

Lili`uokalani Trust

Financial Statements and Supplemental Schedule
December 31, 2009 and 2008
Together with Independent Auditor's Report



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, 2009 and 2008, 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, 2009 and 2008, 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
July 16, 2010

Lili`uokalani Trust

Statements of Financial Position December 31, 2009 and 2008

	<u>Assets</u>	
	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and cash equivalents	\$ 2,466,218	\$ 3,664,225
Accounts receivable, net	1,823,271	1,184,667
Prepaid expenses and other assets	845,917	930,097
Total current assets	<u>5,135,406</u>	<u>5,778,989</u>
Property and equipment, net	17,656,408	18,103,448
Investments:		
Marketable securities	62,298,758	52,220,909
Other	85,721,612	77,105,854
Deferred rent receivable	18,069,370	16,817,466
Total assets	<u>\$ 188,881,554</u>	<u>\$ 170,026,666</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities:		
Accounts payable and other accrued liabilities	\$ 999,809	\$ 1,209,114
Accrued vacation	829,590	812,131
Deferred revenue	635,000	635,000
Notes payable	53,000	53,000
Total current liabilities	<u>2,517,399</u>	<u>2,709,245</u>
Accrued pension benefits	1,179,298	1,932,904
Accrued postretirement benefits	1,379,538	1,182,449
Deferred revenue, less current portion	2,053,610	2,284,117
Notes payable, less current portion	2,401,949	2,456,322
Total liabilities	<u>9,531,794</u>	<u>10,565,037</u>
Commitments and Contingencies		
Net Assets:		
Unrestricted:		
Board designated for set aside liabilities	5,832,919	2,930,189
Undesignated	173,449,593	156,462,920
Temporarily restricted	179,282,512	159,393,109
Total net assets	<u>179,349,760</u>	<u>159,461,629</u>
Total liabilities and net assets	<u>\$ 188,881,554</u>	<u>\$ 170,026,666</u>

See accompanying notes to financial statements.

Lili`uokalani Trust

Statements of Activities

For the Years Ended December 31, 2009 and 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Other Support:						
Rent	\$ 21,406,163	\$ -	\$ 21,406,163	\$ 18,443,657	\$ -	\$ 18,443,657
Real property and general excise tax reimbursements	5,733,369	-	5,733,369	5,524,041	-	5,524,041
Donations	4,931	9,712	14,643	154,950	15,173	170,123
Net realized gains on sales of real estate	12,673,051	-	12,673,051	61,586,978	-	61,586,978
Net realized and unrealized gains (losses) on investments	7,422,895	-	7,422,895	(9,354,835)	-	(9,354,835)
Income from investments	1,147,656	-	1,147,656	2,412,072	-	2,412,072
Other	64,959	-	64,959	90,337	-	90,337
	<u>48,453,024</u>	<u>9,712</u>	<u>48,462,736</u>	<u>78,857,200</u>	<u>15,173</u>	<u>78,872,373</u>
Net assets released from restrictions	10,984	(10,984)	-	10,463	(10,463)	-
Total revenues, gains, (losses) and other support	<u>48,464,008</u>	<u>(1,272)</u>	<u>48,462,736</u>	<u>78,867,663</u>	<u>4,710</u>	<u>78,872,373</u>
Expenses:						
Program services	14,669,396	-	14,669,396	12,836,661	-	12,836,661
Support services	14,857,927	-	14,857,927	13,230,675	-	13,230,675
Total expenses	<u>29,527,323</u>	<u>-</u>	<u>29,527,323</u>	<u>26,067,336</u>	<u>-</u>	<u>26,067,336</u>
Total revenues, gains,(losses) and other support over expenses	18,936,685	(1,272)	18,935,413	52,800,327	4,710	52,805,037
Pension-related changes other than net periodic pension costs	<u>952,718</u>	<u>-</u>	<u>952,718</u>	<u>(3,033,386)</u>	<u>-</u>	<u>(3,033,386)</u>
Increase (decrease) in net assets	19,889,403	(1,272)	19,888,131	49,766,941	4,710	49,771,651
Net Assets at Beginning of Year	<u>159,393,109</u>	<u>68,520</u>	<u>159,461,629</u>	<u>109,626,168</u>	<u>63,810</u>	<u>109,689,978</u>
Net Assets at End of Year	<u>\$ 179,282,512</u>	<u>\$ 67,248</u>	<u>\$ 179,349,760</u>	<u>\$ 159,393,109</u>	<u>\$ 68,520</u>	<u>\$ 159,461,629</u>

See accompanying notes to financial statements.

Lili'uokalani Trust

Statements of Functional Expenses
For the Years Ended December 31, 2009 and 2008

	2009					2008				
	Program Services	Support Services			Total Expenses	Program Services	Support Services			Total Expenses
		Program Support	Endowment Management	Total			Program Support	Endowment Management	Total	
Salaries	\$ 6,374,721	\$ 1,461,252	\$ 636,304	\$ 2,097,556	\$ 8,472,277	\$ 6,064,302	\$ 1,432,861	\$ 543,459	\$ 1,976,320	\$ 8,040,622
Real Property Taxes	-	28,763	6,032,674	6,061,437	6,061,437	-	31,204	5,729,771	5,760,975	5,760,975
Financial Assistance	3,108,182	20	-	20	3,108,202	2,961,987	81	-	81	2,962,068
Employee Benefits and Payroll Taxes	1,688,269	433,684	83,232	516,916	2,205,185	1,387,596	300,144	91,496	391,640	1,779,236
Repairs and Maintenance	1,154,162	196,624	19,037	215,661	1,369,823	486,954	59,544	46,214	105,758	592,712
Excise Taxes	-	-	1,256,240	1,256,240	1,256,240	-	-	1,257,504	1,257,504	1,257,504
Professional Services	10,750	496,501	728,985	1,225,486	1,236,236	-	331,333	624,484	955,817	955,817
Insurance	452,147	129,567	57,180	186,747	638,894	324,377	58,181	76,222	134,403	458,780
Other Expenses	38,770	363,309	68,893	432,202	470,972	10,930	232,548	56,646	289,194	300,124
Trustees' Fees	-	231,000	231,000	462,000	462,000	-	215,000	215,000	430,000	430,000
Utilities	266,821	92,941	46,039	138,980	405,801	314,112	97,920	11,604	109,524	423,636
Supplies	193,698	93,263	10,842	104,105	297,803	141,169	136,105	10,760	146,865	288,034
Bad Debt Expense	-	-	268,482	268,482	268,482	-	-	-	-	-
Occupancy Expense	135,134	36,002	36,002	72,004	207,138	29,362	25,792	38,687	64,479	93,841
Travel And Meals	140,010	24,664	27,763	52,427	192,437	137,894	21,815	24,772	46,587	184,481
Security	11,917	10,046	140,264	150,310	162,227	13,167	9,171	122,038	131,209	144,376
Telephone	120,056	17,530	3,225	20,755	140,811	116,883	23,600	3,872	27,472	144,355
Equipment Rental	51,495	44,550	2,567	47,117	98,612	57,848	42,804	2,844	45,648	103,496
Education	50,353	38,888	-	38,888	89,241	58,595	21,852	-	21,852	80,447
Conferences	35,846	2,156	18,434	20,590	56,436	22,320	39,805	13,093	52,898	75,218
General Real Estate Expenses	-	-	48,186	48,186	48,186	-	-	71,130	71,130	71,130
Leasing Commission	-	-	38,720	38,720	38,720	-	-	29,813	29,813	29,813
Dues	3,531	9,983	12,214	22,197	25,728	(4,809)	9,929	13,156	23,085	18,276
Real Estate Management Fees	-	-	23,594	23,594	23,594	-	-	13,021	13,021	13,021
Income Tax	-	-	18,000	18,000	18,000	-	-	35,724	35,724	35,724
Publications	360	5,348	1,084	6,432	6,792	740	2,552	1,035	3,587	4,327
Total expenses before depreciation and amortization	13,836,222	3,716,091	9,808,961	13,525,052	27,361,274	12,123,427	3,092,241	9,032,345	12,124,586	24,248,013
Depreciation and Amortization	833,174	61,530	1,271,345	1,332,875	2,166,049	713,234	61,088	1,045,001	1,106,089	1,819,323
Total	\$ 14,669,396	\$ 3,777,621	\$ 11,080,306	\$ 14,857,927	\$ 29,527,323	\$ 12,836,661	\$ 3,153,329	\$ 10,077,346	\$ 13,230,675	\$ 26,067,336

See accompanying notes to financial statements.

Lili'uokalani Trust

Statements of Cash Flows

For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 19,888,131	\$ 49,771,651
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Net realized gains on sales of real estate	(12,673,051)	(61,586,978)
Net realized and unrealized (gains) losses on investments	(7,422,895)	9,354,835
Depreciation and amortization	2,166,049	1,819,323
(Increase) decrease in accounts receivable	(638,604)	260,489
Decrease in prepaids expenses and other assets	84,180	45,420
(Increase) decrease in deferred rent receivable	(1,251,904)	661,649
(Decrease) increase in accounts payable and other accrued liabilities	(209,305)	270,616
Increase in accrued vacation	17,459	63,798
(Decrease) increase in deferred revenue	(230,507)	67,778
(Decrease) increase in accrued pension benefits	(753,606)	2,864,130
Increase in accrued postretirement benefits	197,089	94,415
Net cash (used in) provided by operating activities	<u>(826,964)</u>	<u>3,687,126</u>
Cash Flows from Investing Activities:		
Proceeds from the sales or maturities of marketable securities	11,777,550	15,918
Purchases of marketable securities	(14,432,504)	(37,385,981)
Proceeds from the sales or maturities of limited partnership interests	434,058	280,486
Purchases of limited partnership interests	(9,267,717)	(22,882,869)
Proceeds from the sales of real estate	16,306,530	73,523,553
Purchases of real estate	(4,686,923)	(14,932,322)
Purchases of property and equipment	(447,664)	(2,141,043)
Net cash used in investing activities	<u>(316,670)</u>	<u>(3,522,258)</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable	-	1,350,000
Repayment of notes payable	(54,373)	(52,910)
Net cash (used in) provided by financing activities	<u>(54,373)</u>	<u>1,297,090</u>
Net (decrease) increase in cash	(1,198,007)	1,461,958
Cash and Cash Equivalents at Beginning of Year	<u>3,664,225</u>	<u>2,202,267</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,466,218</u>	<u>\$ 3,664,225</u>

See accompanying notes to financial statements.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

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, sales of certain real property located in the state of Hawaii and investment income realized from its investment portfolios.

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 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/accrued pension benefit costs, and accrued postretirement benefits. Actual results could differ from those estimates.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

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

d. Income Taxes

The Trust has been 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 for 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 each of the years 2009 and 2008, the Trust has expended sufficient amounts for charitable purposes or utilized distribution carryovers from prior years to not incur a tax for failure to distribute income that is imposed by the aforementioned section of the Code.

e. Cash and Cash Equivalents

The Trust primarily maintains its cash in bank deposit accounts and had approximately \$903,000 and \$968,000 in excess of federally insured limits at December 31, 2009 and 2008, 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 consist primarily of percentage rent due 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, 2009 and 2008, management recorded an allowance of approximately \$268,000 and nil, respectively.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

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

g. Prepaid Expenses and Other Assets

Prepaid expenses 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. All Trust property and equipment is considered exempt. Exempt property represents property used for program services. 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, non-controlling interests in for-profit limited partnerships, and real estate. Investments in marketable securities consist of mutual funds and U.S. treasury bonds and are stated at fair value based on quoted market prices. Investments in real estate and for-profit limited partnerships are classified as other investments and are reported at the lower of cost or fair value.

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 is recorded as deferred rent receivable on the accompanying statements of financial position.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

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

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 accounts for its defined benefit and post-retirement benefit plans in accordance with Accounting Standards Codification (ASC) 715, *Employers Accounting for Pensions*. ASC 715 prescribes standards of financial accounting and reporting for an employer that offers pension benefits to its employees. ASC 715 requires employers to (a) recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in unrestricted net assets in the year in which the changes occur, and (b) measure the funded status of a plan as of the date of its year-end statement of financial position.

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.

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

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

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

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

o. Fair Value Measurements

Effective January 1, 2008, the Trust adopted new accounting guidance related to fair value measurements which provides a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. The new accounting guidance applies to all financial instruments that are being measured and reported on a fair value basis.

p. Recent Accounting Pronouncements

In 2009, the Financial Accounting Standards Board (FASB) established the Codification as the single source of authoritative generally accepted accounting principles of the United States of America (GAAP) recognized by the FASB to be applied by nongovernmental entities. Pursuant to the establishment of the Codification, the Trust has updated references to GAAP in its financial statements issued for the year ended December 31, 2009. The adoption of this provision did not impact the Trust's financial position or results of operations.

The FASB also recently established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standards provide 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Trust has evaluated subsequent events through July 16, 2010, the date the financial statements were available to be issued, and it was determined that all subsequent events had been properly accounted for.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

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

p. Recent Accounting Pronouncements (continued)

In 2006, the FASB established standards which clarified the accounting and disclosure requirements for uncertainties in income taxes recognized in an enterprise's financial statements. The standards prescribe a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return and is effective for fiscal years beginning after December 15, 2008. In 2008 the FASB issued additional standards which allow nonpublic enterprises to elect to defer the effective date of the previously issued guidance to fiscal years beginning after December 15, 2008. In 2009, the Trust adopted these standards. The adoption of these standards did not have an impact on the Trust's financial position or results of operations.

q. Reclassifications

Certain reclassifications were made to prior years' financial statements to conform to the 2009 presentation. Such reclassifications had no impact on the previously reported change in net assets.

2. Investments

a. Marketable Securities

Investments stated at fair value at December 31, 2009 and 2008 were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized (Losses)/Gains</u>
2009:			
Mutual funds	\$ 56,640,384	\$ 59,057,916	\$ (2,417,532)
Treasury inflation protected securities	<u>5,658,374</u>	<u>5,008,564</u>	<u>649,810</u>
	<u>\$ 62,298,758</u>	<u>\$ 64,066,480</u>	<u>\$ (1,767,722)</u>
2008:			
Mutual funds	\$ 47,173,031	\$ 56,412,029	\$ (9,238,998)
Treasury inflation protected securities	<u>5,047,878</u>	<u>5,000,000</u>	<u>47,878</u>
	<u>\$ 52,220,909</u>	<u>\$ 61,412,029</u>	<u>\$ (9,191,120)</u>

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

2. Investments (continued)

b. Other Investments

The Trust's other investments consist of investments in for-profit limited partnerships and real estate held for use, sale and development. As allowed under ASC 958-325-35, the Trust accounts for its other investments at the lower of cost or fair value. Under this method, the same measurement attribute is used for all other investments and declines in the value of those investments are recognized if their aggregate market value is less than their carrying amount; recoveries of aggregate market value in subsequent periods are recorded in those periods subject only to the limitation that the carrying amount does not exceed the original cost. At December 31, 2009 and 2008, the cost and fair value of other investments was as follows:

2009:

	<u>Cost</u>	<u>Fair Value (unaudited)</u>	<u>Fair Value Over/(Under) Cost (Unaudited)</u>
Investment in real estate	\$ 33,091,335	\$ 462,438,870	\$ 429,347,535
Investment in for-profit limited partnerships	<u>52,630,277</u>	<u>51,990,893</u>	<u>(639,384)</u>
Total	<u>\$ 85,721,612</u>	<u>\$ 514,429,763</u>	<u>\$ 428,708,151</u>

2008:

	<u>Cost</u>	<u>Fair Value (unaudited)</u>	<u>Fair Value Over/(Under) Cost (Unaudited)</u>
Investment in real estate	\$ 33,309,237	\$ 533,130,747	\$ 499,821,510
Investment in for-profit limited partnerships	<u>43,796,617</u>	<u>36,484,063</u>	<u>(7,312,554)</u>
Total	<u>\$ 77,105,854</u>	<u>\$ 569,614,810</u>	<u>\$ 492,508,956</u>

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, 2009 and 2008, the Trust had outstanding funding commitments of approximately \$10,400,000 and \$6,800,000 respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

2. Investments (continued)

b. Other Investments (continued)

Investment in real estate at December 31, 2009 and 2008 consisted of the following:

2009:	Held for			Total
	Use	Sale	Development	
Land	\$ 1,079,280	\$ 813,132	\$ 207,053	\$ 2,099,465
Building and improvements	40,892,120	-	-	40,892,120
	41,971,400	813,132	207,053	42,991,585
Accumulated depreciation and amortization	(12,734,817)	-	-	(12,734,817)
	29,236,583	813,132	207,053	30,256,768
Construction in progress (see Note 10)	52,500	-	2,782,067	2,834,567
Investment in real estate, net	<u>\$ 29,289,083</u>	<u>\$ 813,132</u>	<u>\$ 2,989,120</u>	<u>\$ 33,091,335</u>
2008:	Held for			Total
	Use	Sale	Development	
Land	\$ 1,079,279	\$ 982,158	\$ 207,053	\$ 2,268,490
Building and improvements	32,227,956	-	-	32,227,956
	33,307,235	982,158	207,053	34,496,446
Accumulated depreciation and amortization	(11,463,473)	-	-	(11,463,473)
	21,843,762	982,158	207,053	23,032,973
Construction in progress (see Note 10)	6,767,665	1,925,199	1,583,400	10,276,264
Investment in real estate, net	<u>\$ 28,611,427</u>	<u>\$ 2,907,357</u>	<u>\$ 1,790,453</u>	<u>\$ 33,309,237</u>

Real estate held for use primarily represents property that the Trust leases to third parties under non-cancelable leases.

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

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

2. Investments (continued)

c. Other Investments (continued)

In 2007, the Trust entered into an agreement with Kawaihāo Church (Church) to acquire the Church's minority leased fee interest in the land underlying a condominium building for an initial purchase price of \$3,290,000. 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.

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.

For the year ended December 31, 2009, the Trust received proceeds of approximately \$6,843,000 and recognized a gain of approximately \$6,523,000 related to sales of its condominium properties. Through December 31, 2009, the Trust has made contingent payments to the Church of approximately \$161,000 and estimates that the maximum amount of future contingent payments would approximate \$560,000.

For the year ended December 31, 2009, the Trust received proceeds of approximately \$5,610,000 and recognized a gain of approximately \$5,600,000 related to sales of a commercial property in Kona.

In 2008 the Trust entered in to a sales agreement with an unrelated third party for its commercial site in Kona. The agreement required the Trust to sell the land underlying the site and to perform various off/on site construction for which the Trust would be reimbursed up to a maximum of \$12,200,000. In 2009 and 2008, the Trust incurred approximately \$2,900,000 and \$9,300,000, respectively of costs related to its construction requirement as defined in the agreement. The Trust has incurred all of the costs related to its construction requirements as defined in the agreement. In 2008, the Trust also recognized a gain of approximately \$3,300,000 related to the sale of the land underlying the site.

Real estate held for development includes land acquisition costs, initial planning costs and capitalized interest related to various parcels of land in Kona.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

3. Property and Equipment

Property and equipment at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Land	\$ 3,587,975	\$ 3,587,975
Building and improvements	23,844,632	23,806,214
Furniture, fixtures and equipment	2,870,450	2,575,046
	30,303,057	29,969,235
Accumulated depreciation and amortization	(12,828,947)	(11,959,564)
	17,474,110	18,009,671
Construction in progress (see Note 10)	182,298	93,777
Property and equipment, net	\$ 17,656,408	\$ 18,103,448

For the years ended December 31, 2009 and 2008, the Trust capitalized approximately \$123,000 and \$110,000 of interest costs, respectively.

4. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

4. Fair Value Measurements (continued)

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Trust's investments are recorded at fair value as follows:

Mutual funds are stated at fair value using quoted market prices. Shares of mutual funds are valued at the net asset value of shares held by the Plan at the reporting date on a recurring basis.

U.S. Treasury bonds are traded in active markets; quoted prices are obtained for similar assets, and fair values are recorded on a recurring basis.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The table below presents the balances of investments measured at fair value on a recurring basis as of December 31, 2009.

	Total	Fair Value as of December 31, 2009		
		Level 1	Level 2	Level 3
Mutual funds	\$ 56,640,384	\$ 56,640,384	\$ -	\$ -
Treasury inflation protected securities	5,658,374	-	5,658,374	-
Total	<u>\$ 62,298,758</u>	<u>\$ 56,640,384</u>	<u>\$ 5,658,374</u>	<u>\$ -</u>

There have been no changes in the methodologies used at December 31, 2009 and 2008.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

4. Fair Value Measurements (continued)

The Trust's other financial instruments include cash and cash equivalents, receivables, prepaid expense and other assets, accounts payable and other accrued liabilities. The carrying amounts of these assets and liabilities approximate fair value because of the short-term nature of these instruments.

As of December 31, 2009 and 2008, the carrying amount of notes payable was approximately \$2,500,000 which approximates 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.

5. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Operations:		
U.S. Department of Education Summer Food Service Program	\$ 568	\$ 568
Other/Emergency Fund	66,680	67,952
Total	<u>\$ 67,248</u>	<u>\$ 68,520</u>

Net assets in the amount of approximately \$11,000 and \$10,000 were released from donor restrictions in 2009 and 2008, respectively, by incurring expenses satisfying the restricted purposes related to the applicable programs.

6. Designated Net Assets

In 2006, the Trustees designated \$3,018,000 for the renovation of the 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 is reduced as related expenditures are incurred. In 2009, the Trustees increased the amount designated for the renovation of the Waianae Coast Children's Center by \$2,982,000. On November 10, 2009, 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, 2009. In 2009 and 2008, the Trust recorded expenditures related to the renovation of the Waianae Coast Children's Center of approximately \$79,000 and \$72,000, respectively.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

7. Employee Benefit Plans

a. 401(k) Plan

In 2005, the Trust established a defined contribution plan qualifying under Section 401(k) of the Internal Revenue Code, covering all regular 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 defined contribution 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 \$298,000 and \$280,000 for the years ended December 31, 2009 and 2008, respectively.

b. Defined Benefit Pension and Postretirement Benefit Plans

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.

During 2008, the Trustees approved the termination of the defined benefit pension plan subject to management's evaluation of the cost/benefit of such action. In October 2009, the Trust officially terminated the defined benefit pension plan. The Trust is required to offer an annuity to plan participants; otherwise benefits may be paid out in a lump sum settlement.

The changes in the obligations and assets of the Trust's defined benefit plans and the changes in unrestricted net assets for 2009 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:

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

7. Employee Benefit Plans (continued)

b. Defined Benefit Pension and Postretirement Benefit Plans (continued)

	Pension Benefits	Postretirement Benefits
Benefit obligation, December 31, 2008	\$ 7,920,447	\$ 1,182,449
Service cost	-	57,836
Interest cost	474,738	73,966
Assumption changes	-	-
Actuarial loss	60,976	82,441
Benefits paid	(175,466)	(17,154)
Benefit obligation, December 31, 2009	<u>8,280,695</u>	<u>1,379,538</u>
Fair value of plan assets, December 31, 2008	5,987,543	-
Actual return on plan assets	1,289,320	-
Employer contribution	-	17,154
Benefits paid	(175,466)	(17,154)
Fair value of plan assets, December 31, 2009	<u>7,101,397</u>	<u>-</u>
Accrued postretirement benefits	<u>\$ (1,179,298)</u>	<u>\$ (1,379,538)</u>
Change in net periodic benefit cost not yet recognized:		
As of December 31, 2008	\$ (2,204,110)	\$ (41,610)
Current year	<u>1,018,440</u>	<u>(65,722)</u>
Current net periodic benefit cost not yet recognized	<u>\$ (1,185,670)</u>	<u>\$ (107,332)</u>

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

7. Employee Benefit Plans (continued)

b. Defined Benefit Pension and Postretirement Benefit Plans (continued)

The changes in the obligations and assets of the Trust's defined benefit plans and the changes in unrestricted net assets for 2008 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
	<u> </u>	<u> </u>
Benefit obligation, December 31, 2007	\$ 7,605,794	\$ 1,088,034
Service cost	-	49,572
Interest cost	467,432	66,567
Assumption changes	-	-
Actuarial (gain)/loss	10,697	(4,839)
Benefits paid	<u>(163,476)</u>	<u>(16,885)</u>
Benefit obligation, December 31, 2008	<u>7,920,447</u>	<u>1,182,449</u>
Fair value of plan assets, December 31, 2007	8,537,020	-
Actual return on plan assets	(2,536,001)	-
Employer contribution	150,000	16,885
Benefits paid	<u>(163,476)</u>	<u>(16,885)</u>
Fair value of plan assets, December 31, 2008	<u>5,987,543</u>	<u>-</u>
Accrued postretirement benefits	<u>\$ (1,932,904)</u>	<u>\$ (1,182,449)</u>
Change in net periodic benefit cost not yet recognized:		
As of December 31, 2007	\$ 850,833	\$ (63,167)
Current year	<u>(3,054,943)</u>	<u>21,557</u>
Current net periodic benefit cost not yet recognized	<u>\$ (2,204,110)</u>	<u>\$ (41,610)</u>

The Trust does not expect any plan assets to be returned to the Trust during calendar year 2010.

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

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

7. Employee Benefit Plans (continued)

b. Defined Benefit Pension and Postretirement Benefit Plans (continued)

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

Asset category:		<u>Target Ranges</u>
Mutual Funds – Equity	0%	40 – 70%
Mutual Funds – Fixed Income	98%	20 – 50%
Other	<u>2%</u>	0 – 20%
Total	<u>100%</u>	

In conjunction with the termination of its pension plan, and in anticipation of the liquidation of the assets of the pension plan, the Trust has revised its allocation of plan assets to ensure liquidity and minimize the downward fluctuations in asset values. The Trust has not updated its pension plan's investment policy to reflect these actions.

The following estimated future benefit payments, which reflect expected future service for the post retirement benefit plan, are expected to be paid in the years indicated:

Years ending December 31,	<u>Pension Plan</u>	<u>Postretirement Benefit Plan</u>
2010	\$ 315,850	\$ 25,609
2011	370,282	34,924
2012	398,049	48,826
2013	437,278	58,862
2014	487,232	59,918
2015 – 2019	2,881,912	406,682

The Trust expects to make contributions to its defined benefit pension and post retirement benefit plans in 2010 estimated at approximately \$1,000,000 and \$26,000, respectively.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

7. Employee Benefit Plans (continued)

b. Defined Benefit Pension and Post retirement Benefit Plans (continued)

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

	Pension Plan		Post retirement Benefit Plan	
	2009	2008	2009	2008
Benefit obligation:				
Discount rate	6.00%	6.25%	6.00%	6.25%
Expected long-term rate of return on plan assets	6.00%	6.00%	n/a	n/a
Health care trend rates	n/a	n/a	9% - 5%	9% - 5%
Year of ultimate trend	n/a	n/a	2016	2015
Net periodic benefit cost (years ended):				
Discount rate	6.25%	6.25%	6.25%	6.25%
Expected long-term rate of return on plan assets	6.00%	6.00%	n/a	n/a
Health care trend rates	n/a	n/a	9% - 5%	10% - 5%
Year of ultimate trend	n/a	n/a	2015	2013

The components of net periodic benefit cost were as follows:

	Pension Plan		Post retirement Benefit Plan	
	2009	2008	2009	2008
Service cost	\$ -	\$ -	\$ 57,836	\$ 49,572
Interest cost	474,738	467,432	73,966	66,567
Expected return on plan assets	(351,694)	(508,036)	-	-
Amortization of net loss (gain)	141,790	(209)	-	-
Amortization of unrecognized net transition obligation	-	-	16,719	16,718
Net periodic benefit cost	<u>\$ 264,834</u>	<u>\$ (40,813)</u>	<u>\$ 148,521</u>	<u>\$ 132,857</u>

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 2010 is \$16,719.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

8. Notes Payable

In 2004, the Trust 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. The loan is secured by approximately \$10 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, 2009 and 2008. There was a balance of approximately \$1,152,000 and \$1,184,000 outstanding on the loan at December 31, 2009 and 2008, respectively.

On February 19, 2008, the Trust entered into a promissory note with a bank in the original amount of \$1,350,000 to finance the purchase of the Wili Pa Loop property and related improvements for the Maui Children's Center. The maturity date of the loan is February 22, 2017. Any repayments of the loan made prior to February 22, 2011 are subject to penalties. The note bears interest in three 36 month interest rate periods at the ends of which, the rate will be adjusted to match the current market commercial rate for similar loans at that date until repayment of the loan. The note bore an interest rate of 4.64 percent during the years ended December 31, 2009 and 2008. There was a balance of approximately \$1,303,000 and \$1,325,000 outstanding on the note at December 31, 2009 and 2008, respectively.

The Trust also had a \$5,000,000 line of credit with a bank of which \$4,000,000 was used to fulfill a standby letter of credit requirement of a development agreement with an unrelated third party (beneficiary). During 2009, the Trust satisfied its requirements under the development agreement and subsequently closed the line of credit.

Lili'uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

8. Notes Payable (continued)

The approximate annual principal payments on notes payable at December 31, 2009 were as follows:

For the years ending	
December 31,	
2010	\$ 53,000
2011	60,000
2012	63,000
2013	67,000
2014	1,038,000
Thereafter	<u>1,173,949</u>
	<u>\$ 2,454,949</u>

9. Leases 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, 2009 were approximately as follows:

For the years ending	
December 31,	
2010	\$ 18,374,000
2011	18,554,000
2012	18,701,000
2013	18,539,000
2014	18,585,000
Thereafter	<u>656,491,000</u>
Total	<u>\$ 749,244,000</u>

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, 2009 and 2008, amounted to approximately \$2,049,000 and \$3,174,000, respectively.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2009 and 2008

10. Commitments

The Trust entered into contracts with various third parties related to its development projects and construction in progress. At December 31, 2009, these contracts totaled approximately \$11,129,000, of which the Trust had incurred approximately \$10,366,000 as of December 31, 2009.

Supplementary Information

Lili'uokalani Trust

Supplemental Schedule of Land

December 31, 2009

	Cost Basis	Appraisal Basis (Unaudited)
	<u> </u>	<u> </u>
Investment Land:		
Oahu:		
Waikiki	\$ 1,465,344	\$ 234,681,000
Other Oahu	247,791	8,908,000
Hawaii:		
Kona:		
Developed	49,331	80,739,000
Undeveloped	224,120	98,165,000
Leased for agriculture	112,878	2,811,000
Other Hawaii	1	6,143,000
	<u> </u>	<u> </u>
Total investment land	2,099,465	431,447,000
Land Used for Tax Exempt Purposes:		
Children's Centers:		
Hilo	302,816	590,000
Kona	-	685,000
Kaneohe	703,316	840,000
Kapalama	217,160	2,180,000
Kauai	966,858	855,000
Maui	883,190	2,413,000
Punaluu	1	3,410,000
Waianae	514,634	810,000
	<u> </u>	<u> </u>
Total land used for tax exempt purposes	3,587,975	11,783,000
Total Land	<u>5,687,440</u>	<u>443,230,000</u>

Note: The supplemental "appraisal basis" value of land is stated primarily at the estimated market value on January 1, 2009 as appraised by John Child & Company, in its report dated June 26, 2009. 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 accompanying independent auditor's report.