Lili`uokalani Trust

Financial Statements and Supplemental Schedule
December 31, 2013 and 2012
Together with Independent Auditor's Report

KMH LLP

A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Trustees of
Lili`uokalani Trust:

Report on the Financial Statements

We have audited the accompanying financial statements of Lili'uokalani Trust (the Trust) which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lili'uokalani Trust as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2013 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
June 12, 2014

Lili`uokalani Trust

Statements of Financial Position
December 31, 2013 and 2012

Assets

	2013	2012
Current Assets:		
Cash and cash equivalents	$ 4,235,718	$ 3,804,027
Accounts receivable, net	1,396,500	1,129,364
Investment receivable	19,206,265	1,495,615
Prepaid expenses and other assets	645,271	1,310,879
Total current assets	25,483,754	7,739,885
Property and Equipment, Net	26,917,867	25,040,163
Investments:		
Marketable securities	79,549,537	53,370,146
Other	102,735,132	108,923,242
Deferred Rent Receivable	20,759,294	20,049,395
Total assets	$ 255,445,584	$ 215,122,831

Liabilities and Net Assets

	2013	2012
Current Liabilities:		
Accounts payable and other accrued liabilities	$ 1,427,957	$ 1,744,024
Accrued vacation	947,809	938,197
Deferred revenue	687,000	461,000
Notes payable	196,547	191,096
Total current liabilities	3,259,313	3,334,317
Accrued Postretirement Benefits	1,351,892	1,439,993
Deferred Revenue, Less Current Portion	2,120,587	2,158,097
Notes Payable, Less Current Portion	6,844,657	7,031,909
Total liabilities	13,576,449	13,964,316
Commitments and Contingencies		
Net Assets:		
Unrestricted	241,832,549	201,111,671
Temporarily restricted	36,586	46,844
Total net assets	241,869,135	201,158,515
Total liabilities and net assets	$ 255,445,584	$ 215,122,831

See accompanying notes to financial statements.

Lili`uokalani Trust

Statements of Activities
For the Years Ended December 31, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Other Suppport:						
Rent	$ 23,741,993	$ -	$ 23,741,993	$ 23,218,904	$ -	$ 23,218,904
Real property and general excise tax reimbursements	5,179,667	-	5,179,667	5,216,458	-	5,216,458
Donations	24,908	-	24,908	518,611	-	518,611
Net realized gains on sales and exchange of real estate	28,077,307	-	28,077,307	11,874,216	-	11,874,216
Net realized and unrealized gains on investments	11,547,555	-	11,547,555	4,488,153	-	4,488,153
Income from investments	3,354,188	-	3,354,188	2,165,789	-	2,165,789
Other	57,435	-	57,435	52,076	-	52,076
	71,983,053	-	71,983,053	47,534,207	-	47,534,207
Net assets released from restrictions	10,258	(10,258)	-	3,739	(3,739)	-
Total revenues, gains and other support	71,993,311	(10,258)	71,983,053	47,537,946	(3,739)	47,534,207
Expenses:						
Program services	15,795,306	-	15,795,306	15,643,071	-	15,643,071
Program support services	4,255,824	-	4,255,824	3,721,445	-	3,721,445
Endowment management services	11,397,605	-	11,397,605	10,651,747	-	10,651,747
Total expenses	31,448,735	-	31,448,735	30,016,263	-	30,016,263
Total revenues, gains and other support over expenses	40,544,576	(10,258)	40,534,318	17,521,683	(3,739)	17,517,944
Pension-Related Changes Other Than Net Periodic Pension Costs	176,302	-	176,302	(119,328)	-	(119,328)
Increase (decrease) in net assets	40,720,878	(10,258)	40,710,620	17,402,355	(3,739)	17,398,616
Net Assets at Beginning of Year	201,111,671	46,844	201,158,515	183,709,316	50,583	183,759,899
Net Assets at End of Year	$ 241,832,549	$ 36,586	$ 241,869,135	$ 201,111,671	$ 46,844	$ 201,158,515

See accompanying notes to financial statements.

Lili`uokalani Trust

Statements of Functional Expenses
For the Years Ended December 31, 2013 and 2012

	2013					2012				
		Support Services					Support Services			
	Program Services	Program Support	Endowment Management	Total	Total Expenses	Program Services	Program Support	Endowment Management	Total	Total Expenses
Salaries	$ 7,200,531	$ 1,764,675	$ 597,022	$ 2,361,697	$ 9,562,228	$ 7,141,090	$ 1,752,191	$ 438,526	$ 2,190,717	$ 9,331,807
Taxes	-	21,003	6,786,264	6,807,267	6,807,267	-	22,634	6,609,644	6,632,278	6,632,278
Financial Assistance	3,699,657	20	-	20	3,699,677	3,730,315	(730)	-	(730)	3,729,585
Employee Benefits and Payroll Taxes	1,840,796	440,097	146,872	586,969	2,427,765	1,763,511	382,083	122,705	504,788	2,268,299
Professional Services	11,044	426,585	1,042,177	1,468,762	1,479,806	4,910	440,974	767,219	1,208,193	1,213,103
Repairs and Maintenance	562,875	157,267	5,565	162,832	725,707	684,076	94,146	3,464	97,610	781,686
Other Expenses	53,998	500,034	161,917	661,951	715,949	70,497	103,261	170,808	274,069	344,566
Insurance	407,951	64,305	115,768	180,073	588,024	387,437	64,945	95,484	160,429	547,866
Utilities	401,066	153,853	14,208	168,061	569,127	339,516	123,976	14,769	138,745	478,261
Trustees' Fees	-	262,250	262,250	524,500	524,500	-	262,250	262,250	524,500	524,500
Travel and Meals	194,546	58,694	141,061	199,755	394,301	202,937	46,762	140,535	187,297	390,234
Supplies	180,556	143,818	28,218	172,036	352,592	174,869	135,628	22,441	158,069	332,938
Occupancy Expense	87,110	99,361	139,861	239,222	326,332	167,114	109,118	156,164	265,282	432,396
General Real Estate Expenses	-	-	225,151	225,151	225,151	-	-	207,890	207,890	207,890
Telephone	133,114	19,262	7,780	27,042	160,156	130,622	16,090	7,564	23,654	154,276
Equipment Rental	70,183	24,817	10,575	35,392	105,575	60,625	22,522	9,630	32,152	92,777
Education	48,399	3,768	-	3,768	52,167	65,382	73,116	-	73,116	138,498
Real Estate Management Fees	-	-	49,375	49,375	49,375	-	-	49,394	49,394	49,394
Dues	15,341	14,300	13,966	28,266	43,607	3,507	13,847	14,435	28,282	31,789
Leasing Commission	-	-	37,096	37,096	37,096	-	-	28,425	28,425	28,425
Bad Debt Expense	-	-	23,983	23,983	23,983	-	-	131,179	131,179	131,179
Publications	2,178	991	3,030	4,021	6,199	1,408	2,280	1,954	4,234	5,642
Grants Paid	-	-	-	-	-	43,500	3,500	-	3,500	47,000
Total expenses before depreciation and amortization	14,909,345	4,155,100	9,812,139	13,967,239	28,876,584	14,971,316	3,668,593	9,254,480	12,923,073	27,894,389
Depreciation and Amortization	885,961	100,724	1,585,466	1,686,190	2,572,151	671,755	52,852	1,397,267	1,450,119	2,121,874
Total	$ 15,795,306	$ 4,255,824	$ 11,397,605	$ 15,653,429	$ 31,448,735	$ 15,643,071	$ 3,721,445	$ 10,651,747	$ 14,373,192	$ 30,016,263

See accompanying notes to the financial statements.

Lili`uokalani Trust

Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Cash received from customers	$ 28,133,115	$ 27,661,788
Cash paid to suppliers for goods and services	(19,553,305)	(17,512,279)
Cash paid to employees for services	(9,562,228)	(9,331,807)
Net investment income received	3,354,188	2,165,789
Other cash receipts (disbursements)	768,646	(58,644)
Net cash provided by operating activities	3,140,416	2,924,847
Cash Flows from Investing Activities:		
Proceeds from the sales or maturities of marketable securities	45,441,150	6,785,115
Purchases of marketable securities	(66,981,410)	(6,314,358)
Proceeds from the sales or maturities of limited partnership interests	23,870,538	4,351,946
Purchases of limited partnership interests	(28,241,980)	(12,943,472)
Proceeds from the sales of real estate	28,116,043	10,184,403
Purchases of real estate	(2,622,099)	(5,014,916)
Purchases of property and equipment	(2,109,166)	(3,815,922)
Net cash used in investing activities	(2,526,924)	(6,767,204)
Cash Flows from Financing Activities:		
Proceeds from note payable	1,210,000	5,000,000
Repayment of notes payable	(1,391,801)	(113,379)
Proceeds under line of credit	-	3,776,000
Repayment of line of credit	-	(5,559,300)
Net cash (used in) provided by financing activities	(181,801)	3,103,321
Net increase (decrease) in cash	431,691	(739,036)
Cash and Cash Equivalents at Beginning of Year	3,804,027	4,543,063
Cash and Cash Equivalents at End of Year	$ 4,235,718	$ 3,804,027

See accompanying notes to financial statements.

Lili`uokalani Trust

Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of Cash Flows from Operating Activities:		
Increase in net assets	$ 40,710,620	$ 17,398,616
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized gains on sales and exchange of real estate	(28,077,307)	(11,874,216)
Contributed property	510,000	(510,000)
Net realized and unrealized gains on investments	(11,547,555)	(4,488,153)
Depreciation and amortization	2,572,151	2,121,874
Increase in accounts receivable	(267,136)	(207,940)
Decrease in prepaids expenses and other assets	155,608	107,005
Increase in deferred rent receivable	(709,899)	(652,239)
(Decrease) increase in accounts payable and other accrued liabilities	(316,067)	675,924
Increase in accrued vacation	9,612	77,272
Increase in deferred revenue	188,490	86,605
(Decrease) increase in accrued postretirement benefits	(88,101)	190,099
Net cash provided by operating activities	$ 3,140,416	$ 2,924,847

See accompanying notes to financial statements.

1. Summary of Operations and Significant Accounting Policies

a. Operations

Lili`uokalani Trust (the Trust) was created in 1909 by the late Queen Lili`uokalani, Hawaii's last reigning monarch. The Trust is dedicated to providing support and services to orphan and destitute children, with preference given to those of Hawaiian ancestry. Income of the Trust is derived principally from rental income received from long-term leases on owned real estate, 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 (US GAAP) 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, and accrued postretirement benefits. Actual results could differ from those estimates.

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 at least 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 2013 and 2012, the Trust has expended sufficient amounts for charitable purposes 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 $13,496,000 and $758,000 in excess of federally insured limits at December 31, 2013 and 2012, respectively. The Trust has not experienced losses in these accounts and management believes there is no significant credit risk related to cash.

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

f. Accounts Receivable

Accounts receivable consists of amounts due primarily from 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, 2013 and 2012, management's estimated allowance was approximately $68,000 and $220,000, respectively.

g. Investments Receivable

Investment receivable consists of amounts redeemed, but not yet received from investment managers on December 31.

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

h. 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.

i. 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

j. 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 equity securities 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 and cash equivalents of $9,636,610 and $967,698 at December 31, 2013 and 2012, respectively, which the Trust has elected not to classify as cash and cash equivalents in the statements of financial position.

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

k. 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.

l. 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.

m. Employee Benefit Plans

The Trust accounts for its postretirement benefit plan 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.

n. Donations

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

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

o. 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.

p. Reclassifications

Certain reclassifications were made to prior year's financial statements to conform to the 2013 presentation. Such reclassifications had no impact on the previously reported change in net assets.

q. Recent Accounting Pronouncement

In October 2012, the Financial Accounting Standards Board issued ASC Update 2012-05, *Statement of Cash Flows (Topic 230) – Not-for-Profit (NFP): Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This guidance requires a NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. Management does not believe that the adoption of this guidance will have a significant effect on the Trust's financial position or results of operations.

r. Subsequent Events

The Trust has evaluated subsequent events through June 12, 2014, the date the financial statements were issued.

2. Investments

a. Marketable Securities

Investments stated at fair value at December 31, 2013 and 2012 were as follows:

	Fair Value	Cost	Net Unrealized Gains/(Losses)
2013:			
Cash and cash equivalents	$ 9,636,610	$ 9,636,610	$ -
Mutual funds	56,816,179	51,318,000	5,498,179
U.S. treasuries	7,503,002	7,523,822	(20,820)
Equity securities	5,593,746	3,508,368	2,085,378
	$ 79,549,537	$ 71,986,800	$ 7,562,737
2012:			
Cash and cash equivalents	$ 967,698	$ 967,698	$ -
Mutual funds	43,998,325	40,920,547	3,077,778
Equity securities	8,404,123	6,924,694	1,479,429
	$ 53,370,146	$ 48,812,939	$ 4,557,207

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.

2. Investments (continued)

b. Other Investments (continued)

At December 31, 2013 and 2012, the cost and fair value of other investments was as follows:

	Cost	Fair Value (Unaudited)	Fair Value Over/(Under) Cost (Unaudited)
2013:			
Investment in real estate	$ 35,989,021	$ 401,455,292	$ 365,466,271
Investment in for-profit limited partnerships	66,746,111	83,509,110	16,762,999
Total	$ 102,735,132	$ 484,964,402	$ 382,229,270
2012:			
Investment in real estate	$ 35,746,349	$ 412,425,288	$ 376,678,939
Investment in for-profit limited partnerships	73,176,893	86,184,217	13,007,324
Total	$ 108,923,242	$ 498,609,505	$ 389,686,263

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, 2013 and 2012, the Trust had outstanding funding commitments of approximately $11,754,000 and $10,900,000, respectively.

2. Investments (continued)

b. Other Investments (continued)

Investment in real estate at December 31, 2013 and 2012 consisted of the following:

	Held for Use	Held for Sale	Held for Development	Total
2013:				
Land	$ 1,001,525	$ 653,400	$ 224,120	$ 1,879,045
Building and improvements	42,045,216	-	-	42,045,216
	43,046,741	653,400	224,120	43,924,261
Accumulated depreciation and amortization	(17,630,458)	-	-	(17,630,458)
	25,416,283	653,400	224,120	26,293,803
Construction in progress (see Note 10)	-	-	9,695,218	9,695,218
Investment in real estate, net	$ 25,416,283	$ 653,400	$ 9,919,338	$ 35,989,021
2012:				
Land	$ 1,001,525	$ 691,772	$ 224,120	$ 1,917,417
Building and improvements	42,366,601	-	-	42,366,601
	43,368,126	691,772	224,120	44,284,018
Accumulated depreciation and amortization	(16,407,897)	-	-	(16,407,897)
	26,960,229	691,772	224,120	27,876,121
Construction in progress (see Note 10)	-	-	7,870,228	7,870,228
Investment in real estate, net	$ 26,960,229	$ 691,772	$ 8,094,348	$ 35,746,349

Real estate held for use primarily represents property that the Trust leases to third parties under long-term non-cancelable leases (see Note 9).

Real estate held for sale consists of the Trusts' interest in the land under certain four condominium properties.

2. Investments (continued)

b. Other Investments (continued)

In 2007, the Trust entered into an agreement with Kawaiahao 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. This contingent additional payment requirement expired on August 11, 2012. Under the agreement, the Trust was 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 allowed 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, 2012, the Trust received proceeds of approximately $3,492,000 and recognized a gain of approximately $3,283,000 related to sales of the land underlying the condominium. Through August 10, 2012, the Trust made contingent payments to the church of $84,000 and no further contingent payments are required.

For the year ended December 31, 2013, the Trust received proceeds of approximately $28,626,000 and recognized a gain of approximately $28,077,000 related to the sale of condominiums and contributed property.

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, 2013 and 2012 consisted of the following:

	2013	2012
Land	$ 3,587,975	$ 3,587,975
Building and improvements	35,008,356	33,123,051
Furniture, fixtures and equipment	5,007,392	3,578,707
	43,603,723	40,289,733
Accumulated depreciation and amortization	(16,695,804)	(15,407,760)
	26,907,919	24,881,973
Construction in progress (see Note 10)	9,948	158,190
Property and equipment, net	$ 26,917,867	$ 25,040,163

For the years ended December 31, 2013 and 2012, the Trust capitalized approximately $242,000 and $201,000 of interest costs, respectively.

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.

4. Fair Value Measurements (continued)

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. treasuries are stated at fair value using quoted market prices.

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, 2013 and 2012.

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.

4. Fair Value Measurements (continued)

The following table sets forth the Trust's investments by type of fund based on Level 1 inputs as of December 31, 2013:

Mutual funds:	
Foreign large blend	$ 14,211,813
Diversified emerging markets	10,448,164
Large blend	8,742,305
Large growth	6,824,537
Foreign small/mid value	6,682,880
Natural resources	3,871,313
Money market funds	3,822,414
Equity resources	2,197,674
Trading-leveraged equity	15,079
Total mutual funds	56,816,179
Equity securities:	
Consumer goods	3,789,137
Financial	990,441
Services	598,275
Consumer entertainment	125,947
Industrial goods	89,946
Total equity securities	5,593,746
U.S. treasuries	7,503,002
Cash equivalents	9,636,610
Total investments at fair value	$ 79,549,537

4. Fair Value Measurements (continued)

The following table sets forth the Trust's investments by type of fund based on Level 1 inputs as of December 31, 2012:

Mutual funds:	
Diversified emerging markets	$ 9,508,848
Intermediate-term bond	7,277,520
Money market funds	6,171,386
Foreign large growth	4,386,537
World bond	4,349,272
Foreign large value	4,241,779
Large growth	3,918,574
Foreign small/mid value	2,887,660
Small growth	1,256,749
Total mutual funds	43,998,325
Equity securities:	
Consumer goods	3,043,090
Services	1,523,728
Financial	1,101,416
Basic materials	1,044,141
Technology	754,708
Healthcare	608,095
Conglomerates	115,445
Consumer entertainment	90,698
Industrial goods	84,852
Utilities	37,950
Total equity securities	8,404,123
Cash equivalents	967,698
Total investments at fair value	$ 53,370,146

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, 2013 and 2012, the carrying amount of notes payable was approximately $7,041,000 and $7,223,000, 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, 2013 and 2012 consisted of the following:

	2013	2012
Operations:		
U.S. Department of Education Summer Food Service Program	$ 568	$ 568
Other/Emergency Fund	36,018	46,276
Total	$ 36,586	$ 46,844

Net assets in the amount of approximately $10,300 and $3,700 were released from donor restrictions in 2013 and 2012, 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 2012, the Trust recorded expenditures related to the renovation of the Waianae Coast Children's Center of approximately $2,700,000. As of December 31, 2012, the full amount of the set aside had been applied to expenditures incurred.

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 matched 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. Effective January 1, 2014, the Trust increased the funding to match 100 percent of employee contributions up to the first 4 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 $352,000 and $358,000 for the years ended December 31, 2013 and 2012, respectively.

b. Postretirement Benefit Plan

The Trust provides postretirement 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.

7. Employee Benefit Plans (continued)

b. Postretirement Benefit Plan (continued)

The changes in the obligations and assets of the Trust's postretirement benefit plan and the changes in unrestricted net assets for 2013 and 2012 and the funded status of this plan and amounts related to this plan reflected in the Trust's statements of financial position were as follows:

	2013	2012
Benefit obligation, beginning of year	$ 1,439,993	$ 1,249,894
Service cost	53,657	42,524
Interest cost	60,394	64,708
Actuarial gain	(164,238)	117,593
Benefits paid	(37,914)	(34,726)
Benefit obligation, end of year	1,351,892	1,439,993
Fair value of plan assets, beginning of year	-	-
Employer contribution	37,914	34,726
Benefits paid	(37,914)	(34,726)
Fair value of plan assets, end of year	-	-
Accrued postretirement benefits	$ (1,351,892)	$ (1,439,993)
Change in net periodic benefit cost not yet recognized:		
Beginning of year	$ 148,720	$ 268,048
Current year	176,302	(119,328)
Current net periodic benefit cost not yet recognized	$ 325,022	$ 148,720

7. Employee Benefit Plans (continued)

b. Postretirement Benefit Plan (continued)

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

Years ending December 31,	
2014	$ 39,783
2015	47,626
2016	56,614
2017	61,880
2018	65,807
2019 – 2023	393,198

The Trust expects to contribute approximately $40,000 to its postretirement benefit plan in 2014.

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

	2013	2012
Benefit obligation:		
Discount rate	5.05%	4.25%
Expected long-term rate of return on plan assets	n/a	n/a
Health care trend rates	7.75% - 5%	8% - 5%
Year of ultimate trend	2025	2025
Net periodic benefit cost (years ended):		
Discount rate	4.25%	5.25%
Expected long-term rate of return on plan assets	n/a	n/a
Health care trend rates	8% - 5%	8.5% - 5%
Year of ultimate trend	2025	2019

7. Employee Benefit Plans (continued)

b. Postretirement Benefit Plan (continued)

The components of net periodic benefit cost were as follows:

	2013	2012
Service cost	$ 53,657	$ 42,524
Interest cost	60,394	64,708
Amortization of net gain	(4,656)	(18,454)
Amortization of unrecognized net transition obligation	16,719	16,719
Net periodic benefit cost	$ 126,114	$ 105,497

The estimated transition obligation for the postretirement benefit plan that will be amortized from unrestricted net assets into net periodic pension benefit cost during 2014 is $16,719.

c. 457(b) Plan

Effective September 2013, the Trust established a new, non-qualified deferred compensation plan called the Queen Lili`uokalani Trust 457(b) Plan, covering a select group of eligible employees and independent contractors of the Trust. Participants can defer a portion of their compensation up to the IRS limit and have the funds invested tax deferred.

8. Notes Payable

In 2004, the Trust entered into a commercial 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. Effective June 27, 2012, the Trust entered into a loan amendment agreement to extend and amend the terms of the loan. The loan interest rate decreased from 5.31 percent to 3.23 percent and the required monthly principal and interest payments decreased from $7,836 to $5,178. The maturity date of the loan was extended to July 1, 2022. There was a balance of approximately $1,021,000 and $1,050,000 outstanding on the loan at December 31, 2013, and 2012, respectively.

On June 18, 2012, the Trust entered into a $5,000,000 commercial term loan agreement with the aforementioned bank to fund the construction of its Waianae Coast Children's Center (see note 6). The loan matures on July 1, 2022, bears interest at 3.23 percent and requires the Trust to make monthly principal and interest payments of $24,314. There was a balance of approximately $4,813,000 and $4,947,000 outstanding on the loan at December 31, 2013, and 2012, respectively.

8. Notes Payable (continued)

In 2008, the Trust entered into a mortgage loan with the aforementioned 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. Throughout 2012 and 2013, the mortgage loan carried a fixed interest rate of 4.10% with monthly payments of principal and interest of $6,455. Effective October 21, 2013, the mortgage loan was paid off in full and the Trust entered into a new commercial term loan agreement with the bank in the amount of $1,210,000. The loan matures on November 8, 2023, bears interest at 4.10 percent and requires the Trust to make monthly principal and interest payments of $6,455.At December 31, 2013 and 2012, the loans had outstanding balances of approximately $1,207,000 and $1,226,000, respectively.

The Trust also has a line of credit with the aforementioned bank. In connection with the $5,000,000 commercial term loan, the Trust reduced its line of credit from $5,000,000 to $2,500,000. The line of credit bears interest at a variable interest rate and is subject to the Trust's choice of the bank's one-, three- or six-month London Inter-Bank Offer Rates (LIBOR) plus 0.875 percent or the bank's base rate minus a margin of .75 percent with a minimum interest rate not less than 1.75 percent, and expires in October 2014. As of December 31, 2013 and 2012, there were no outstanding draws on the line of credit.

All loans, including any outstanding line of credit draws, are secured by approximately $9.5 million of marketable securities, and also require 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, 2013.

The approximate annual principal payments on notes payable at December 31, 2013 were as follows:

For the years ending December 31,	
2014	$ 197,000
2015	203,000
2016	210,000
2017	217,000
2018	225,000
Thereafter	5,989,000
	$ 7,041,000

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 2082.

Future minimum rental revenues under long-term non-cancelable operating leases as of December 31, 2013 were approximately as follows:

For the years ending December 31,	
2014	$ 19,401,000
2015	19,220,000
2016	19,384,000
2017	23,502,000
2018	18,532,000
Thereafter	621,358,000
Total	$ 721,397,000

The Trust receives percentage rentals (based on lessees' gross receipts, as defined) on certain of its properties. Percentage rent revenues earned for the years ended December 31, 2013 and 2012, amounted to approximately $3,426,000 and $2,536,000, respectively.

10. Commitments

The Trust entered into contracts with various third parties related to its development projects and construction in progress. At December 31, 2013, these contracts totaled approximately $7,673,000, of which the Trust had incurred approximately $4,986,000 as of December 31, 2013.

In October 2012, the Trust executed a promissory note agreement in the amount of $1,490,235 with a government agency to secure the Trust's commitment to fund its estimated share of costs under a water resource development agreement. The promissory note requires the Trust to pay the full amount of the promissory note within forty five days of receiving supporting evidence of the cost incurred. The note does not bear interest and is secured by approximately $2,600,000 of marketable securities, as defined in the agreement. As of December 31, 2013, no claim was requested related to the promissory note.

Supplementary Information

Lili'uokalani Trust

Supplemental Schedule of Land
December 31, 2013

	Cost Basis	Appraisal Basis (Unaudited)
Investment Land:		
Oahu:		
Waikiki	$ 1,244,925	$ 209,657,639
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	1,879,045	384,847,939
Land Used for Tax Exempt Purposes --		
Children's Centers:		
Hilo	302,816	550,000
Kona	1	459,500
Kaneohe	703,316	620,000
Kapalama	217,160	2,110,000
Kauai	966,857	770,000
Maui	883,190	930,000
Punaluu	1	3,100,400
Waianae	514,634	650,000
Total land used for tax exempt purposes	3,587,975	9,189,900
Total land	$ 5,467,020	$ 394,037,839

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.