiscal year beginning after November 15, 2007. Management does not expect the adoption of SFAS No. 157 to have a significant effect on the Trust's financial statements.

In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115."* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value, which should improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 must be adopted by January 1, 2008. Management does not expect the adoption of SFAS No. 159 to have a significant effect on the Trust's financial statements.

p. Reclassifications

Certain reclassifications were made to prior years' financial statements to conform to the 2007 presentation. Such reclassifications had no impact on the previously reported change in net assets.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2007 and 2006

2. Financial Instruments

The carrying amount of the Trust's financial instruments (cash and cash equivalents, accounts receivable, prepaid expense and other assets, accounts payable and other accrued liabilities) as of December 31, 2007 and 2006 approximate fair value because of the short maturities of these instruments. The fair values of investments in marketable securities and limited partnerships were approximately $24.2 million and $22.0 million at December 31, 2007 and approximately $21.3 million and $3.4 million at December 31, 2006. The fair value of limited partnership interests is based on information provided by the limited partnerships.

As of December 31, 2007 and 2006, the carrying amounts of notes payable of $1,212,232 and $1,241,087, respectively, approximate fair value as the interest rate is commensurate with interest rates currently offered by lending institutions for loans of similar terms to companies with comparable credit risk.

3. Investments

Investments stated at fair value at December 31, 2007 and 2006 were as follows:

	Fair Value	Cost	Unrealized (Losses)/Gains
2007:			
Mutual funds – equity securities	$ 20,178,988	$ 20,601,996	$ (423,008)
Mutual funds – fixed income	4,026,693	3,931,133	95,560
	$ 24,205,681	$ 24,533,129	$ (327,448)
2006:			
Mutual funds – equity securities	$ 15,595,757	$ 13,905,866	$ 1,689,891
Mutual funds – fixed income	2,316,993	2,410,154	(93,161)
Other	3,391,495	2,700,000	691,495
	$ 21,304,245	$ 19,016,020	$ 2,288,225

3. Investments (continued)

The Trust maintains investments in limited partnerships at cost. At December 31, 2007 and 2006 the carrying value of those investments were $21,194,234 and $2,907,881, respectively.

The Trust has formal commitments with various limited partnerships to acquire interests in the partnerships up to agreed upon amounts. The Trust, at the discretion of the limited partnerships, may be called upon to fully fund their commitments. At December 31, 2007 and 2006, the Trust has outstanding funding commitments of approximately $3,900,000 and $2,681,000, respectively.

4. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2007 and 2006 consisted of the following:

	2007	2006
Operations:		
U.S. Department of Education Summer Food Service Program	$ 568	$ 568
Other/Emergency Fund	63,242	58,606
Total	$ 63,810	$ 59,174

Net assets in the amount of $11,149 and $11,699 were released from donor restrictions in 2007 and 2006, respectively, by incurring expenses satisfying the restricted purposes related to the Summer Food Service Program and other various programs.

5. Designated Net Assets

The Trustees have designated $3,018,000 for the renovation of its Waianae Coast Children’s Center. On March 19, 2007, the Trust received a private letter ruling from the Internal Revenue Service approving the designated amount as a qualifying distribution for the tax year ended December 31, 2006. The set aside will be reduced as related expenditures are incurred. In 2007, the Trust recorded $15,316 of expenditures related to the renovation of the Waianae Coast Children’s Center.

6. Property and Equipment

Property and equipment at December 31, 2007 and 2006 consisted of the following:

2007:	Exempt	Non-Exempt, Held for Use	Total
Land	$ 3,160,369	$ 864,682	$ 4,025,051
Building and improvements	22,568,981	32,302,957	54,871,938
Furniture, fixtures and equipment	2,399,281	-	2,399,281
	28,128,631	33,167,639	61,296,270
Accumulated depreciation	(11,145,881)	(10,485,124)	(21,631,005)
	16,982,750	22,682,515	39,665,265
Construction in progress (see Note 12)	35,229	2,037,319	2,072,548
Property and equipment, net	$ 17,017,979	$ 24,719,834	$ 41,737,813

2006:	Exempt	Non-Exempt, Held for Use	Total
Land	$ 3,160,369	$ 853,756	$ 4,014,125
Building and improvements	22,465,388	32,391,171	54,856,559
Furniture, fixtures and equipment	2,182,372	-	2,182,372
	27,808,129	33,244,927	61,053,056
Accumulated depreciation	(10,447,112)	(9,463,198)	(19,910,310)
	17,361,017	23,781,729	41,142,746
Construction in progress (see Note 12)	-	810,327	810,327
Property and equipment, net	$ 17,361,017	$ 24,592,056	$ 41,953,073

For the years ended December 31, 2007 and 2006, the Trust capitalized approximately $66,361 and $10,000 of interest costs, respectively.

At December 31, 2007 and 2006, non-exempt property held for use primarily represents property that the Trust leases to third parties under non-cancelable leases (see Note 11).

7. Other Property

Other property at December 31, 2007 and 2006 consisted of the following:

2007	Non-Exempt, held for		
	Sale	Development	Total
Land	$ 3,329,533	$ 207,053	$ 3,536,586
Construction in progress (see Note 12)	1,562,578	1,258,241	2,820,819
Property and equipment, net	$ 4,892,111	$ 1,465,294	$ 6,357,405

2006	Non-Exempt, held for		
	Sale	Development	Total
Land	$ 96,424	$ 207,053	$ 303,477
Construction in progress (see Note 12)	267,171	8,175	275,346
Property and equipment, net	$ 363,595	$ 215,228	$ 578,823

Property held for development is stated at the lower of cost or fair value less costs to sell, and includes land acquisition costs, initial planning costs and capitalized interest.

Property held for sale consists of the Trusts' interest in the land under three condominium properties and a commercial site in Kona.

The Trust entered into an agreement with Kawaiahao Church (Church) to acquire the Church's minority leased fee interest in the land underlying the Waikiki Banyan (Banyan) condominium building for an initial purchase price of $3,290,000. The purchase agreement also contains additional payments contingent on the future sales of apartment units. Under the agreement, the Trust is required to pay to the Church 8.2 percent of the gross sales price, as defined, of each apartment unit sold and closed by the Trust within five years of the Trust's purchase of the Church's interest. The agreement allows the 8.2 percent share per apartment unit payment to the Church to be reduced by the Trust for the allocated amount of the initial purchase price to each unit. The Trust estimates that the maximum amount of future contingent payments would approximate $2,000,000.

The initial purchase price was allocated to the cost basis of each apartment unit. Any contingent payments relating to future sales of apartment units made to the Church will be accounted for as an adjustment to the cost basis of each unit in the year such unit is sold.

8. Employee Benefit Plans

a. 401(k) Plan

In 2005, the Trust established a defined contribution plan (Plan) qualifying under Section 401(k) of the Internal Revenue Code, covering all employees who have six months of service and are age 21 or older. Employees may contribute up to 75 percent of included compensation, as defined in the Plan. The Trust matches 100 percent of employee contributions up to the first 3 percent of included compensation, plus 50 percent of employee contributions up to the next 2 percent of included compensation.

Expenses related to the Plan totaled approximately $265,000 and $256,000 for the years ended December 31, 2007 and 2006, respectively.

b. Defined Benefit Pension Plan and Post-Retirement Benefit Plan

The Trust has a non-contributory defined benefit pension plan (the Plan) covering substantially all of its employees. The Plan's benefits are based on years of service and the employee's compensation during the last several years of employment. The Trust's funding policy is to contribute annually the amount consistent with the minimum funding standards as required by applicable federal regulations.

Effective December 31, 2004, the Plan was curtailed. Upon the effective date of the curtailment, accrual of benefits ceased and no individual is able to become an eligible participant of the Plan.

The Trust also provides post-retirement health benefits to eligible employees based on age and years of service. The plan covers the cost of medical plan coverage subject to a set monthly maximum.

8. Employee Benefit Plans (continued)

b. Defined Benefit Pension Plan and Post-Retirement Benefit Plan (continued)

The changes in the obligations and assets of the Trust's retirement benefit plans and the changes in unrestricted net assets for 2007 and the funded status of these plans and amounts related to these plans reflected in the Trust's statements of financial position were as follows:

	Pension Benefits	Postretirement Benefits
Benefit obligation, December 31, 2006	$ 7,489,394	$ 1,041,783
Service cost	-	49,900
Interest cost	445,785	60,511
Assumption changes	(233,818)	(23,850)
Actuarial (gain)/loss	45,356	(26,233)
Benefits paid	(140,923)	(14,077)
Benefit obligation, December 31, 2007	7,605,794	1,088,034
Fair value of plan assets, December 31, 2006	7,967,481	-
Actual return on plan assets	560,462	-
Employer contribution	150,000	14,077
Benefits paid	(140,923)	(14,077)
Fair value of plan assets, December 31, 2007	8,537,020	-
Prepaid benefit cost/(accrued postretirement benefits)	$ 931,226	$ (1,088,034)
Change in net periodic benefit cost not yet recognized:		
As of December 31, 2006	$ 772,663	$ (129,968)
Current year	277,095	66,801
Current net periodic benefit cost not yet recognized	$ 1,049,758	$ (63,167)

8. Employee Benefit Plans (continued)

b. Defined Benefit Pension Plan and Post-Retirement Benefit Plan (continued)

The changes in the obligations and assets of the Trust's retirement benefit plans and the changes in unrestricted net assets for 2006 and the funded status of these plans and amounts related to these plans reflected in the Trust's statements of financial position were as follows:

	Pension Benefits	Postretirement Benefits
Benefit obligation, December 31, 2005	$ 7,757,833	$ 1,007,719
Service cost	-	54,469
Interest cost	420,088	55,538
Assumption changes	(528,646)	(71,422)
Actuarial (gain)/loss	(25,585)	8,649
Benefits paid	(134,296)	(13,170)
Benefit obligation, December 31, 2006	7,489,394	1,041,783
Fair value of plan assets, December 31, 2005	6,658,944	-
Actual return on plan assets	612,396	-
Employer contribution	830,437	13,170
Benefits paid	(134,296)	(13,170)
Fair value of plan assets, December 31, 2006	7,967,481	-
Prepaid benefit cost/(accrued postretirement benefits)	$ 478,087	$ (1,041,783)
Change in unrestricted net assets due to adoption of SFAS 158:		
As of December 31, 2005	$ -	$ -
Current year	772,663	(129,968)
Current net periodic benefit cost not yet recognized	$ 772,663	$ (129,968)

The Trust does not expect any plan assets to be returned to the Trust during calendar year 2007.

The overall expected long-term rate of return on assets assumption is based on the expected return of various asset classes weighted by the pension plan's asset allocation.

8. Employee Benefit Plans (continued)

b. Defined Benefit Pension Plan and Post-Retirement Benefit Plan (continued)

The percentage of pension plan assets by asset category and target allocation ranges were as follows:

		Target Ranges
Asset category:		
Mutual Funds – Equity	75%	40 – 70%
Mutual Funds – Fixed Income	25%	20 – 50%
Other	-	0 – 20%
Total	100%	

It is the Trust's policy to invest pension plan assets in a diversified portfolio consisting of an array of asset classes within the above target asset allocation ranges. The investment risk of the assets is limited by appropriate diversification both within and between asset classes. The assets are managed with a view to ensuring that sufficient liquidity will be available to meet expected cash flow requirements.

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

	Pension Plan	Post-Retirement Benefit Plan
Years ending December 31,		
2008	$ 278,295	$ 19,880
2009	316,391	27,218
2010	348,719	33,221
2011	385,639	40,507
2012	409,035	49,983
2013 – 2017	2,528,100	340,984

The Trust expects to make a contribution to its defined benefit pension plan and post-retirement benefit plan in 2008 however the amounts have yet to be determined.

8. Employee Benefit Plans (continued)

b. Defined Benefit Pension Plan and Post-Retirement Benefit Plan (continued)

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

	Pension Plan		Post-retirement Benefit Plan	
	2007	2006	2007	2006
Benefit obligation:				
Discount rate	6.25%	6.00%	6.25%	6.00%
Expected long-term rate of return on plan assets	6.00%	6.00%	n/a	n/a
Rate of compensation increases	3.00%	3.00%	3.00%	3.00%
Health care trend rates	n/a	n/a	10% - 5%	10% - 5%
Year of ultimate trend	n/a	n/a	2013	2012
Net periodic benefit cost (years ended):				
Discount rate	6.00%	5.50%	6.00%	5.50%
Expected long-term rate of return on plan assets	6.00%	6.00%	n/a	n/a
Rate of compensation increases	3.00%	3.00%	3.00%	3.00%
Health care trend rates	n/a	n/a	10% - 5%	10% - 5%
Year of ultimate trend	n/a	n/a	2013	2011

The components of net periodic benefit cost were as follows:

	Pension Plan		Post-retirement Benefit Plan	
	2007	2006	2007	2006
Service cost	$ -	$ -	$ 49,900	$ 54,469
Interest cost	445,785	420,088	60,511	55,538
Expected return on plan assets	(471,866)	(393,964)	-	-
Amortization of unrecognized net transition obligation	-	-	16,718	16,718
Net periodic benefit cost	$ (26,081)	$ 26,124	$ 127,129	$ 126,725

The estimated transition obligation for the post-retirement benefit plan that will be amortized from unrestricted net assets into net periodic pension benefit cost during 2008 is $16,718.

Subsequent to year end, the Trust expressed its intent to terminate the Plan. The Trust is required to offer an annuity to plan participants, otherwise benefits may be paid out in a lump sum settlement.

9. Notes Payable

The Trust previously entered into a term loan agreement with a bank in the original amount of $1,300,000 to finance the purchase of its main office space and related improvements. The loan bears interest at 5.31 percent and requires the Trust to make monthly principal and interest payments of $7,836. The maturity date of the loan is September 28, 2014. Any repayments of the loan made prior to September 28, 2007 are subject to penalties. The loan is secured by approximately $4 million of marketable securities, and also requires the Trust to maintain certain financial covenants related to its loan to value ratio, as defined in the loan agreement. The Trust was in compliance with these requirements as of December 31, 2007 and 2006. There was a balance of $1,212,232 and $1,241,087 outstanding on the loan at December 31, 2007 and 2006, respectively.

The Trust also has available a $2,500,000 line of credit with a bank. The line of credit allows the Trust to obtain LIBOR rate advances and base rate advances. LIBOR rate advances bear interest at LIBOR plus 1.65 percent. Base rate advances bear interest at the base rate of the financial institution, as defined, less .25 percent. The line of credit expired on September 1, 2007 and was extended to October 1, 2009. Under the extended agreement LIBOR rate advances bear interest at LIBOR plus .875 percent. Base rate advances bear interest at the base rate of the financial institution, as defined, less .75 percent. Effective April 1, 2008 the line of credit was increased to $5,000,000. There were no outstanding draws on the line of credit as of December 31, 2007 and 2006.

The approximate annual principal payments on notes payable at December 31, 2007 were as follows:

For the years ending December 31,	
2008	$ 30,000
2009	32,000
2010	34,000
2011	36,000
2012	38,000
Thereafter	1,042,232
	$ 1,212,232

10. Leases

a. As Lessor

Land held by the Trust as investment property is leased or available for lease under operating lease arrangements which expire through 2080.

Future minimum rental revenues under non-cancelable operating leases as of December 31, 2007 were approximately as follows:

For the years ending December 31,	
2008	$ 15,844,000
2009	15,792,000
2010	15,782,000
2011	15,806,000
2012	16,030,000
Thereafter	586,531,000
Total	$ 665,785,000

The Trust receives percentage rentals (based on lessees' gross receipts, as defined) on certain of its properties. Percentage rent revenues earned for the years ended December 31, 2007 and 2006, amounted to approximately $3,310,000 and $2,776,000, respectively.

11. Commitments

The Trust entered into contracts with various third parties related to its development projects and construction in progress. At December 31, 2007, these contracts totaled approximately $16,666,000. As of December 31, 2007, the Trust incurred approximately $3,340,000 related to these contracts.

Supplementary Information

Lili'uokalani Trust

Supplemental Schedule of Land
December 31, 2007

	Cost Basis	Appraisal Basis (Unaudited)
Investment in land:		
Oahu:		
Waikiki	$ 3,981,746	$ 138,464,000
Other Oahu	33,193	5,986,000
Hawaii:		
Kona:		
Developed	49,331	90,561,000
Undeveloped	224,120	49,603,000
Leased for agriculture	112,877	1,390,000
Other Hawaii	1	5,240,000
Total investment in land	4,401,268	291,244,000
Land used for tax exempt purposes:		
Children's centers:		
Haleiwa	214,598	1,190,000
Hilo	302,816	260,000
Kaneohe	703,316	620,000
Kapalama	217,160	1,100,000
Kauai	966,858	570,000
Maui	240,985	380,000
Punaluu	1	1,330,400
Waianae	514,635	200,000
Total land used for tax exempt purposes	3,160,369	5,650,400
Total land	$ 7,561,637	$ 296,894,400

Note: The supplemental "appraisal basis" value of land is stated primarily at the estimated market value on January 1, 2003 as appraised by John Child & Company, in its report dated October 15, 2003. For land sales that were not given a separate tax map key in the appraisal, their appraisal value has been removed in proportion to their cost basis. Land purchases subsequent to the appraisal have been included in the appraisal basis at cost.

See acompanying independent auditor's report.