

Lili`uokalani Trust

Financial Statements and Supplemental Schedule
December 31, 2010 and 2009
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, 2010 and 2009, 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, 2010 and 2009, 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 30, 2011

Lili`uokalani Trust

Statements of Financial Position December 31, 2010 and 2009

	<u>Assets</u>	
	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 1,731,153	\$ 2,466,218
Accounts receivable, net	965,987	1,823,271
Prepaid expenses and other assets	<u>1,651,828</u>	<u>845,917</u>
Total current assets	4,348,968	5,135,406
Property and Equipment, Net	17,515,549	17,656,408
Investments:		
Marketable securities	53,215,149	62,298,758
Other	104,045,090	85,721,612
Deferred Rent Receivable	<u>18,709,991</u>	<u>18,069,370</u>
Total assets	<u>\$ 197,834,747</u>	<u>\$ 188,881,554</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities:		
Accounts payable and other accrued liabilities	\$ 936,978	\$ 999,809
Accrued vacation	840,531	829,590
Deferred revenue	680,000	635,000
Notes payable	<u>61,411</u>	<u>53,000</u>
Total current liabilities	2,518,920	2,517,399
Accrued Pension Benefits	1,436,957	1,179,298
Accrued Postretirement Benefits	1,223,821	1,379,538
Deferred Revenue, Less Current Portion	2,209,500	2,053,610
Notes Payable, Less Current Portion	<u>2,336,386</u>	<u>2,401,949</u>
Total liabilities	<u>9,725,584</u>	<u>9,531,794</u>
Commitments and Contingencies		
Net Assets:		
Unrestricted:		
Board designated for set aside liabilities	5,446,793	5,832,919
Undesignated	<u>182,606,981</u>	<u>173,449,593</u>
	188,053,774	179,282,512
Temporarily restricted	<u>55,389</u>	<u>67,248</u>
Total net assets	<u>188,109,163</u>	<u>179,349,760</u>
Total liabilities and net assets	<u>\$ 197,834,747</u>	<u>\$ 188,881,554</u>

See accompanying notes to financial statements.

Lili`uokalani Trust

Statements of Activities

For the Years Ended December 31, 2010 and 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Other Support:						
Rent	\$ 21,437,563	\$ -	\$ 21,437,563	\$ 21,406,163	\$ -	\$ 21,406,163
Real property and general excise tax reimbursements	5,666,520	-	5,666,520	5,733,369	-	5,733,369
Donations	119,965	-	119,965	4,931	9,712	14,643
Net realized gains on sales of real estate	6,418,056	-	6,418,056	12,673,051	-	12,673,051
Net realized and unrealized gains on investments	4,641,410	-	4,641,410	7,422,895	-	7,422,895
Income from investments	1,387,585	-	1,387,585	1,147,656	-	1,147,656
Other	59,218	-	59,218	64,959	-	64,959
	<u>39,730,317</u>	<u>-</u>	<u>39,730,317</u>	<u>48,453,024</u>	<u>9,712</u>	<u>48,462,736</u>
Net assets released from restrictions	11,859	(11,859)	-	10,984	(10,984)	-
Total revenues, gains and other support	<u>39,742,176</u>	<u>(11,859)</u>	<u>39,730,317</u>	<u>48,464,008</u>	<u>(1,272)</u>	<u>48,462,736</u>
Expenses:						
Program services	14,291,379	-	14,291,379	14,669,396	-	14,669,396
Support services	14,926,902	-	14,926,902	14,857,927	-	14,857,927
Total expenses	<u>29,218,281</u>	<u>-</u>	<u>29,218,281</u>	<u>29,527,323</u>	<u>-</u>	<u>29,527,323</u>
Total revenues, gains and other support over expenses	10,523,895	(11,859)	10,512,036	18,936,685	(1,272)	18,935,413
Pension-related changes other than net periodic pension costs	<u>(1,752,633)</u>	<u>-</u>	<u>(1,752,633)</u>	<u>952,718</u>	<u>-</u>	<u>952,718</u>
Increase (decrease) in net assets	8,771,262	(11,859)	8,759,403	19,889,403	(1,272)	19,888,131
Net Assets at Beginning 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>
Net Assets at End of Year	<u>\$ 188,053,774</u>	<u>\$ 55,389</u>	<u>\$ 188,109,163</u>	<u>\$ 179,282,512</u>	<u>\$ 67,248</u>	<u>\$ 179,349,760</u>

See accompanying notes to financial statements.

Lili'uokalani Trust

Statements of Functional Expenses
For the Years Ended December 31, 2010 and 2009

	2010					2009				
	Program Services	Support Services			Total Expenses	Program Services	Support Services			Total Expenses
		Program Support	Endowment Management	Total			Program Support	Endowment Management	Total	
Salaries	\$ 6,747,939	\$ 1,615,470	\$ 668,049	\$ 2,283,519	\$ 9,031,458	\$ 6,374,721	\$ 1,461,252	\$ 636,304	\$ 2,097,556	\$ 8,472,277
Taxes	-	25,838	7,268,560	7,294,398	7,294,398	-	28,763	7,306,914	7,335,677	7,335,677
Financial Assistance	3,301,020	20	-	20	3,301,040	3,033,494	20	-	20	3,033,514
Employee Benefits and Payroll Taxes	1,725,691	399,474	96,802	496,276	2,221,967	1,688,269	433,684	83,232	516,916	2,205,185
Professional Services:										
Legal	60	28,949	585,057	614,006	614,066	-	65,819	234,691	300,510	300,510
Accounting	-	91,156	29,532	120,688	120,688	-	118,103	14,503	132,606	132,606
Other	20,795	317,991	484,874	802,865	823,660	22,667	322,625	620,055	942,680	965,347
Repairs and Maintenance	664,761	104,459	1,358	105,817	770,578	1,154,162	196,624	19,037	215,661	1,369,823
Trustees' Fees	-	243,250	243,250	486,500	486,500	-	231,000	231,000	462,000	462,000
Utilities	274,862	104,559	3,581	108,140	383,002	266,821	92,941	46,039	138,980	405,801
Other Expenses	46,943	106,315	228,431	334,746	381,689	38,770	363,309	68,893	432,202	470,972
Supplies	155,618	172,985	13,328	186,313	341,931	193,698	93,263	10,842	104,105	297,803
Travel And Meals	202,417	37,149	80,175	117,324	319,741	175,856	26,820	46,197	73,017	248,873
Occupancy Expense	143,951	55,969	47,855	103,824	247,775	135,134	36,002	36,002	72,004	207,138
General Real Estate Expenses	-	-	215,860	215,860	215,860	-	-	48,186	48,186	48,186
Telephone	119,226	17,356	3,634	20,990	140,216	120,056	17,530	3,225	20,755	140,811
Leasing Commission	-	-	115,524	115,524	115,524	-	-	38,720	38,720	38,720
Equipment Rental	57,736	51,804	4,610	56,414	114,150	51,495	44,550	2,567	47,117	98,612
Grants Paid	104,000	-	-	-	104,000	74,688	-	-	-	74,688
Education	60,576	15,580	-	15,580	76,156	50,353	38,888	-	38,888	89,241
Real Estate Management Fees	-	-	52,500	52,500	52,500	-	-	23,594	23,594	23,594
Dues	11,491	11,595	14,521	26,116	37,607	3,531	9,983	12,214	22,197	25,728
Insurance	32,913	451	752	1,203	34,116	452,147	129,567	57,180	186,747	638,894
Publications	908	2,556	2,059	4,615	5,523	360	5,348	1,084	6,432	6,792
Bad Debt Expense (Recovery)	-	-	(162,272)	(162,272)	(162,272)	-	-	268,482	268,482	268,482
Total expenses before depreciation and amortization	13,670,907	3,402,926	9,998,040	13,400,966	27,071,873	13,836,222	3,716,091	9,808,961	13,525,052	27,361,274
Depreciation and Amortization	620,472	68,307	1,457,629	1,525,936	2,146,408	833,174	61,530	1,271,345	1,332,875	2,166,049
Total	\$ 14,291,379	\$ 3,471,233	\$ 11,455,669	\$ 14,926,902	\$ 29,218,281	\$ 14,669,396	\$ 3,777,621	\$ 11,080,306	\$ 14,857,927	\$ 29,527,323

See accompanying notes to financial statements.

Lili`uokalani Trust

Statements of Cash Flows

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Increase in net assets	\$ 8,759,403	\$ 19,888,131
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized gains on sales of real estate	(6,418,056)	(12,673,051)
Net realized and unrealized gains on investments	(4,641,410)	(7,422,895)
Depreciation and amortization	2,146,408	2,166,049
Decrease (increase) in accounts receivable	857,284	(638,604)
(Increase) decrease in prepaids expenses and other assets	(805,911)	84,180
Increase in deferred rent receivable	(640,621)	(1,251,904)
Decrease in accounts payable and other accrued liabilities	(62,831)	(209,305)
Increase in accrued vacation	10,941	17,459
Increase (decrease) in deferred revenue	200,890	(230,507)
Decrease in accrued pension benefits	257,659	(753,606)
Decrease in accrued postretirement benefits	(155,717)	197,089
Net cash used in operating activities	<u>(491,961)</u>	<u>(826,964)</u>
Cash Flows from Investing Activities:		
Proceeds from the sales or maturities of marketable securities	52,098,756	11,777,550
Purchases of marketable securities	(38,373,737)	(14,432,504)
Proceeds from the sales or maturities of limited partnership interests	1,450,976	434,058
Purchases of limited partnership interests	(20,181,439)	(9,267,717)
Proceeds from the sales of real estate	6,585,947	16,306,530
Purchases of real estate	(1,045,034)	(4,686,923)
Purchases of property and equipment	(721,421)	(447,664)
Net cash used in investing activities	<u>(185,952)</u>	<u>(316,670)</u>
Cash Flows from Financing Activities:		
Repayment of notes payable	(57,152)	(54,373)
Net used in financing activities	<u>(57,152)</u>	<u>(54,373)</u>
Net decrease in cash	(735,065)	(1,198,007)
Cash and Cash Equivalents at Beginning of Year	<u>2,466,218</u>	<u>3,664,225</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,731,153</u>	<u>\$ 2,466,218</u>

See accompanying notes to financial statements.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

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 receivables, 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, 2010 and 2009

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 2010 and 2009, 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 did not have any amount in excess of federally insured limits at December 31, 2010. 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, 2010 and 2009, management's estimated allowance was approximately \$106,000 and \$268,000, respectively.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

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 and escrow deposits. 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 20 years
Land improvements	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.

Included in investments are cash equivalents of \$1,150,349 and \$5,837 at December 31, 2010 and 2009, respectively, which the Trust has elected not to classify as cash equivalents in the consolidated statements of financial position.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

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 is 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 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.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

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 (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.

o. Recently Adopted Accounting Pronouncements

In January 2010, the FASB issued ASC Update 2010-06, Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements. This guidance requires: (1) separate disclosure of significant transfers between Level 1 and Level 2 and reasons for the transfers; (2) disclosure, on a gross basis, of purchases, sales, issuances, and net settlements within Level 3; (3) disclosures by class of assets and liabilities; and (4) a description of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This guidance is effective for periods beginning after December 15, 2009, except for Level 3 disclosure requirements, which will be effective for periods beginning after December 15, 2010. In 2010, the Trust adopted this standard. The adoption of this standard did not have an impact on the Trust's financial position or results of operations.

p. 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.

q. Subsequent Events

The Trust has evaluated subsequent events through June 30, 2011, the date the financial statements were issued.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

2. Investments

a. Marketable Securities

Investments stated at fair value at December 31, 2010 and 2009 were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gains/(Losses)</u>
2010:			
Mutual funds	\$ 46,253,072	\$ 44,632,216	\$ 1,620,856
Equity securities	<u>6,962,077</u>	<u>6,302,168</u>	<u>659,909</u>
	<u>\$ 53,215,149</u>	<u>\$ 50,934,384</u>	<u>\$ 2,280,765</u>
2009:			
Mutual funds	\$ 55,752,939	\$ 58,153,697	\$ (2,400,758)
Treasury inflation protected securities	5,658,374	5,008,564	649,810
Equity securities	<u>887,445</u>	<u>904,219</u>	<u>(16,774)</u>
	<u>\$ 62,298,758</u>	<u>\$ 64,066,480</u>	<u>\$ (1,767,722)</u>

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, 2010 and 2009, the cost and fair value of other investments was as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value Over/(Under) Cost</u>
2010:			
Investment in real estate	\$ 32,684,350	\$ 429,242,176	\$ 396,557,826
Investment in for-profit limited partnerships	<u>71,360,740</u>	<u>76,879,190</u>	<u>5,518,450</u>
Total	<u>\$ 104,045,090</u>	<u>\$ 506,121,366</u>	<u>\$ 402,076,276</u>

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

2. Investments (continued)

b. Other Investments (continued)

2009:

	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value Over/(Under) Cost</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>

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, 2010 and 2009, the Trust had outstanding funding commitments of approximately \$11,000,000 and \$10,400,000 respectively.

Investment in real estate at December 31, 2010 and 2009 consisted of the following:

	<u>Held for</u>			<u>Total</u>
	<u>Use</u>	<u>Sale</u>	<u>Development</u>	
Land	\$ 1,079,278	\$ 770,243	\$ 207,053	\$ 2,056,574
Building and improvements	<u>41,012,089</u>	<u>-</u>	<u>-</u>	<u>41,012,089</u>
	42,091,367	770,243	207,053	43,068,663
Accumulated depreciation and amortization	<u>(14,018,942)</u>	<u>-</u>	<u>-</u>	<u>(14,018,942)</u>
	28,072,425	770,243	207,053	29,049,721
Construction in progress (see Note 10)	<u>66,492</u>	<u>-</u>	<u>3,568,137</u>	<u>3,634,629</u>
Investment in real estate, net	<u>\$ 28,138,917</u>	<u>\$ 770,243</u>	<u>\$ 3,775,190</u>	<u>\$ 32,684,350</u>

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

2. Investments (continued)

b. Other Investments

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>

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.

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.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

2. Investments (continued)

b. Other Investments (continued)

For the year ended December 31, 2010, the Trust received proceeds of approximately \$1,028,000 and recognized a gain of approximately \$946,000 related to sales of the condominium. Through December 31, 2010, the Trust has made contingent payments to the Church of approximately \$42,000 and estimates that the maximum amount of future contingent payments would approximate \$518,000.

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

3. Property and Equipment

Property and equipment at December 31, 2010 and 2009 consisted of the following:

	2010	2009
Land	\$ 3,587,975	\$ 3,587,975
Building and improvements	24,018,715	23,844,632
Furniture, fixtures and equipment	2,953,952	2,870,450
	<u>30,560,642</u>	<u>30,303,057</u>
Accumulated depreciation and amortization	<u>(13,682,103)</u>	<u>(12,828,947)</u>
	16,878,539	17,474,110
Construction in progress (see Note 10)	<u>637,010</u>	<u>182,298</u>
Property and equipment, net	<u>\$ 17,515,549</u>	<u>\$ 17,656,408</u>

For the years ended December 31, 2010 and 2009, the Trust capitalized approximately \$125,000 and \$123,000 of interest costs, respectively.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

4. Fair Value Measurements

US GAAP establishes 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 US GAAP are described below:

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

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 Trust at the reporting date on a recurring basis.

Equity securities are stated at fair value using quoted market prices.

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.

There have been no changes in the methodologies used at December 31, 2010 and 2009.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

4. Fair Value Measurements (continued)

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.

The following table sets forth the Trust's investments by type of fund based on Level 1 inputs as of December 31, 2010:

Mutual funds:	
Money market funds	\$ 8,723,204
Diversified emerging markets	6,682,628
Foreign large value	6,458,586
Intermediate-term bond	6,330,887
Large blend	5,188,116
World bond	3,708,062
Large growth	3,303,383
Foreign small/mid value	2,660,387
Small growth	1,206,723
Foreign large growth	840,747
Total mutual funds	<u>45,102,723</u>
Equity securities:	
Consumer goods	2,416,652
Services	1,016,850
Technology	900,765
Financial	835,436
Basic materials	827,640
Healthcare	542,960
Conglomerates	137,175
Utilities	112,100
Consumer entertainment	89,483
Industrial goods	83,016
Total equity securities	<u>6,962,077</u>
Total investments at fair value	<u>\$ 52,064,800</u>

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

4. Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of December 31, 2009:

	Assets at fair value as of December 31, 2009		
	Level 1	Level 2	Total
Mutual funds:			
Money market funds	\$ 22,810,412	\$ -	\$ 22,810,412
Intermediate-term bond	7,720,727	-	7,720,727
Foreign large value	5,680,954	-	5,680,954
Large blend	4,509,601	-	4,509,601
Diversified emerging markets	4,367,806	-	4,367,806
World bond	4,236,005	-	4,236,005
Large growth	2,774,549	-	2,774,549
Foreign small/mid value	2,278,820	-	2,278,820
Foreign large growth	773,975	-	773,975
Ultrashort bond	594,253	-	594,253
Total mutual funds	55,747,102	-	55,747,102
Equity securities:			
Consumer goods	640,046	-	640,046
Financial	122,460	-	122,460
Services	53,386	-	53,386
Consumer entertainment	38,024	-	38,024
Industrial goods	33,529	-	33,529
Total equity securities	887,445	-	887,445
Treasury inflation protected securities	-	5,658,374	5,658,374
Total investments at fair value	\$ 56,634,547	\$ 5,658,374	\$ 62,292,921

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

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, 2010 and 2009, the carrying amount of notes payable was approximately \$2,400,000 and \$2,500,000, respectively, 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, 2010 and 2009 consisted of the following:

	2010	2009
Operations:		
U.S. Department of Education Summer Food Service Program	\$ 568	\$ 568
Other/Emergency Fund	54,821	66,680
Total	<u>\$ 55,389</u>	<u>\$ 67,248</u>

Net assets in the amount of approximately \$12,000 and \$11,000 were released from donor restrictions in 2010 and 2009, 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 2010 and 2009, the Trust recorded expenditures related to the renovation of the Waianae Coast Children's Center of approximately \$386,000 and \$79,000, respectively.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

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 \$335,000 and \$315,000 for the years ended December 31, 2010 and 2009, 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.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

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 2010 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, 2009	\$ 8,280,695	\$ 1,379,538
Service cost	-	61,290
Interest cost	487,366	78,457
Assumption changes	-	-
Actuarial loss (gain)	2,101,194	(276,443)
Benefits paid	<u>(206,334)</u>	<u>(19,021)</u>
Benefit obligation, December 31, 2010	<u>10,662,921</u>	<u>1,223,821</u>
Fair value of plan assets, December 31, 2009	7,101,397	-
Actual return on plan assets	430,901	-
Employer contribution	1,900,000	19,021
Benefits paid	<u>(206,334)</u>	<u>(19,021)</u>
Fair value of plan assets, December 31, 2010	<u>9,225,964</u>	<u>-</u>
Accrued postretirement benefits	<u>\$ (1,436,957)</u>	<u>\$ (1,223,821)</u>
Change in net periodic benefit cost not yet recognized:		
As of December 31, 2009	\$ (1,185,670)	\$ (107,332)
Current year	<u>(2,045,795)</u>	<u>293,162</u>
Current net periodic benefit cost not yet recognized	<u>\$ (3,231,465)</u>	<u>\$ 185,830</u>

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

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 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:

	Pension Benefits	Postretirement Benefits
	<u> </u>	<u> </u>
Benefit obligation, December 31, 2008	\$ 7,920,447	\$ 1,182,449
Service cost	-	57,836
Interest cost	474,738	73,966
Assumption changes	-	-
Actuarial (gain)/loss	60,976	82,441
Benefits paid	<u>(175,466)</u>	<u>(17,154)</u>
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	<u>(175,466)</u>	<u>(17,154)</u>
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>

Subsequent to year end, the Trust contributed approximately \$1.2 million to fully fund the Plan and paid out all accumulated benefits in accordance with the provisions of the Plan. The Trust does not expect any plan assets to be returned to the Trust during calendar year 2011.

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, 2010 and 2009

7. Employee Benefit Plans (continued)

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

The Trust's pension plan investment policy target plan assets for allocation within the following ranges:

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

At December 31, 2010 and 2009, the Trust's pension plan assets consisted entirely of investments in fixed income mutual funds and were valued based on Level 1 measurements.

In conjunction with the termination of its pension plan, and in anticipation of the liquidation of the assets of the pension plan, the Trust 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:

	<u>Pension Plan</u>	<u>Postretirement Benefit Plan</u>
Years ending December 31,		
2011	\$ 10,627,312	\$ 14,921
2012	-	30,790
2013	-	43,471
2014	-	45,973
2015	-	54,758
2016 – 2020	-	367,372

The Trust expects to contribute approximately \$15,000 to its post retirement benefit plan in 2011.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

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	
	2010	2009	2010	2009
Benefit obligation:				
Discount rate	Annuity Rate	6.00%	5,75%	6.00%
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	2019	2016
Net periodic benefit cost (years ended):				
Discount rate	Annuity Rate	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

The components of net periodic benefit cost were as follows:

	Pension Plan		Post retirement Benefit Plan	
	2010	2009	2010	2009
Service cost	\$ -	\$ -	\$ 61,290	\$ 57,836
Interest cost	487,366	474,738	78,457	73,966
Expected return on plan assets	(416,608)	(351,694)	-	-
Amortization of net loss (gain)	41,106	141,790	-	-
Amortization of unrecognized net transition obligation	-	-	16,719	16,719
Net periodic benefit cost	<u>\$ 111,864</u>	<u>\$ 264,834</u>	<u>\$ 156,466</u>	<u>\$ 148,521</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, 2010 and 2009

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, 2010 and 2009. There was a balance of approximately \$1,119,000 and \$1,152,000 outstanding on the loan at December 31, 2010 and 2009, 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, 2010 and 2009. There was a balance of approximately \$1,279,000 and \$1,303,000 outstanding on the note at December 31, 2010 and 2009, respectively.

The Trust also has a \$5,000,000 line of credit with a bank that bears interest at a variable interest rate of LIBOR plus 0.875 percent, but not less than 3.00 percent, adjusted every 3 months and expires in October 2011. As of December 31, 2010 there were no outstanding draws on the line of credit.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

8. Notes Payable (continued)

The approximate annual principal payments on notes payable at December 31, 2010 were as follows:

For the years ending	
December 31,	
2011	\$ 61,000
2012	65,000
2013	68,000
2014	1,036,000
2015	31,000
Thereafter	<u>1,136,797</u>
	<u>\$ 2,397,797</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, 2010 were approximately as follows:

For the years ending	
December 31,	
2011	\$ 18,866,000
2012	18,958,000
2013	18,805,000
2014	18,838,000
2015	18,609,000
Thereafter	<u>671,843,000</u>
Total	<u>\$ 765,919,000</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, 2010 and 2009, amounted to approximately \$1,709,000 and \$2,049,000, respectively.

Lili`uokalani Trust

Notes to Financial Statements
December 31, 2010 and 2009

10. Commitments

The Trust entered into contracts with various third parties related to its development projects and construction in progress. At December 31, 2010, these contracts totaled approximately \$7,420,000, of which the Trust had incurred approximately \$1,516,000 as of December 31, 2010.

Supplementary Information

Lili'uokalani Trust

Supplemental Schedule of Land
December 31, 2010

	Cost Basis	Appraisal Basis (Unaudited)
Investment Land:		
Oahu:		
Waikiki	\$ 1,422,454	\$ 223,424,100
Other Oahu	247,791	9,135,600
Hawaii:		
Kona:		
Developed	49,331	78,573,800
Undeveloped	224,120	80,128,400
Leased for agriculture	112,877	2,257,200
Other Hawaii	1	5,095,300
Total investment land	<u>2,056,574</u>	<u>398,614,400</u>
Land Used for Tax Exempt Purposes --		
Children's Centers:		
Hilo	302,815	550,000
Kona	1	459,500
Kaneohe	703,316	620,000
Kapalama	217,160	2,110,000
Kauai	966,858	770,000
Maui	883,190	930,000
Punaluu	1	3,100,400
Waianae	514,634	650,000
Total land used for tax exempt purposes	<u>3,587,975</u>	<u>9,189,900</u>
Total land	<u>\$ 5,644,549</u>	<u>\$ 407,804,300</u>

Note: The supplemental "appraisal basis" value of land is stated primarily at the estimated market value on January 1, 2010 as appraised by John Child & Company, in its report dated November 15, 2010. 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.