Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Kamehameha Schools and Subsidiaries

Consolidated Financial Statements and Supplementary Schedules

June 30, 2013 and 2012

Quality *Integrity* *Insight*

Kamehameha Schools and Subsidiaries
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June 30, 2013 and 2012

Report of Independent Auditors

To Audit Committee
Kamehameha Schools

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Kamehameha Schools and Subsidiaries (the "Organization"), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of activities 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813
Telephone: 808 531 3400 Facsimile: 808 531 3433

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information for the years ended June 30, 2013, 2012, 2011, 2010 and 2009 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Emphasis of Matter
As discussed in Note 2 to the consolidated financial statements, the Organization changed its method of presentation related to the consolidated balance sheet classification of investments, property and equipment. Our opinion is not modified with respect to this matter.

Accuity LLP

Honolulu, Hawaii
September 24, 2013

Kamehameha Schools and Subsidiaries
Consolidated Balance Sheets
June 30, 2013 and 2012
(All dollars in thousands)

	2013	Revised 2012
Assets		
Current assets		
Cash and cash equivalents	$ 44,326	$ 73,158
Receivables, net	5,299	6,652
Other	3,825	5,626
Total current assets	53,450	85,436
Trust investments		
Financial investments	6,502,616	5,986,562
Amounts receivable for securities sold	33,948	14,182
Interest receivables	13,460	9,404
Real estate investments, net	269,695	255,743
Real estate held for development and sale	16,603	25,992
	6,836,322	6,291,883
Other investments	37,999	66,594
Property and equipment, net	687,823	657,644
Deferred charges and other	111,170	106,198
Total assets	$ 7,726,764	$ 7,207,755
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 51,481	$ 52,189
Current portion of notes payable	20,783	22,646
Deferred income and other	23,783	22,530
Total current liabilities	96,047	97,365
Notes payable	254,550	249,708
Accrued pension liability	71,122	114,371
Accrued postretirement benefits	39,265	41,681
Amounts payable for securities purchased	20,460	8,641
Other long-term liabilities	23,443	17,955
Total liabilities	504,887	529,721
Commitments and contingencies		
Net assets – unrestricted	7,221,877	6,678,034
Total liabilities and net assets	$ 7,726,764	$ 7,207,755

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

Kamehameha Schools and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2013 and 2012
(All dollars in thousands)

	2013	2012
Revenues, gains, and other support		
Tuition and fees	$ 29,402	$ 28,106
Less: Financial aid	(18,552)	(17,906)
Net tuition and fees	10,850	10,200
Investment gains, net	674,009	66,977
Rental	250,216	249,175
Net gains on property sales	69,647	49,172
Other	5,827	4,269
Total revenues, gains and other support	1,010,549	379,793
Expenses		
Educational programs	269,841	256,849
Management and general		
Rental	132,117	135,962
Other	106,017	95,707
Total expenses	507,975	488,518
Change in net assets before retirement plan related changes other than net periodic cost	502,574	(108,725)
Retirement plan related changes other than net periodic cost	41,269	(61,020)
Change in net assets	543,843	(169,745)
Net assets		
Beginning of year	6,678,034	6,847,779
End of year	$ 7,221,877	$ 6,678,034

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

Kamehameha Schools and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012
(All dollars in thousands)

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 543,843	$ (169,745)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	53,798	50,881
Net realized and unrealized gains on investments	(618,350)	(24,387)
Net gains on property sales	(69,647)	(49,172)
Retirement plan related changes other than net periodic cost	(41,269)	61,020
Changes in operating assets and liabilities		
Receivables, net	1,353	2,267
Real estate held for development and sale	7,024	(449)
Deferred charges and other	(4,029)	28
Accounts payable, accrued expenses and other liabilities	(6,421)	(9,926)
Net cash used in operating activities	(133,698)	(139,483)
Cash flows from investing activities		
Proceeds from sales of investments	4,681,577	4,261,295
Purchases of investments	(4,562,429)	(4,132,617)
Proceeds from the sales of real estate	66,153	56,830
Purchases of real estate	(29,364)	(30,258)
Proceeds from sales of property and equipment	400	83
Purchases of property and equipment	(54,450)	(60,092)
Net cash provided by investing activities	101,887	95,241
Cash flows from financing activities		
Proceeds from borrowings	25,000	96,500
Repayment of borrowings	(22,021)	(30,771)
Net cash provided by financing activities	2,979	65,729
Net increase (decrease) in cash and cash equivalents	(28,832)	21,487
Cash and cash equivalents		
Beginning of year	73,158	51,671
End of year	$ 44,326	$ 73,158
Supplemental disclosure of cash flow information		
Income taxes paid (received)	$ 1,800	$ (85)
Interest paid	9,964	9,988

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

1. Summary of Significant Accounting Policies

Description of the Organization
Kamehameha Schools (the “Schools”) is a charitable trust established under Hawaii law and operates under the terms of the Will of Bernice Pauahi Bishop, deceased. The Schools are governed by a Board of Trustees (the “Trustees”) and subject to the jurisdiction of the First Circuit Court of the State of Hawaii (the “Court”). The primary assets of the Schools are lands and properties located in the State of Hawaii (the “State”) and debt and equity investments.

The Schools provide a variety of educational services, including early education, campus-based programs, and other extension, enrichment, and summer school programs. Early education programs are conducted in various facilities throughout the State. The campus-based programs include campuses on the islands of Oahu, Maui and Hawaii which serve students from kindergarten through grade 12. The Schools are also engaged in summer programs, educational partnerships and other outreach programs. In addition, the Schools provide a significant amount of scholarships for post-secondary education.

Principles of Consolidation
The consolidated financial statements of Kamehameha Schools and Subsidiaries (the “Organization”) include the accounts of the Schools, Bishop Holdings Corporation and its Subsidiaries (“BHC”), Ke Ali‘i Pauahi Foundation (“KAPF”), P&C Insurance Company, LLC (“P&C”) and Bishop Financial Limited.

The consolidated financial statements of BHC include the accounts of:

- Pauahi Management Corporation and its wholly-owned subsidiaries – KBH, Inc. and Lake Manassas Limited Liability Company. KBH, Inc. includes the operations of the Keauhou Beach Hotel. The operations of the Keauhou Beach Hotel ceased in 2013.
- Kamehameha Investment Corporation (“KIC”) and its wholly-owned subsidiary, Keauhou Community Services, Inc.

BHC is a taxable holding corporation with subsidiaries primarily involved in property investment and management and the development and sale of real estate.

P&C provides property and liability coverage for the Schools and its affiliates.

KAPF is a charitable organization whose exclusive purpose is to actively engage in fundraising, scholarship and development activities for the Schools.

In addition, under accounting principles generally accepted in the United States of America (“GAAP”), certain investments may be considered as entities for consolidation should they meet specified criteria. Bishop Financial Limited met these criteria as it has a specific purpose and is managed by an independent investment management firm.

All significant intercompany transactions and accounts have been eliminated in consolidation.

Basis of Financial Statement Presentation
The Organization's consolidated financial statements have been prepared on the accrual basis of accounting, and are presented in conformity with GAAP. Net assets, revenues, gains and other support, and expenses are classified based on the existence or absence of donor-imposed restrictions. KAPF's combined temporarily and permanently restricted net assets amounted to approximately $12.3 million and $11.0 million at June 30, 2013 and 2012, respectively. The Schools have no board or donor designated funds. As the restricted net assets of KAPF are not significant, all net assets of the Organization and changes therein are classified and reported as unrestricted net assets.

Use of Estimates
The preparation of the consolidated financial statements in conformity with 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 consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Concentrations of Risk
Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of cash and cash equivalents and investments. While the majority of cash and cash equivalent accounts exceed available depository insurance limits, management does not anticipate non-performance by their financial institutions and regularly reviews the viability of these institutions. The Organization also attempts to limit its risk in investments by maintaining a diversified investment portfolio. In addition to credit risk, trust and other investments are exposed to interest rate, market and geographic risk.

Fair Value Measurements
For financial and nonfinancial assets and liabilities reported at fair value, the Organization defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants. The Organization measures fair value using assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumption. The hierarchy is broken down into levels based on the reliability of the inputs as follows:

- **Level 1** – Valuations based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

- **Level 2** – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

- **Level 3** – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Further, fair value measurements should consider adjustments for risk, such as the risk inherent in a valuation technique or its inputs.

Fair value estimates are made at a specific point in time based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Cash and Cash Equivalents
Cash and cash equivalents include unrestricted demand deposits and all highly liquid deposits with an original maturity of three months or less. Cash and cash equivalents are held in financial institutions located in the State and other states. Cash balances are maintained in excess of depository institution insurance limits. Cash equivalents held by external investment managers are classified as investments in the consolidated balance sheets and are not included in cash and cash equivalents. The carrying amounts approximate fair value because of the short maturity of these instruments.

Investments
In 2013, the Organization changed its method of presentation related to the consolidated balance sheet classification of investments, interest receivables, property and equipment. The noncurrent section titled Trust Investments represents financial, real estate and interest receivables subject to the Organization's investment policies described below. Other investments represent investments held at the Organization's various subsidiaries, deferred compensation plan investments and operating reserve that are not subject to the same investment policies. Property, plant and equipment represents assets used for educational and administrative purposes, as well as assets related to the Organization's agricultural and conservation land.

The Organization is subject to investment policies and a spending policy as approved by Court Order. The investment policies seek to meet or exceed an investment objective of an annualized total real return (i.e., net of inflation) of 5%, net of investment-related expenses, over most rolling ten-year periods. In meeting this objective, the Organization allocates assets in a prudent manner, balancing risks and potential rewards while maintaining adequate levels of liquidity.

The Organization's long-term educational spending rate of 4% is meant to provide a net real total return to the investment balance of 1% on a long term basis.

All investments, investment settlements and interest receivables are classified as noncurrent assets in the consolidated balance sheets regardless of maturity or liquidity. In any given year, investments may need to be liquidated to support annual educational spending, but on a long-term basis, the Organization's investment and spending objectives are designed to support the educational programs in perpetuity. Refer to Schedules of Trust Spending and Schedules of Total Return for the relevant policies and historical information of the Organization.

Investments in debt and equity securities with readily determinable market values are measured at fair value based on quoted market prices. Investments in real estate are reported at the lower of cost or fair value. Investments also include limited partnerships, hedge funds, commingled funds and other investments that do not have a readily determinable fair value. These investments utilize a wide range of investment strategies and are reported at fair value based on the most current information provided by external investment managers and other industry standard methodologies.

The carrying value of interest receivables approximates fair value because of the short maturity of these instruments.

Unrealized gains and losses for marketable debt and equity securities and other investments are included in the consolidated statements of activities. Management fees vary depending on investment structure, and as such, are presented net of realized and unrealized gains and losses.

The Organization may use derivative instruments for risk hedging and value-added strategies. Derivative financial instruments primarily include currency forward contracts and financial futures and are recorded at fair value with the resulting gain or loss included in the consolidated statements of activities.

Receivables
Notes receivable are recognized from the sale of residential leased fee interests to lessees under the single-family and multi-family residential land sales program and mortgage agreements from the sale of real estate to developers. The residential leased fee interests were sold under various collateralized financing arrangements with 15-year terms and monthly payments of both principal and interest or interest only. Annual interest rates range from 7% to 8% with a weighted average interest rate of approximately 7% at June 30, 2013 and 2012. The sale of leased fee interests under financing arrangements are accounted for using the cost-recovery method whereby no profit is recognized until cash payments are received. The amount recorded and profit deferred relating to the note agreements was $6.1 million and $8.5 million as of June 30, 2013 and 2012, respectively.

The carrying value of tenant and other receivables approximates fair value because of the short maturity of these instruments.

Property and Equipment
Property and equipment are carried at cost, less accumulated depreciation and amortization. The Organization provides for depreciation and amortization on property and equipment using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Land improvements	30
Buildings and improvements	30
Equipment	5 to 10

The Organization reviews its long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists for an asset held for use when the cash flows expected to be generated by an asset are less than the carrying amount. Measurement of the impairment loss is based on the fair value of the asset. No significant impairment losses were recorded for the years ended June 30, 2013 or 2012.

Real Estate Held for Development and Sale
Real estate assets held for development and sale include land acquisition and holding costs, site development, construction, and other project-related costs. The Organization capitalizes development costs.

Management uses estimated expected future net cash flows (undiscounted and excluding interest costs) to measure the recoverability of real estate assets held for development. The recoverability of real estate assets held for sale is determined by comparing appraised value or the net present value of the estimated expected future cash flows (using a discount rate commensurate with the risks involved) to the carrying amount of the asset. The estimate of expected future net cash flows is inherently uncertain and relies to a considerable extent on assumptions regarding current and future economic conditions. If in future periods there are changes in estimates or assumptions, the changes could result in an adjustment to the carrying amount of real estate. No impairment losses were recognized in 2013 or 2012.

Revenue Recognition
Tuition and fees revenue is recognized in the period for which the education programs or student related services were provided. Financial aid that covers a portion of tuition and other costs are reflected as a reduction of tuition and fees.

Profits on sales of real estate are recognized in full when title has passed, minimum down payment criterion is met, the terms of any note received are such as to satisfy continuing investment requirements and collectability of the note is reasonably assured, the risks and rewards of ownership have been transferred to the buyer, and there is no substantial continuing involvement with the property. If any of the aforementioned criteria are not met, the profit is deferred and recognized under either the installment, cost recovery, deposit or percentage-of-completion methods. Costs are charged to cost of sales on the basis of the relative sales value of the units sold to the total sales value of all units in the project.

Lease rental income is recognized on a straight-line basis ratably over the fixed term of the respective leases. Differences between revenue recognized and amounts due under respective lease agreements are recorded as increases or decreases, as applicable, to deferred rent receivable included in “Deferred charges and other” on the consolidated balance sheets.

The Organization recognizes non-real estate revenue in the period in which services are rendered.

The Schools present taxes collected from customers and remitted to government agencies on a gross basis in its consolidated statements of activities. For the years ended June 30, 2013 and 2012, the Schools collected and remitted $43.5 million and $43.9 million in taxes, respectively.

Income Taxes
In a ruling dated February 9, 1939, and reaffirmed in 1969, 1986 and 2000, the Internal Revenue Service (“IRS”) determined that the Schools are exempt from federal income taxes under Internal Revenue Code (“IRC”) Section 501(c)(3) as they are organized and operated for educational purposes within the meaning of IRC Section 170(b)(1)(A)(ii). KAPF is also exempt from federal income taxes under IRC Section 501(c)(3) and qualifies as a supporting organization as described in IRC Section 509(a)(3). To the extent that the Schools and KAPF receive unrelated business income, such earnings are subject to unrelated business income tax.

Income taxes for BHC are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The amount recognized for deferred tax assets is reduced, if necessary, to the amount more likely than not to be realized. Income taxes are calculated by each subsidiary as if it filed separate income tax returns.

P&C is exempt from Hawaii income taxes, however is subject to tax on direct written premiums. For federal income tax purposes, P&C is treated as a disregarded entity.

The Organization evaluates uncertain tax positions utilizing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. At June 30, 2013 and 2012, management believes there were no significant uncertain tax positions.

Pension and Postretirement Obligations
The Organization records the difference between the benefit obligation and fair value of plan assets on the consolidated balance sheets. In addition, the Organization recognizes, as part of unrestricted net assets, the gains and losses due to differences between actuarial assumptions and actual experience and any effects on prior service due to plan amendments that arise during the period which are not yet recognized as net periodic benefit costs.

Commitments and Contingencies
Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

Subsequent Events
The Organization has reviewed all events that have occurred from July 1, 2013 through September 24, 2013, the date that the consolidated financial statements were available for issuance, for proper accounting and disclosure in the consolidated financial statements.

2. Revision

As described in Note 1, the Organization changed its method of presentation related to the consolidated balance sheet classification of investments, property and equipment. Accordingly, the Organization revised its 2012 consolidated financial statements from amounts previously reported as follows (in thousands):

	As Previously Reported	Adjustments	Revised
Assets			
Current assets			
Cash and cash equivalents	$ 73,158	$ -	$ 73,158
Receivables, net	16,056	(9,404)	6,652
Other	5,626	-	5,626
Total current assets	94,840	(9,404)	85,436
Marketable debt and equity securities	1,725,325	(1,725,325)	-
Amounts receivable for securities sold	14,182	(14,182)	-
Real estate held for development and sale	25,992	(25,992)	-
Trust investments			
Financial investments	-	5,986,562	5,986,562
Amounts receivable for securities sold	-	14,182	14,182
Interest receivables	-	9,404	9,404
Real estate investments, net	-	255,743	255,743
Real estate held for development and sale	-	25,992	25,992
Total trust investments	-	6,291,883	6,291,883
Other investments	4,325,708	(4,259,114)	66,594
Property and equipment, net	913,387	(255,743)	657,644
Deferred charges and other	108,321	(2,123)	106,198
Total assets	$ 7,207,755	$ -	$ 7,207,755

Liabilities and net assets from amounts as previously reported did not change.

3. Fair Value Measurements of Financial Investments

The fair value of the Organization’s investments was determined as follows:

- **Common and preferred stocks, short-term investments and cash equivalents, and mutual funds** – The fair value of these investments is estimated using quoted or observable prices in an active market or exchange and is generally categorized in Level 1 or Level 2.

- **U.S. government obligations** – The fair value of these investments is generally based on quoted prices in active markets and is generally categorized in Level 1.

- **International government bonds and other debt securities** – The fair value of these investments is estimated using a market approach with both observable prices in an active market and unobservable inputs such as extrapolated data and proprietary pricing models and is generally categorized in Level 2.

- **Commingled funds, hedge funds and private equity funds**– These investments are generally reported at fair value using a market approach based on information provided by the respective external investment managers at the most recent valuation date and adjusted for cash flows from the valuation date to fiscal year end, if applicable. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investment existed. These funds are generally categorized in Level 3.

The Organization adopted the authoritative guidance under GAAP for estimating the fair value of investments in investment companies that have calculated net asset value per share. Accordingly, the Organization estimates the fair value of an investment using the net asset value of the investment without further adjustment unless the Organization determines that the net asset value is deemed to be not reflective of fair value. The adoption of this guidance does not have a material effect on the consolidated financial statements.

The Organization’s investment policy guides its asset allocation, which allows for the use of derivatives and other strategies which are achieved, in part, through limited partnership and commingled funds. These investments pose no off-balance sheet risk to the Organization due to the limited liability structure of the investments.

The Organization's investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2013 and 2012 as follows (in thousands):

	2013	2012
Financial investments	$ 6,502,616	$ 5,986,562
Other investments	37,999	66,594
Investments, total	$ 6,540,615	$ 6,053,156

	Level 1	Level 2	Level 3	Total
2013				
Common and preferred stocks	$ 740,099	$ -	$ -	$ 740,099
Fixed income				
U.S. government obligations	166,850	-	-	166,850
International government bonds	-	592,052	-	592,052
Other debt securities	-	261,399	-	261,399
Short-term investments and cash equivalents	26,870	96,810	-	123,680
Mutual funds	104,851	-	-	104,851
Hedge funds	-	-	3,092,927	3,092,927
Private equity funds	-	-	1,082,705	1,082,705
Commingled funds	-	-	376,052	376,052
Total investments	$ 1,038,670	$ 950,261	$ 4,551,684	$ 6,540,615
2012				
Common and preferred stocks	$ 689,728	$ -	$ -	$ 689,728
Fixed income				
U.S. government obligations	361,898	-	-	361,898
International government bonds	-	373,653	-	373,653
Other debt securities	-	146,634	-	146,634
Short-term investments and cash equivalents	24,826	49,904	-	74,730
Mutual funds	211,694	-	-	211,694
Hedge funds	-	-	2,644,471	2,644,471
Private equity funds	-	-	1,061,072	1,061,072
Commingled funds	-	-	489,276	489,276
Total investments	$ 1,288,146	$ 570,191	$ 4,194,819	$ 6,053,156

Net realized and unrealized losses on Level 3 investments were included in the consolidated statements of activities. Changes in Level 3 investments measured at fair value on a recurring basis for the years ended June 30, 2013 and 2012 were as follows (in thousands):

	Hedge Funds	Private Equity Funds	Commingled Funds	Total
As of July 1, 2011	$ 2,438,894	$ 971,332	$ 632,853	$ 4,043,079
Net realized and unrealized gains (losses) on investments	102,146	81,685	(70,630)	113,201
Purchases	567,366	182,263	145,773	895,402
Sales	(463,935)	(174,208)	(218,720)	(856,863)
As of June 30, 2012	2,644,471	1,061,072	489,276	4,194,819
Net realized and unrealized gains (losses) on investments	388,339	75,407	52,721	516,467
Purchases	865,146	166,300	35,208	1,066,654
Sales	(805,029)	(220,074)	(201,153)	(1,226,256)
As of June 30, 2013	$ 3,092,927	$ 1,082,705	$ 376,052	$ 4,551,684
Change in unrealized gains (losses) relating to investments held at June 30, 2012	$ 104,876	$ (2,812)	$ (52,615)	$ 49,449
Change in unrealized gains (losses) relating to investments held at June 30, 2013	$ 368,371	$ 21,696	$ 60,862	$ 450,929

The Organization's investments may be subject to restrictions that (i) limit the Organization's ability to redeem/withdraw capital from such investments during a specified period of time subsequent to the Organization's investment of capital in such investments and/or (ii) the amount of capital that investors in such investments, including the Organization, may redeem/withdraw as of a given redemption/withdrawal date. Capital available for redemption/withdrawal may also be subject to redemption/withdrawal charges and may or may not include capital attributable to the Organization's participation in illiquid investments and/or designated investments held by investments from which the Organization makes redemptions/withdrawals. These investments generally limit redemptions to monthly, quarterly, semi-annually, annually or longer, at fair value, and require between 30 and 90 days' prior written notice.

Investments in private equity and venture capital funds are generally nonredeemable and distributions, which are generally at the discretion of fund managers/general partners, are expected to be received through the liquidation of the underlying investments of the fund throughout the fund's life.

Investment gains for the years ended June 30, 2013 and 2012 were as follows (in thousands):

	2013	2012
Interest and dividend income	$ 55,659	$ 52,004
Realized and unrealized gains, net of investment fees	618,350	14,973
Investment gains, net	$ 674,009	$ 66,977

4. Derivatives

The Organization utilizes a variety of derivative instruments as part of the overall investment strategy, including certain forward currency contracts and futures contracts. As described in Note 8, the Organization also utilizes interest rate swap agreements to manage interest rate risk associated with its variable debt facilities. Derivative instruments by their nature bear, to varying degrees, elements of market risk and credit risk that are not reflected in the amounts recorded in the consolidated financial statements. Market risk represents the potential for changes in the value of derivative instruments due to levels of volatility and liquidity or other events affecting the underlying asset, reference rate, or index, including those embodied in interest and foreign exchange rate movements and fluctuations in commodity or security prices. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of a contract. The Organization's risk of loss in the event of counterparty default is limited to the amounts recognized in the consolidated statements of financial position, not the notional amounts of the instruments.

The Organization's forward currency contracts are traded Over-the-Counter (OTC) and are primarily utilized to mitigate the impact of exchange rate fluctuations on the U.S. dollar value of international investment holdings. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The value of a forward currency contract fluctuates with changes in forward currency exchange rates. Forward currency contracts are marked-to-market daily and the change in value is recorded by the Organization as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency or, if a forward currency contract is offset by entering into another forward currency contract with the same broker, upon settlement of the net gain or loss.

The Organization's futures contracts are traded on centralized exchanges and are used to manage market exposures and to implement certain investment strategies in a more effective and efficient manner than would be expected by other alternatives such as the purchase or sale of the underlying market securities. Upon entering into a futures contract, the Organization is required to deposit with its broker an amount of cash or liquid securities in accordance with the initial margin requirements of the broker or exchange. Gains and losses are realized when the contracts expire or are closed. Futures contracts are marked-to-market daily based on settlement prices established by the board of trade or exchange on which they are traded, and an appropriate payable or receivable for the change in value is recorded by the Organization.

The following table presents amounts for investment-related derivatives, including the net exposure amount, the fair values at June 30, 2013 and 2012, and gains and losses for the years ended June 30, 2013 and 2012 (in thousands):

	Net Exposure Amounts	Derivative Assets	Derivative Liabilities	Net Gain / (Loss)
2013				
Forward currency contracts	$ 18,336	$ 25,155	$ (6,819)	$ 45,763
Futures contracts	(131,206)	2,884	(5,503)	(9,557)
		$ 28,039	$ (12,322)	$ 36,206
2012				
Forward currency contracts	$ (3,745)	$ 1,129	$ (4,874)	$ 18,515
Futures contracts	127,302	4,611	(2,564)	(10,821)
		$ 5,740	$ (7,438)	$ 7,694

Futures contracts' fair value is measured using Level 1 inputs and forward currency contracts' fair value is measured using Level 2 inputs as defined in Note 1. Amounts are included in the consolidated balance sheets in "Financial investments." Gains (losses) on forward currency and futures contracts are included in the consolidated statements of activities as "Investment gains, net."

5. Real Estate Investments

The Organization's real estate investments primarily consist of commercial, residential and agricultural properties located in the State of Hawaii. At June 30, 2013 and 2012, the cost and fair value of real estate investments was as follows (in thousands):

	2013	2012
Land	$ 45,037	$ 39,069
Buildings and improvements	438,739	417,200
Less: Accumulated depreciation	(236,571)	(218,820)
	247,205	237,449
Construction in progress	22,490	18,294
Real estate investments, net	269,695	255,743
Real estate held for development and sale	16,603	25,992
Real estate, total at cost	$ 286,298	$ 281,735
Real estate, total at fair value	$ 3,528,182	$ 3,149,663

Refer to the Notes to Schedules of Total Return for methods and assumptions used to estimate fair value.

6. Property and Equipment

Property and equipment, net, at June 30, 2013 and 2012 consisted of the following (in thousands):

	2013	2012
Educational property and equipment		
Land	$ 16,201	$ 16,201
Buildings, improvements and equipment	830,319	782,200
Less: Accumulated depreciation	(308,157)	(280,655)
	538,363	517,746
Non-educational property and equipment		
Land and land improvements	35,849	35,792
Buildings, improvements and equipment	141,358	121,201
Less: Accumulated depreciation and amortization	(66,791)	(65,766)
	110,416	91,227
Construction in progress	39,044	48,671
Property and equipment, net	$ 687,823	$ 657,644

Non-educational property and equipment are primarily comprised of assets related to conservation and agriculture lands as well as assets used for general administration.

7. Receivables

Receivables, net, at June 30, 2013 and 2012 were as follows (in thousands):

	2013	2012
Tenant and tuition	$ 5,134	$ 5,892
Trade	1,302	2,085
Other	2,205	2,208
	8,641	10,185
Less: Allowance for doubtful accounts	(3,342)	(3,533)
Receivables, net	$ 5,299	$ 6,652

8. Notes Payable

At June 30, 2013 and 2012, unsecured notes payable consisted of the following (in thousands except percentages):

	2013	2012
Senior promissory notes payable under a $200.0 million private shelf facility		
3.85%, payable through January 2037	$ 50,000	$ 50,000
Senior promissory notes payable under a $150.0 million private shelf facility		
6.80%, payable through March 2027	13,333	14,286
4.88%, payable through June 2028	50,000	53,333
4.93%, payable through April 2029	40,000	44,000
Senior promissory notes payable under a $118.6 million private shelf facility		
6.89%, payable through June 2013	-	11,860
Term loan, variable:		
1.14% at June 30, 2013, payable through March 2022	22,500	24,375
0.96% at June 30, 2013, payable through August 2017	25,000	-
Revolving credit loans	74,500	74,500
Total notes payable	275,333	272,354
Less: Current portion	20,783	22,646
Long-term notes payable	$ 254,550	$ 249,708

The fair value of notes payable is estimated using the current rates at which similar loans would be made by lenders to borrowers with similar credit ratings and similar remaining maturities. The fair value of the Organization's notes payable (in thousands) was $279,368 and $284,608 as of June 30, 2013 and 2012, respectively.

In March 2012, the Schools entered into a $25 million, 10-year term loan with variable interest rates. The Schools entered into an interest rate swap agreement to pay a fixed interest rate of 2.48% with the same financial institution. The swap may be settled monthly. The fair value of the interest rate swap was $0.1 million and $(0.5) million as of June 30, 2013 and 2012, respectively, and was included in deferred charges and other assets at June 30, 2013 and other long-term liabilities at June 30, 2012. The change in fair value of the interest rate swap was included in other income and other expenses for the same periods, respectively.

The Schools has two revolving credit facilities with two commercial banks that expire in 2014 and 2017. The revolving credit facilities provide for an aggregate commitment of $115 million. Amounts drawn under the facilities bear interest ranging from 1.5% to 1.75%, which are based on London Interbank Offered Rate ("LIBOR") plus a spread.

All note and credit agreements contain certain restrictions and require the maintenance of a minimum endowment value and liquidity ratio.

Annual maturities of notes payable are as follows (in thousands):

Year ending June 30,	
2014	$ 20,786
2015	10,786
2016	9,786
2017	99,286
2018	9,786
Thereafter	124,903
	$ 275,333

Interest expense incurred was $10.4 million and $10.2 million for the years ended June 30, 2013 and 2012, respectively.

9. Income Taxes

Total income tax expense amounted to approximately $1.9 million and $8.1 million for the years ended June 30, 2013 and 2012, respectively. These amounts are included in other management and general expenses in the accompanying consolidated statements of activities.

The components of deferred tax assets and liabilities as of June 30, 2013 and 2012 were as follows (in thousands):

	2013	**2012**
Deferred tax assets		
Charitable contribution carryforwards	$ 38,839	$ 36,349
Net operating loss carryforwards	27,559	21,374
Passive activity loss carryforwards	19,936	17,985
Difference in basis of investments and real estate	5,523	11,288
Capital loss carryforwards	-	3,417
Other	3,093	4,634
	94,950	95,047
Less: Valuation allowance	(94,950)	(95,047)
Net deferred taxes	$ -	$ -

The change in valuation allowance was a decrease of $0.1 million and an increase of $15.5 million for the years ended June 30, 2013 and 2012, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portions or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that it will not realize these deductible differences and has provided a full valuation allowance at June 30, 2013 and 2012. The amount of deferred tax assets considered realizable, however, could be increased in the near term if estimates of future taxable income during the carryforward period are increased. The Organization has passive activity losses of $51.0 million available to carryforward indefinitely for federal and state tax purposes, charitable contribution carryforwards of $99.6 million expiring at various dates beginning in fiscal year 2013 through 2018, net operating loss carryforwards of $70.7 million expiring at various dates beginning in fiscal year 2026 through 2033.

As of June 30, 2013 and 2012, there were no significant pending federal or state income tax audits. The federal statute of limitations remains open for the Organization for the years ended June 30, 2010 through 2013.

10. Pension and Other Postretirement Benefits

The Organization has a defined benefit pension plan which covers substantially all employees after satisfying age and length of service requirements. The Organization makes annual contributions to the plan equal to the maximum amount that can be deducted for income tax purposes.

In 2013, the Organization elected to freeze the Pension Plan effective June 30, 2014. Employees would retain all benefits through June 30, 2014; however, pension benefits would cease accruing effective July 1, 2014. As the freeze is effective June 30, 2014, the freeze did not have an effect on the June 30, 2013 funded status or net periodic pension cost.

In addition to the Organization's defined benefit pension plan, the Schools sponsor a defined benefit health care plan that provides postretirement medical benefits to eligible full-time employees who meet minimum age and service requirements.

The following table reconciles the changes to the benefit obligations and plan assets for the years ended June 30, 2013 and 2012 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2013 and 2012 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
Change in benefit obligation				
Benefit obligation at beginning of year	$ 354,569	$ 297,196	$ 41,681	$ 32,918
Service cost	15,823	12,373	1,916	1,410
Interest cost	16,441	16,693	2,007	1,938
Benefits paid	(11,998)	(11,240)	(1,171)	(1,245)
Actuarial (gains) losses	(30,066)	39,980	(5,168)	6,660
Other	(510)	(433)	-	-
Benefit obligation at end of year	344,259	354,569	39,265	41,681
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	240,198	223,530	-	-
Actual return on plan assets	20,447	2,349	-	-
Employer contributions	25,000	25,992	1,171	1,245
Benefits paid	(11,998)	(11,240)	(1,171)	(1,245)
Other	(510)	(433)	-	-
Fair value of plan assets at end of year	273,137	240,198	-	-
Funded status and recognized liability	$ (71,122)	$ (114,371)	$ (39,265)	$ (41,681)

The accumulated benefit obligation for the pension plan was $298.4 million and $304.9 million at June 30, 2013 and 2012, respectively.

The net periodic benefit cost consisted of the following for the years ended June 30, 2013 and 2012 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Service cost	$ 15,823	$ 12,373	$ 1,916	$ 1,410
Interest cost	16,441	16,693	2,007	1,938
Expected return on plan assets	(18,725)	(17,088)	-	-
Amortization of prior service cost and net actuarial losses	3,964	321	349	39
Net periodic benefit cost	$ 17,503	$ 12,299	$ 4,272	$ 3,387

Actuarial (gains) losses and amounts amortized into net periodic benefit cost for the years ended June 30, 2013 and 2012 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Actuarial (gains) losses arising during the year	$ (31,788)	$ 54,720	$ (5,168)	$ 6,660
Prior service costs and net actuarial losses reclassified as a component of net periodic benefit cost	(3,964)	(321)	(349)	(39)
Change in amounts not yet recognized as net periodic benefit cost	$ (35,752)	$ 54,399	$ (5,517)	$ 6,621

The prior service cost and actuarial losses that have not yet been recognized as components of net periodic benefit cost at June 30, 2013 and 2012 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Actuarial losses	$ 49,714	$ 85,145	$ 2,595	$ 8,078
Prior service cost	417	738	23	57
Amounts not yet recognized as net periodic benefit cost	$ 50,131	$ 85,883	$ 2,618	$ 8,135

The estimated prior service cost expected to be amortized into net periodic benefit cost in 2014 is $297,000 and $24,800 for the pension and postretirement plans, respectively. The estimated actuarial losses expected to be amortized into net periodic benefit cost in 2014 are $1.4 million for the pension. There are no actuarial losses expected to be amortized into net periodic benefit costs in 2014 for the postretirement plans.

	Pension Benefits		Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
Weighted average assumptions				
Benefit obligation				
Discount rate	5.20%	4.71%	5.33%	4.81%
Rate of compensation increase	3.60%	3.60%	N/A	N/A
Net periodic benefit cost				
Discount rate	4.71%	5.75%	4.81%	5.75%
Expected return on plan assets	7.50%	7.50%	N/A	N/A
Rate of compensation increase	3.60%	4.20%	N/A	N/A

The expected long-term rate of return on plan assets was projected by the pension plan's investment consultants based on strategies outlined in the portfolios policies and guidelines.

The assumed healthcare cost trend rates at June 30, 2013 and 2012 were as follows:

	2013	**2012**
Healthcare cost trend rate assumed for the next year	7.75%	7.50%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2020	2019

The fair value of the Organization's pension plan assets at June 30, 2013 and 2012 by asset category were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Level 1	**Level 2**	**Level 3**	**Total**
2013				
Cash and cash management funds	$ -	$ 8,576	$ -	$ 8,576
Mutual fund	52,799	-	-	52,799
Collective investment funds	-	-	101,836	101,836
Hedge funds and other	-	-	109,926	109,926
Total investments	$ 52,799	$ 8,576	$ 211,762	$ 273,137
2012				
Cash and cash management funds	$ -	$ 16,359	$ -	$ 16,359
Mutual fund	35,892	-	-	35,892
Collective investment funds	-	-	102,526	102,526
Hedge funds and other	-	-	85,421	85,421
Total investments	$ 35,892	$ 16,359	$ 187,947	$ 240,198

The investment goals and strategy for defined benefit pension plan assets are to maximize returns to provide income and capital appreciation to meet current and future pension requirements of the pension plan's beneficiaries, subject to specific risk management policies. The risk management policies permit investments in debt and equity securities, real estate and other inflation hedging assets. Readily marketable securities are utilized to pay benefit obligations as they become due. The target allocations for plan assets are 47% equity securities, 25% fixed income securities, 17% hedge funds, and 11% to real estate and other. Equity securities held by the mutual fund, collective investment and hedge funds primarily include investments in large-cap and mid-cap companies primarily located in the United States and non-U.S. developed markets. Fixed income securities held by the collective investment and hedge funds primarily include corporate bonds of companies from diversified industries and U.S. Treasuries. Hedge fund investments include investments in absolute return/hedge funds that follow several different strategies and inflation-hedging assets such as real estate investment trusts, energy and commodities. The Organization engages third party investment managers who invest in mutual funds, collective investment funds, hedge funds and other funds to achieve the target allocations.

The following table sets forth a summary of the changes in the fair value of the pension plan's Level 3 investments for the years ended June 30, 2013 and 2012 (in thousands):

	Collective Investment Funds	Hedge Funds and Other	Total
As of July 1, 2011	$ 108,015	$ 77,185	$ 185,200
Actual return on plan assets			
Relating to assets still held at the reporting date	(7,010)	6,073	(937)
Relating to assets sold during the period	155	1,138	1,293
Purchases	8,583	5,171	13,754
Sales	(7,217)	(4,146)	(11,363)
As of June 30, 2012	102,526	85,421	187,947
Actual return on plan assets			
Relating to assets still held at the reporting date	8,018	889	8,907
Relating to assets sold during the period	1,018	1,620	2,638
Purchases	10,231	34,063	44,294
Sales	(19,957)	(12,067)	(32,024)
As of June 30, 2013	$ 101,836	$ 109,926	$ 211,762

The following benefit payments are expected to be paid from the respective plans (in thousands):

	Pension Benefits	Postretirement Benefits
Year ending June 30,		
2014	$ 14,281	$ 1,261
2015	15,289	1,403
2016	16,457	1,549
2017	17,454	1,658
2018	18,428	1,800
2019–2023	108,385	10,774
	$ 190,294	$ 18,445

The expected benefits are based on the same assumptions used to measure the benefit obligation at June 30 and include estimated future employee service.

The Organization does not expect to make any contributions to its pension plan in 2014. The Organization expects to contribute $1.3 million to its postretirement medical plans in 2014.

The Organization has employee savings plans under Sections 403(b) and 401(k) of the IRC. The plans cover substantially all the Organization's employees after satisfying service requirements. Participating employees may defer up to 50% (subject to certain limitations) of their pretax earnings to the Section 401(k) plan.

The Organization makes matching contributions to the 401(k) plan up to a maximum 3% of employee pretax earnings. Participants are immediately and fully vested in the Organization's contribution. Contributions to the 401(k) plan for the years ended June 30, 2013 and 2012 amounted to approximately $3.8 million and $3.5 million, respectively.

Benefits under the defined contribution plan are anticipated to be enhanced on July 1, 2014, concurrently with the freezing of the Pension Plan.

11. Natural Classification of Expenses

Operating expenses incurred for the years ended June 30, 2013 and 2012 were as follows (in thousands):

	2013	2012
Human resources and employee benefits	$ 198,503	$ 180,167
Taxes and recoveries	79,320	79,542
Depreciation and amortization	53,798	50,881
Professional fees and services	42,688	49,750
Scholarships	26,244	25,475
Rentals and utilities	20,312	19,820
Collaborations	17,368	20,599
Interest	10,487	10,170
Other expenses	59,255	52,114
Total expenses	$ 507,975	$ 488,518

12. Commitments and Contingencies

Rental Income
The majority of land and buildings are generally leased under long-term lease arrangements. At June 30, 2013, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Year ending June 30,	
2014	$ 135,502
2015	124,140
2016	116,543
2017	99,521
2018	77,059
Thereafter	901,350
	$ 1,454,115

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $21.2 million and $19.7 million for the years ended June 30, 2013 and 2012, respectively.

Capital Commitments
At June 30, 2013 and 2012, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $657 million and $487 million, respectively.

At June 30, 2013 and 2012, open construction, renovation, major repair and other contracts amounted to $97 million and $114 million, respectively.

Litigation
There are various claims and complaints against the Organization that are incidental to its operations. Management, after consideration with in-house legal counsel, is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial statements.

Trustee Matters
In accordance with Court approval, the Trustees are compensated with an annual retainer payable monthly and a meeting fee for each meeting attended which is subject to annual maximum meeting limitations. For the years ended June 30, 2013 and 2012, total Trustee compensation amounted to $713,000 and $658,750, respectively.

Supplementary Schedules

Kamehameha Schools and Subsidiaries
Schedules of Trust Spending
Years Ended June 30, 2013, 2012, 2011, 2010 and 2009
(All dollars in thousands) **Schedule 1**

	2013	2012	2011	2010	2009
Trust spending, net					
Campus-based programs					
Campus Education	$ 7,436	$ 5,734	$ 2,263	$ 1,815	$ 1,464
Kapalama	93,849	85,296	82,310	76,132	77,234
Hawaii	34,012	30,913	29,113	26,968	27,270
Maui	32,275	28,452	26,382	25,550	25,720
Outreach programs					
Community education (includes funding for Ho‘okako‘o, a not-for-profit organization, of $50, $2,872, $2,938, $2,784 and $2,771 for the years ended June 30, 2013, 2012, 2011, 2010 and 2009, respectively)	66,498	66,234	62,843	60,389	58,359
Collaborations	17,425	20,455	22,339	21,751	15,831
Scholarships	25,832	25,058	23,563	23,729	24,369
Educational support services	11,993	9,800	9,155	11,287	10,300
Ke Ali‘i Pauahi Foundation	644	1,271	1,340	984	(9)
Other program expenditures	(75)	3,210	2,352	3,364	4,147
Base spending	289,889	276,423	261,660	251,969	244,685
Less: Tuition, fees and other educational income, net	(12,030)	(9,821)	(10,603)	(10,313)	(11,332)
Base distributions	277,859	266,602	251,057	241,656	233,353
Equipment	2,634	1,396	858	815	803
Information technology investment plan	14,920	8,477	5,196	6,713	7,068
Major repairs	9,055	6,613	3,729	4,013	2,634
Capital projects	40,348	48,594	38,067	25,077	16,050
Interest on debt	8,423	7,144	6,519	6,944	7,369
Debt financing of capital projects	(14,839)	(66,714)	8,286	8,286	8,286
In-kind transactions	8,489	613	823	5,733	2,298
Total trust spending before reserve activity	346,889	272,725	314,535	299,237	277,861
Reserve activity – operating, net	(31,594)	(10,000)	-	-	(20,000)
Total trust spending	$ 315,295	$ 262,725	$ 314,535	$ 299,237	$ 257,861
Average fair value of endowment	$ 8,425,932	$ 8,294,850	$ 8,031,082	$ 7,805,938	$ 7,512,346
Trust spending rate before debt financing and reserve activity	4.3%	4.1%	3.8%	3.7%	3.6%
Trust spending rate	3.7%	3.2%	3.9%	3.8%	3.4%

See accompanying Report of Independent Auditors and notes to Schedules of Trust Spending.

1. Background and Purpose

The Schools' spending policy governs annual trust spending from the Endowment to support its educational purpose in perpetuity. The spending policy targets annual trust spending at 4% of the average fair value of the Endowment plus the net income, if any, generated from the Schools' agriculture and conservation lands. The spending policy also provides for actual trust spending to vary annually at a range of 2.5% to 6.0%.

For the years ended June 30, 2013, 2012, 2011, 2010 and 2009, the schedules were prepared on a modified accrual basis of accounting and presented total distributions made from the Endowment to fund educational programs (trust spending) by major program and activity. The schedules also presented trust spending rates for five fiscal years through June 30, 2013.

2. Trust Spending and Trust Spending Rate

Trust spending represents the amounts spent during the fiscal year on educational programs by major program and activity. The campus-based and outreach program costs represent direct and indirect costs of providing these programs. The Educational Support Services programs represent the costs of administering scholarships, financial aid, admissions, ancestry verification and other supporting functions for educational programs. Ke Ali‘i Pauahi Foundation expenditures represent the direct and indirect costs of providing scholarship and financial aid programs, net of realized gains and losses and investment income. Other program expenditures represent the direct and indirect costs related to certain educational services that benefit the various campus-based and outreach programs. Indirect costs, which represents the portion of the finance, operations and legal services cost that support the Schools' educational programs and purpose are allocated to education based on various methods depending on the type of cost including headcount, square footage and proportion in relation to the other estimates based on management's best judgment. Information technology investment plan includes information technology projects that are directly attributable to education as well as an allocation of information technology projects that are attributable to the entire organization. Major repairs, capital projects, interest on debt, net borrowing of debt and repayment of principal, and in-kind transactions are directly attributable to education. Reserve activity represents the funding of an operating reserve, as approved by the Court, to ensure assets are readily available for unanticipated educational program expenses or the use of the operating reserve to fund educational program expenses. Reserve activity may also include returning funds to the Endowment if there are sufficient operating reserves.

For the purposes of this schedule, trust spending on educational programs includes major repairs and capital projects, an allocation of indirect costs, borrowing of debt, repayment of principal and the reserve activity. These items are not included in educational program expenses on the consolidated statements of activities. The trust spending rates are determined by dividing the total trust spending before debt financing and reserve activity and the total trust spending by the average fair value of the Endowment.

3. Endowment and Average Fair Value of the Endowment

The Endowment consists of all consolidated investment assets of the Schools except agriculture and conservation lands and reserve funds as defined in the Schools' investment policy. The average fair value of the Endowment is based on the average of the prior 20-quarter-end fair values. Accordingly, the trust spending rates for the years ended June 30, 2013, 2012, 2011, 2010 and 2009 are based on the estimated average fair values over the last five fiscal years utilizing the respective quarter-end values. For information on fair values, see Note 3 in the notes to Schedules of Total Return.

Kamehameha Schools and Subsidiaries
Schedules of Total Return
June 30, 2013 — Schedule 2

	Fair Value at June 30, 2013 (In Thousands)	One-Year Total Return %	Three-Year Total Return %	Five-Year Total Return %	Ten-Year Total Return %	Since July 1, 1999 Total Return %
Hawaii Real Estate	$ 3,528,182	17.4	17.6	8.6	15.1	11.8
Hawaii Real Estate Composite Index		10.7	13.1	2.8	5.8	6.4
Developed Markets	1,581,050	23.0	16.7	5.4	8.5	6.8
Developed Markets Composite Index		19.8	14.3	3.3	7.2	3.2
Emerging Markets	419,946	10.1	6.7	1.8	14.9	N/A
Emerging Markets Composite Index		2.9	3.4	-0.4	12.7	N/A
Private Equity	762,531	11.6	13.2	6.6	12.9	6.6
Private Equity Composite Index		8.5	11.5	4.3	9.4	10.3
Absolute Return	2,086,514	9.5	6.6	2.3	N/A	N/A
Absolute Return Composite Index		7.4	3.0	-0.6	N/A	N/A
Marketable Real Assets	449,680	9.2	8.1	1.8	N/A	N/A
Marketable Real Assets Composite Index		7.7	11.3	0.2	N/A	N/A
Illiquid Real Assets	345,214	-0.1	15.6	9.4	14.5	22.8
Illiquid Real Assets Composite Index		3.3	12.2	7.1	8.6	8.3
Real Estate (Mainland)	23,409	50.6	12.0	-4.7	9.3	10.2
Real Estate (Mainland) benchmark		50.6	12.0	0.4	7.3	7.8
U.S. Fixed Income	106,538	-2.6	3.4	5.0	5.1	6.1
Fixed Income Composite Index		-2.3	3.6	5.1	4.9	5.9
Global Fixed Income	707,585	3.5	8.0	5.9	N/A	N/A
Citigroup World Government		-4.5	2.7	3.0	N/A	N/A
Cash Equivalents	79,597	0.0	0.1	0.2	1.8	2.4
Three-month U.S. Treasury Bill		0.1	0.1	0.3	1.7	2.3
Total Endowment, before indirect expenses	$ 10,090,246	13.4	12.8	5.3	10.1	8.9
Total Endowment, net of all investment-related expenses		13.2	12.6	5.1	9.9	8.7
Endowment Fund Composite Benchmark		9.5	10.1	2.4	6.4	5.4
Total Endowment Fund Long-Term Objective (CPI+5%)		6.8	7.3	6.3	7.4	7.5

See accompanying Report of Independent Auditors and notes to Schedules of Total Return.

1. Background and Purpose

The Schools' investment policy establishes long-term and intermediate-term investment objectives, asset allocation targets, and performance measurement guidelines for the Endowment. The overall long-term investment objective of the Endowment is to earn an average annual real return of 5% net of all investment related expenses.

The purpose of this schedule is to report the Schools' total return results for the Endowment (by asset class) as compared to long-term benchmark indices approved in the investment policy. The Schools' Endowment asset classes include:

Hawaii Real Estate
The Hawaii real estate assets can be divided into traditional land holdings, improved commercial properties, real estate held for development and sale, and purchase money mortgages. The traditional land holdings are typically leased to third parties under long-term ground leases while the improved commercial properties are actively managed by various third-party managers to generate space rents. Improved commercial properties are comprised of shopping centers, office buildings, and warehouse facilities.

Developed Markets
Developed markets is comprised primarily of marketable equity securities and derivative instruments of companies in the U.S. and developed markets outside of the U.S. Investments in this asset class are held directly or through commingled vehicles.

Emerging Markets
Emerging markets is comprised primarily of marketable equity securities and derivative instruments of companies in emerging markets. Investments in this asset class are held directly or through commingled vehicles.

Private Equity
Private equity investments are high risk, high potential return investments in illiquid privately placed equity or equity-related securities of nonpublic companies, companies or parts of companies that are being taken private, or public entities. The Schools' private equity and venture capital portfolio currently consists of limited partnership interests in pooled funds.

Absolute Return
Absolute return strategies endeavor to produce positive returns independent of the equity and fixed income markets though the underlying instruments are primarily equity and fixed income securities and derivatives thereof. The portfolio includes equity long-short, relative value, credit, and global macro strategies, and its exposure is global.

Marketable Real Assets
Real assets provide exposure to energy, commodities and other real assets globally. Marketable real assets are comprised primarily of marketable equity securities, derivatives and other liquid positions.

Illiquid Real Assets
Real assets provide exposure to energy, commodities and other real assets globally. Illiquid real assets are comprised primarily of illiquid investments in privately held companies and assets.

Real Estate (Mainland)
Mainland real estate assets consist of pooled and direct investments in residential, office, retail, timberland and a variety of other property types.

U.S. Fixed Income
Fixed income is comprised of investments in debt securities issued by a corporation, government or government agency. This asset class also includes, to a lesser degree, money market instruments, which include U.S. Treasury bills, bank certificates of deposit, repurchase agreements, commercial paper, bankers' acceptances and derivative instruments. As of June 30, 2010, fixed income is comprised of investments in debt securities issued primarily by governments and money market funds.

Global Fixed Income
Global fixed income is comprised primarily of debt securities issued by the U.S. government and governments of other developed countries. It also includes debt securities of other issuers such as corporations and the governments of emerging markets countries.

Cash Equivalents
Cash equivalents are comprised of short-term investments in debt securities issued by a corporation, government or government agency, and money market instruments.

2. Fair Values

The following methods and assumptions were used to estimate the fair value of each asset class:

Hawaii Real Estate
The fair value of residential real property interests (single-family and multifamily) is estimated by internal appraisals using a discounted cash flow method for leased properties and a sales comparison approach for unleased properties. An independent agreed upon procedures review of the residential appraisal methodology and input assumptions is obtained each year.

The fee simple land values used as inputs within the discounted cash flow model for leased properties are based on estimates by external appraisers and are updated internally for current market conditions since the last external appraisals were performed. Tax-assessed land values are applied as inputs within the discounted cash flow analysis for residential properties that are not included within the leased-fee sales program.

Commercial properties are divided into two primary categories – leased and unleased. In general, commercial properties are internally-appraised using a discounted cash flow model. An independent agreed upon procedures review of the appraisal methodology and input assumptions is obtained each year. Prior to June 2008, commercial properties were externally appraised every three years. Since June 2008, commercial properties are valued using a combination of quarterly internal valuations, and annual external valuation reviews.

The fair value of leased properties is typically estimated by using an income approach, while the value of unleased properties is typically estimated using a sales comparison approach. Prior to June 30, 2003, the fair value of internally-appraised leased properties was estimated by discounting future net cash flows at an appropriate discount rate over a ten-year period while the current tax-assessed value was used to approximate the fair value of unleased commercial properties.

The fair value of purchase money mortgages is estimated by discounting the expected future net cash flows at a discount rate commensurate with the risk associated with the respective receivables.

The fair value of all real property interests is reduced by the fair value of any associated debt.

Developed and Emerging Markets
The market values of marketable equity securities and derivatives for positions held directly are based on quoted market prices. For positions held through commingled vehicles, the market values are based on quoted prices of the underlying assets.

Private Equity
Different techniques and many factors were considered in deriving the fair value of these investments. Several investments have been valued based on the underlying asset value and are based on a number of different factors including, among others, original cost, third-party financing transactions, discounted cash flows and comparable industry multiples.

Absolute Return
Different techniques and many factors were considered in deriving the fair value of these investments. These investments have been valued based on the underlying asset value.

Marketable and Illiquid Real Assets
Different techniques have been utilized and factors considered in deriving the fair value of these investments. Marketable instruments are based on quoted market prices. Hedge funds, direct investments and limited partnership interests have been valued based on underlying asset values. For certain assets, the fair value was deemed to approximate the carrying value.

Real Estate (Mainland)
Different techniques were considered in deriving the fair value including net operating income divided by a capitalization rate, estimated cash flows discounted at a rate commensurate with risks involved, market comparables, independent appraisals, and carrying value of operating assets reduced by liabilities.

The fair value is reduced by the carrying value of any debt associated with such properties.

U.S. Fixed Income, Global Fixed Income and Cash Equivalents
The market values of marketable debt securities, cash equivalents and derivatives are primarily based on quoted market prices.

3. Total Return

Total return is calculated using the time weighted rate of return methodology. Total returns for periods greater than one year are annualized.

“N/A” indicates that an asset class was not active for the respective time period.

4. Benchmark Indices

The benchmark indices are set forth in the Schools' investment policy. Amendments to the benchmark indices are incorporated when effective and include revised benchmarks, asset class target weights, and blended benchmark allocation methodologies. Blended portfolio benchmarks are generally weighted based upon the asset class targets set forth in the Schools' approved investment but may be based upon actual weights. The following are comprised of the respective benchmarks:

- **Hawaii Real Estate Composite Index**
  CPI + 5% from July 1999 to December 2006; NCREIF from January 2007.

- **Developed Markets Composite Index**
  75% Russell 3000, 25% MSCI EAFE Net from July 1999 to December 2003; 67% Russell 3000, 33% MSCI EAFE Net from January 2004 to December 2006; 50% Russell 3000, 50% MSCI EAFE Net from January 2007 to February 2013; MSCI World Net from March 2013.

- **Emerging Markets Composite Index**
  MSCI Emerging Markets Free Index from July 1999 to December 2006; MSCI Emerging markets net from January 2007.

- **Private Equity Composite Index**
  CPI + 10% from July 1999 to June 2004; CPI + 8.75% from July 2004 to December 2006; Cambridge Associates vintage-year weighted custom benchmark from January 2007.

- **Absolute Return Composite Index**
  CPI + 8% from July 1999 to June 2004; CPI + 5% from July 2004 to December 2006; HFRI Fund of Funds Index from January 2007.

- **Marketable Real Assets Composite Index**
  40% Wilshire 5000 Energy Index, 40% Barclays Inflation-Indexed Bond Index (U.S. dollar hedged) and 20% Dow Jones-AIG Commodity Index to January 2010; 67% Wilshire 5000 Energy Index, 33% Dow Jones-AIG Commodity Index from February 2010.

- **Illiquid Real Assets Composite Index**
  CPI + 5% from July 1999 to December 2006; Cambridge Associates vintage-year weighted custom benchmark from January 2007.

- **Mainland Real Estate**
  Per policy, there is no benchmark as this asset class is being liquidated.

- **U.S. Fixed Income Composite Index**
  Lehman Aggregate Index from July 1999 to December 2006; U.S. Treasury 6.5 Duration Bond Index from January 2007.