CERTIFIED PUBLIC ACCOUNTANTS

Kamehameha Schools and Subsidiaries

Consolidated Financial Statements and Supplementary Schedules

June 30, 2019 and 2018

Quality Integrity Insight

Kamehameha Schools and Subsidiaries
Index
June 30, 2019 and 2018

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Audit Committee of
Kamehameha Schools and Subsidiaries

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, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 auditors consider 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, 2019 and 2018, 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.

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Emphasis of Matter
As discussed in Note 1 to the consolidated financial statements, in 2019, the Organization adopted Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities,* which included recognition, presentation and disclosure changes to a not-for-profit entity's financial statements. Our opinion is not modified with respect to that matter.

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, 2019, 2018, 2017, 2016 and 2015 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.

Accuity LLP

Honolulu, Hawaii
September 27, 2019

Kamehameha Schools and Subsidiaries
Consolidated Balance Sheets
June 30, 2019 and 2018
(All dollars in thousands)

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 103,110	$ 147,678
Short-term investments	31,035	30,326
Receivables, net	6,205	24,846
Other	2,925	3,475
Total current assets	143,275	206,325
Trust investments		
Financial investments, net	8,325,316	8,168,540
Interest receivables	5,619	6,545
Real estate investments, net	253,853	254,592
	8,584,788	8,429,677
Other investments	42,030	40,231
Property and equipment, net	629,369	650,177
Accrued pension asset	1,486	-
Deferred charges and other	129,697	130,182
Total assets	$ 9,530,645	$ 9,456,592
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 54,315	$ 51,525
Settlement liability	7,500	85,000
Current portion of notes payable	15,386	14,786
Deferred income and other	24,398	20,824
Total current liabilities	101,599	172,135
Notes payable	303,733	230,119
Accrued postretirement benefits	64,745	62,303
Accrued pension liability	-	3,083
Deferred income and other	172,822	177,360
Total liabilities	642,899	645,000
Commitments and contingencies		
Net assets – without donor restrictions	8,887,746	8,811,592
Total liabilities and net assets	$ 9,530,645	$ 9,456,592

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

Kamehameha Schools and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018
(All dollars in thousands)

	2019	2018
Revenues, gains, and other support		
Tuition and fees	$ 41,373	$ 39,676
Less: Financial aid	(31,779)	(29,680)
Net tuition and fees	9,594	9,996
Investment gains, net	429,499	630,304
Rental	242,895	234,339
Net gains on property sales	6,847	8,699
Other	4,464	3,385
Total revenues, gains and other support	693,299	886,723
Expenses		
Educational programs	353,509	394,719
Management and general		
Rental	135,991	125,326
Other	120,952	127,163
Total expenses	610,452	647,208
Change in net assets without donor restrictions before retirement plan related changes other than net periodic cost	82,847	239,515
Retirement plan related changes other than net periodic cost	(6,693)	8,512
Change in net assets without donor restrictions	76,154	248,027
Net assets		
Beginning of year	8,811,592	8,563,565
End of year	$ 8,887,746	$ 8,811,592

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, 2019 and 2018
(All dollars in thousands)

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 76,154	$ 248,027
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	60,589	59,223
Net realized and unrealized gains on investments	(392,995)	(591,660)
Net gains on property transactions	(6,847)	(8,699)
Retirement plan related changes other than net periodic cost	6,693	(8,512)
Contribution to pension plan	(16,500)	-
Changes in operating assets and liabilities		
Receivables, net	18,641	(17,182)
Deferred charges and other	(1,021)	(12,064)
Accounts payable, accrued expenses and other liabilities	9,507	(2,873)
Settlement liability	(77,500)	85,000
Net cash used in operating activities	(323,279)	(248,740)
Cash flows from investing activities		
Proceeds from sales of investments	5,682,183	3,485,984
Purchases of investments	(5,447,545)	(3,097,166)
Proceeds from real estate transactions	6,901	9,628
Purchases of real estate	(12,092)	(13,193)
Proceeds from sales of property and equipment	-	1
Purchases of property and equipment	(24,950)	(30,987)
Net cash provided by investing activities	204,497	354,267
Cash flows from financing activities		
Proceeds from borrowings	89,000	-
Repayment of borrowings	(14,786)	(14,786)
Net cash provided by (used in) financing activities	74,214	(14,786)
Net increase (decrease) in cash and cash equivalents	(44,568)	90,741
Cash and cash equivalents		
Beginning of year	147,678	56,937
End of year	$ 103,110	$ 147,678
Supplemental disclosure of cash flow information		
Income taxes paid	$ 18	$ 290
Interest paid	10,717	10,215

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 Aliʻi Pauahi Foundation (“KAPF”), P&C Insurance Company, LLC (“P&C”), Kalokoʻeli Properties LLC (“KPL”), and Bishop Financial Limited.

The consolidated financial statements of BHC include the accounts of:

- Pauahi Management Corporation and its wholly-owned subsidiary, KBH, Inc.
- Kamehameha Investment Corporation (“KIC”) and its wholly-owned subsidiary, Keauhou Community Services, Inc.
- Hoʻoulu Mahiʻai LLC (“HM”)

BHC is a taxable holding corporation with subsidiaries primarily involved in property investment.

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

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

KPL is a wholly-owned limited liability company whose exclusive purpose is to engage in the planning, designing, financing and construction of low-cost housing for sale or rental.

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 net assets with donor restrictions amounted to approximately $22.9 million and $21.5 million at June 30, 2019 and 2018, respectively. The Schools have no board or donor designated funds. As the net assets with donor restrictions of KAPF are not significant, all net assets of the Organization and changes therein are classified and reported as net assets without donor restrictions.

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 assumptions. 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. Transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer.

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. The carrying amounts of cash equivalents approximate fair value because of the short maturity of these instruments.

Short-Term Investments
Short-term investments include liquid fixed income securities with maturities greater than three months and less than one year. The carrying amounts approximate fair value because of the short maturity of these investments.

Investments
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 and deferred compensation plan investments that are not subject to the same investment policies.

The Organization is subject to a spending policy that was approved by Court Order dated March 13, 2000. The investment policies seek to meet or exceed an investment objective of an annualized real return of 5.0% (CPI + 5 percentage points), net of fees and direct expenses, over most rolling ten-year periods, as well as over longer 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 Schedule 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 also include illiquid real assets, absolute return, 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 and, in some instances, may be limited to information for periods up to three months prior to the fiscal year end. Certain investments that do not have a readily determinable fair value estimate fair value using net asset value as a practical expedient. Investments in real estate are reported at the lower of cost or fair value.

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. Investment expenses vary depending on investment structure, and as such, are presented net of investment 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
The carrying value of tenant, insurance 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

Property and equipment represent assets used for educational and administrative purposes, as well as assets related to the Organization’s agricultural and conservation land. 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 impairment losses were recorded for the years ended June 30, 2019 or 2018.

Revenue Recognition
Tuition and fees revenue are 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 and are recorded to deferred income and other in the consolidated balance sheets.

Lease rental income is recognized on a straight-line basis over the fixed term of the respective leases. The deferred rent revenue is included in deferred income and other in the consolidated balance sheets. 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 in 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, 2019 and 2018, the Schools collected and remitted $56.4 million and $51.7 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 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.

KPL is exempt from Hawaii income taxes. For federal income tax purposes, KPL 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, 2019 and 2018, 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 net assets without donor restrictions, 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.

Fair Value of Financial Investments and Pension Plan Assets
The fair value of the Organization's financial investments and pension plan assets 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, corporate debt securities, 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.

- **Illiquid real assets and absolute return** – The fair value of these investments is generally reported at fair value using an income approach based on information provided by the respective external investment managers and using industry standard methodologies and, in some instances, may be limited to information for periods up to three months prior to the fiscal year end. 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'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. When executed through a limited partnership, these investments pose no off-balance sheet risk to the Organization due to the limited liability structure of the investments.

Liquidity
As of June 30, 2019, the Organization's financial assets available within one year include most current assets and trust investments that are approved for spend within the following year, which were as follows (in thousands):

Assets	
Cash and cash equivalents	$ 103,110
Short-term investments	31,035
Receivables, net	6,205
Trust investments approved for spend in the following year	489,400
Total assets available within one year	629,750
Liquidity resources	
Undrawn credit facilities	493,000
Total assets and resources available within one year	$ 1,122,750

As part of the Organization's liquidity management strategy, the Organization forecasts the appropriate liquidity required in the financial investments portfolio by considering the expected cash flows from Hawaii real estate in combination with the Organization's operational expenditures and the timing of capital expenditures and other obligations. The Organization invests cash in excess of daily requirements in short-term working capital investments. To manage unanticipated liquidity needs, the Organization has access to credit facilities which could be drawn upon in the amount of $493.0 million as of June 30, 2019.

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.

New Accounting Pronouncements

Effective July 1, 2018, the Organization adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statement of Not-for-Profit Entities*, which provides for additional disclosure requirements about the composition of net assets, liquidity, and expenses by both natural and functional classification.

Reclassifications

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation. Such reclassifications have no impact on the 2018 change in net assets as previously reported.

Subsequent Events

The Organization has reviewed all events that have occurred from July 1, 2019 through September 27, 2019, the date that the consolidated financial statements were available for issuance, for proper accounting and disclosure in the consolidated financial statements.

2. Financial Investments

The Organization's financial investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2019 and 2018 as follows (in thousands):

	2019	2018
Trust financial investments, net	$ 8,325,316	$ 8,168,540
Amounts receivable for securities sold	(131,058)	(200,972)
Amounts payable for securities purchased	15,244	14,002
Trust financial investments	8,209,502	7,981,570
Other investments	42,030	40,231
Total investments	$ 8,251,532	$ 8,021,801

	Level 1	Level 2	Level 3	Total
2019				
Common and preferred stocks	$ 311,209	$ -	$ -	$ 311,209
Fixed income				
U.S. government obligations	327,575	-	-	327,575
International government bonds	-	171,119	-	171,119
Other debt securities	-	260,363	-	260,363
Short-term investments and cash equivalents	40,944	6,068	-	47,012
Mutual funds	37,206	-	-	37,206
Illiquid real assets	-	-	56,476	56,476
Absolute return	-	-	27,680	27,680
Total investments at fair value	$ 716,934	$ 437,550	$ 84,156	1,238,640
Investments at NAV				7,012,892
Total investments				$ 8,251,532
2018				
Common and preferred stocks	$ 320,576	$ -	$ -	$ 320,576
Fixed income				
U.S. government obligations	303,496	-	-	303,496
International government bonds	-	177,381	-	177,381
Other debt securities	-	256,704	-	256,704
Short-term investments and cash equivalents	19,478	7,150	-	26,628
Mutual funds	24,045	-	-	24,045
Illiquid real assets	-	-	62,778	62,778
Absolute return	-	-	62,746	62,746
Total investments at fair value	$ 667,595	$ 441,235	$ 125,524	1,234,354
Investments at NAV				6,787,447
Total investments				$ 8,021,801

The Organization estimates the fair value of certain investments using the NAV of the investment as a practical expedient. The NAV is reported by the respective external investment managers. 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 investments are not categorized in the fair value hierarchy.

Investments at NAV as of June 30, 2019 and 2018 were as follows (in thousands):

	2019	2018
Equity	$ 4,336,523	$ 3,928,092
Absolute return	2,092,735	2,128,387
Real assets	583,634	730,968
Total investments at NAV	$ 7,012,892	$ 6,787,447

Refer to the Notes to Schedule of Total Return for significant investment strategies.

Net realized and unrealized gains (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, 2019 and 2018 were as follows (in thousands):

	Illiquid Real Assets	Absolute Return	Total
As of July 1, 2017	$ 65,830	$ 113,960	$ 179,790
Net realized and unrealized gains (losses) on investments	(3,910)	2,274	(1,636)
Purchases	2,919	29,338	32,257
Sales	(2,061)	(82,826)	(84,887)
As of June 30, 2018	62,778	62,746	125,524
Net realized and unrealized gains (losses) on investments	(2,489)	3,766	1,277
Purchases	4,533	9,761	14,294
Sales	(8,346)	(48,593)	(56,939)
As of June 30, 2019	$ 56,476	$ 27,680	$ 84,156
Change in unrealized gains (losses) relating to investments held at June 30, 2018	$ (37,509)	$ 3,944	$ (33,565)
Change in unrealized losses relating to investments held at June 30, 2019	$ (10,199)	$ (7,356)	$ (17,555)

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.

Certain investment funds reported at NAV 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, 2019 and 2018 were as follows (in thousands):

	2019	2018
Interest and dividend income	$ 49,100	$ 49,086
Realized and unrealized gains, net of fees	380,399	581,218
Investment gains, net of investment fees	$ 429,499	$ 630,304

3. 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 7, 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 balance sheets, 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 to Trust Financial Investments, net in the consolidated balance sheets.

The following table presents amounts for investment-related derivatives, including the exposure amount, the fair values at June 30, 2019 and 2018, and gains and losses for the years ended June 30, 2019 and 2018 (in thousands):

	Exposure Amounts	Derivative Assets	Derivative Liabilities	Net Gain / (Loss)
2019				
Equity futures contracts	$ (321,867)	$ -	$ (2,758)	$ 6,196
Fixed income futures contracts	(37,524)	1,322	-	(2,827)
Forward currency contracts	57	57	-	(4,162)
		$ 1,379	$ (2,758)	$ (793)
2018				
Equity futures contracts	$ (249,561)	$ -	$ (827)	$ 116
Fixed income futures contracts	(105,131)	1,221	-	(1,546)
Forward currency contracts	(87)	-	(87)	1,176
		$ 1,221	$ (914)	$ (254)

4. 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, 2019 and 2018, the cost of real estate investments was as follows (in thousands):

	2019	2018
Land and land improvements	$ 69,903	$ 68,738
Buildings and improvements	358,400	351,569
Less: Accumulated depreciation	(201,451)	(188,387)
	226,852	231,920
Construction in progress	16,575	14,200
Investments in limited liability companies	10,426	8,472
Real estate, total at carrying value	$ 253,853	$ 254,592

The Organization co-invested in limited liability companies under the equity method during 2016 and 2019 and are included in real estate investments, net in the accompanying consolidated balance sheets.

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

5. Property and Equipment

Property and equipment, net, at June 30, 2019 and 2018 consisted of the following (in thousands):

	2019	2018
Educational property and equipment		
Land	$ 17,977	$ 17,977
Buildings, improvements and equipment	988,659	980,394
Less: Accumulated depreciation	(504,309)	(467,788)
	502,327	530,583
Non-educational property and equipment		
Land and land improvements	36,821	36,821
Buildings, improvements and equipment	162,207	158,189
Less: Accumulated depreciation and amortization	(93,345)	(87,014)
	105,683	107,996
Construction in progress	21,359	11,598
Property and equipment, net	$ 629,369	$ 650,177

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

6. Receivables

Receivables, net, at June 30, 2019 and 2018 were as follows (in thousands):

	2019	2018
Tenant and tuition	$ 7,949	$ 8,537
Trade	511	1,405
Other	2,681	2,700
Insurance	-	17,350
	11,141	29,992
Less: Allowance for doubtful accounts	(4,936)	(5,146)
Receivables, net	$ 6,205	$ 24,846

7. Notes Payable

At June 30, 2019 and 2018, unsecured notes payable consisted of the following (in thousands except percentages):

	2019	2018
Senior promissory notes payable under a $250.0 million private shelf facility		
3.47%, payable through March 2042	$ 115,000	$ 120,000
3.37%, payable through December 2039	24,000	-
Senior promissory notes payable under a $450.0 million private shelf facility		
6.80%, payable through March 2027	7,619	8,572
4.88%, payable through June 2028	30,000	33,333
4.93%, payable through April 2029	20,000	23,000
3.85%, payable through January 2037	50,000	50,000
Term loan, variable		
3.39% and 2.93% at June 30, 2019 and 2018, respectively, payable through March 2022	7,500	10,000
Revolving credit facilities	65,000	-
Total notes payable	319,119	244,905
Less: Current portion	(15,386)	(14,786)
Long-term notes payable	$ 303,733	$ 230,119

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 Schools' notes payable was $331.0 million and $241.1 million as of June 30, 2019 and 2018, respectively.

In March 2017, the Schools entered into an uncommitted $250.0 million private shelf facility. Notes may be issued under this facility through March 2020, at interest rates determined at the time of issuance.

In December 2017, the Schools entered into an uncommitted $450.0 million private shelf facility. Notes may be issued under the amended and restated facility through December 2022, at interest rates determined at the time of issuance.

In March 2012, the Schools entered into a $25.0 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 interest rate swap's fair value is measured using Level 2 inputs. The fair value estimates were determined by the financial institution, based on an income approach that considers quoted prices for economically equivalent swaps, projected yield curves, and volatility risks that may require significant estimates and judgments. The fair value of the interest rate swap was $0.03 million and $0.21 million as of June 30, 2019 and 2018, respectively, and was included in deferred charges and other in the consolidated balance sheets. The change in fair value of the interest rate swap was included in other income.

The Schools have a revolving credit facility with two commercial banks that expire in 2025. The revolving credit facilities provide for a total commitment of $105.0 million at June 30, 2019. Amounts drawn under the facility bear interest based on the bank's prime interest rate or London Interbank Offered Rate ("LIBOR") plus a spread. The outstanding balance was $65.0 million at June 30, 2019. There was no outstanding balance at June 30, 2018.

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,	
2020	$ 15,386
2021	15,986
2022	14,986
2023	15,819
2024	15,819
Thereafter	241,123
	$ 319,119

Interest expense incurred was $11.2 million and $10.1 million for the years ended June 30, 2019 and 2018, respectively.

8. Income Taxes

Total income tax benefit amounted to approximately $0.42 million and $0.03 million for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 were as follows (in thousands):

	2019	**2018**
Deferred tax assets		
Charitable contribution carryforwards	$ 61,042	$ 57,168
Net operating loss carryforwards	20,158	19,649
Passive activity loss carryforwards	46,798	42,797
Other	8,727	7,771
	136,725	127,385
Less: Valuation allowance	(136,021)	(126,944)
Net deferred taxes	$ 704	$ 441

The change in valuation allowance was an increase of $9.1 million and a decrease of $5.3 million for the years ended June 30, 2019 and 2018, 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 valuation allowance of $136.0 million and $126.9 million for the years ended June 30, 2019 and 2018, respectively. 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 $111.4 million available to carryforward indefinitely for federal and state tax purposes, charitable contribution carryforwards of $143.8 million and $144.3 million for federal and state tax purposes, respectively, expiring at various dates beginning in fiscal year 2019 through 2024, net operating loss carryforwards of $73.9 million expiring at various dates beginning in fiscal year 2026 through 2038, and net operating loss carryforwards of $2.9 million available to carryforward indefinitely.

The Tax Cuts and Jobs Act of 2017 (“TCJA”) was signed into law on December 22, 2017. Although several provisions of the TCJA apply to the Organization, those provisions do not have a significant impact on the Organization’s tax liability.

As of June 30, 2019 and 2018, 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, 2016 through 2019. State statute of limitations for various states remains open for the years ended June 30, 2016 through 2019.

9. Pension and Other Postretirement Benefits

The Organization has a defined benefit pension plan (the “Pension Plan”) which covers substantially all employees after satisfying age and length of service requirements. The Pension Plan was frozen as of June 30, 2014.

In addition to the Organization’s 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, 2019 and 2018 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2019 and 2018 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Change in benefit obligation				
Benefit obligation at beginning of year	$ 360,133	$ 393,175	$ 62,303	$ 68,420
Service cost	-	-	2,355	2,630
Interest cost	15,786	15,468	2,783	2,834
Benefits paid	(19,689)	(30,025)	(1,653)	(1,580)
Actuarial (gains) losses	44,422	(18,485)	(1,043)	(10,001)
Benefit obligation at end of year	400,652	360,133	64,745	62,303
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	357,050	393,727	-	-
Actual return on plan assets	48,277	(6,652)	-	-
Employer contributions	16,500	-	1,653	1,580
Benefits paid	(19,689)	(30,025)	(1,653)	(1,580)
Fair value of plan assets at end of year	402,138	357,050	-	-
Funded status and recognized asset (liability)	$ 1,486	$ (3,083)	$ (64,745)	$ (62,303)

The accumulated benefit obligation for the Pension Plan was $400.7 million and $360.1 million at June 30, 2019 and 2018, respectively.

The net periodic benefit cost consisted of the following for the years ended June 30, 2019 and 2018 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Service cost	$ -	$ -	$ 2,355	$ 2,630
Interest cost	15,786	15,468	2,783	2,834
Expected return on plan assets	(13,740)	(15,486)	-	-
Amortization of actuarial losses	2,057	1,469	92	695
Net periodic benefit cost	$ 4,103	$ 1,451	$ 5,230	$ 6,159

Actuarial (gains) losses and amounts amortized into net periodic benefit cost (income) for the years ended June 30, 2019 and 2018 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Actuarial (gains) losses arising during the year	$ 9,885	$ 3,653	$ (1,043)	$ (10,001)
Net actuarial losses reclassified as a component of net periodic benefit cost	(2,057)	(1,469)	(92)	(695)
Change in amounts not yet recognized as net periodic benefit cost	$ 7,828	$ 2,184	$ (1,135)	$ (10,696)

The actuarial losses that have not yet been recognized as components of net periodic benefit cost at June 30, 2019 and 2018 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Amounts not yet recognized as periodic benefit cost	$ 93,136	$ 85,308	$ 5,827	$ 6,962

There are no estimated prior service costs expected to be amortized into net periodic benefit cost in 2020 for the pension and postretirement plans. The estimated actuarial losses expected to be amortized into net periodic benefit cost in 2020 are $1.8 million for the pension plan. There are no such estimated actuarial losses in 2020 for the postretirement plan.

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Weighted average assumptions				
Benefit obligation				
Discount rate	3.67%	4.34%	3.96%	4.48%
Net periodic benefit cost				
Discount rate	4.34%	4.00%	4.48%	4.26%
Expected return on plan assets	4.25%	4.25%	N/A	N/A

The expected return on plan assets is based on the target asset allocation at the beginning of the fiscal year and is determined using forward-looking assumptions in the context of historical returns. The expected return on plan assets assumption is evaluated on an annual basis.

The assumed healthcare cost trend rates at June 30, 2019 and 2018 were as follows:

	2019	2018
Healthcare cost trend rate assumed for the next year	24.95%	4.79%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2028	2028

The fair value of the Organization's Pension Plan assets at June 30, 2019 and 2018 by asset category were as follows (in thousands):

	Fair Value Measurements at Reporting		
	Level 1	**Level 2**	**Total**
2019			
Cash and cash management funds	$ 1,813	$ 21,341	$ 23,154
Fixed income			
U.S. government obligations	56,965	-	56,965
Corporate debt	-	285,614	285,614
Other debt securities	-	31,856	31,856
Total investments	$ 58,778	$ 338,811	397,589
Amounts receivable for securities sold			1,073
Interest receivable			3,556
Amounts payable for securities purchased			(80)
Total plan assets			$ 402,138
2018			
Cash and cash management funds	$ 1,701	$ 2,829	$ 4,530
Fixed income			
U.S. government obligations	47,346	-	47,346
Corporate debt	-	272,325	272,325
Other debt securities	-	29,227	29,227
Total investments	$ 49,047	$ 304,381	353,428
Amounts receivable for securities sold			321
Interest receivable			3,599
Amounts payable for securities purchased			(298)
Total plan assets			$ 357,050

The Organization has an investment strategy to reduce volatility of funded status and pension costs. For fiscal years 2019 and 2018, the asset allocation target was 100% fixed income and cash equivalents. A third-party investment manager is engaged by the Organization to manage a custom long bond portfolio, which invests primarily in fixed income securities to match the duration of future pension payments. The assets are subject to investment grade, credit exposure, and interest rate exposure restrictions.

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

	Pension Benefits	Postretirement Benefits
Year ending June 30,		
2020	$ 20,248	$ 1,566
2021	20,897	1,722
2022	21,377	1,833
2023	21,733	1,956
2024	21,992	2,101
2025–2029	112,044	12,598
	$ 218,291	$ 21,776

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

The Organization is not required to make any contributions to its Pension Plan in 2020. The Organization expects to contribute $1.6 million to its postretirement medical plan in 2020.

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 employer matching and non-elective employer contributions to the 401(k) plan. Contributions to the 401(k) plan for the years ended June 30, 2019 and 2018 amounted to approximately $16.1 million and $15.3 million, respectively.

10. Functional and Natural Classification of Expenses

Expenses are presented by functional classification in alignment with the Organization's operations. Program costs are education and rental expenses and support costs are other expenses. Support costs are not allocated to education and rental expenses. Operating expenses by function and nature incurred for the years ended June 30, 2019 and 2018 were as follows (in thousands):

	2019				2018
	Education	**Rental**	**Other**	**Total**	**Total**
Human resources and employee benefits	$ 166,043	$ 11,584	$ 60,573	$ 238,200	$ 223,628
Taxes and recoveries	-	84,750	-	84,750	77,516
Professional fees and services	16,602	9,871	31,824	58,297	59,179
Depreciation and amortization	37,720	17,997	4,872	60,589	59,223
Scholarships	38,465	-	-	38,465	33,675
Collaborations	37,709	-	-	37,709	33,258
Other expenses	56,970	11,789	23,683	92,442	93,079
Settlements	-	-	-	-	67,650
Total expenses	$ 353,509	$ 135,991	$ 120,952	$ 610,452	$ 647,208

11. Commitments and Contingencies

Rental Income
The majority of land and buildings are generally leased under long-term lease arrangements. At June 30, 2019, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Year ending June 30,	
2020	$ 133,695
2021	124,345
2022	113,060
2023	104,034
2024	98,968
Thereafter	1,948,769
	$ 2,522,871

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $11.8 million and $13.6 million for the years ended June 30, 2019 and 2018, respectively.

Capital Commitments
At June 30, 2019 and 2018, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $1.5 billion and $1.5 billion, respectively.

At June 30, 2019 and 2018, open construction, renovation, major repair, and other contracts amounted to $134 million and $139 million, respectively.

Litigation
The following is a summary of the more significant legal matters involving the Organization:

Watanabe, et al. v. Trustees of the Estate of Bernice Pauahi Bishop, et al.
On February 15, 2018, a settlement was reached between Kamehameha Schools and 32 plaintiffs. The settlement agreement included a cash payment of $80.0 million, which was expected to be paid over the next two fiscal years. An $80.0 million liability was included in settlement accruals in current liabilities as of June 30, 2018. During fiscal year 2019, $72.5 million was paid and $7.5 million remains in current liabilities as of June 30, 2019.

Tario, et al. v. Alisna, et al.
On June 7, 2018, a settlement was reached between Kamehameha Schools and seven plaintiffs, and includes a dismissal of civil claims brought by the plaintiffs in 2013. A $5.0 million liability was included in settlement accruals in current liabilities as of June 30, 2018. Amounts were paid in July 2018.

In addition to the matters noted above, there are various claims and complaints against the Organization that are incidental to its operations. Where applicable, the Organization actively pursues cross-claims against co-defendants and submits claims to insurance carriers for recovery.

Management, after consideration with legal counsel, is of the opinion that the ultimate resolution of all of these such matters, except those disclosed above should not have a material 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, 2019 and 2018, total Trustee compensation amounted to $880,000 and $846,000, respectively.

Supplementary Schedules

Kamehameha Schools and Subsidiaries
Schedules of Trust Spending
Years Ended June 30, 2019, 2018, 2017, 2016 and 2015
(All dollars in thousands) **Schedule 1**

	2019	2018	2017	2016	2015
Trust spending, net					
Campus-based programs					
Kapālama	$ 104,243	$ 101,331	$ 93,418	$ 93,156	$ 96,405
Hawaiʻi	44,880	41,279	38,483	37,883	37,221
Maui	36,745	36,081	32,425	32,363	32,281
Na Kūla Kamaliʻi	34,820	35,331	32,893	31,855	29,381
Community programs					
Community engagement	50,130	47,987	39,326	38,045	31,527
Community investments	35,310	30,984	25,639	20,484	18,342
Scholarships	37,755	32,528	30,134	29,220	27,403
Innovations	3,249	1,747	1,432	-	-
Direct education overhead	33,123	29,810	23,349	19,100	17,463
Interest on debt	10,877	9,786	7,716	7,018	7,419
Settlements and other program expenditures	-	67,650	3,963	3,558	3,812
Base spending	391,132	434,514	328,778	312,682	301,254
Less: Tuition, fees and other educational income, net	(10,364)	(12,103)	(10,653)	(10,882)	(11,599)
Base distributions	380,768	422,411	318,125	301,800	289,655
Equipment	1,090	1,671	1,335	1,652	1,506
Information technology investment plan	6,617	8,312	5,518	4,042	5,880
Major repairs and capital projects	26,414	35,999	27,953	22,610	27,737
Debt financing	(51,041)	14,426	9,786	9,786	10,786
In-kind transactions	-	-	-	1,711	821
Total trust spending	$ 363,848	$ 482,819	$ 362,717	$ 341,601	$ 336,385
Average fair value of endowment	$ 11,072,207	$ 10,655,968	$ 10,210,432	$ 9,807,128	$ 9,142,326
Trust spending rate before debt financing	3.7%	4.4%	3.5%	3.4%	3.6%
Trust spending rate	3.3%	4.5%	3.6%	3.5%	3.7%

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%.

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, 2019.

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 community program costs represent direct and indirect costs of providing these programs. The direct education overhead represents the costs of administering scholarships, financial aid, admissions, ancestry verification, and other supporting functions for educational programs. Other program expenditures represent the direct and indirect costs of providing Ke Ali‘i Pauahi Foundation with scholarships and financial aid programs and certain educational services that benefit the various campus-based and outreach programs. Indirect costs, which represent the portion of the finance, operations and legal services, and other ancillary costs 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 and indirectly attributable to education.

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, and repayment of principal. 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 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 trust investment assets as described in Note 1 of the consolidated financial statements. 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 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 2 in the notes of the Schedule of Total Return.

Kamehameha Schools and Subsidiaries
Schedule of Total Return
June 30, 2019 — Schedule 2

	Value at June 30, 2019 (In Thousands)	One-Year Total Return %	Five-Year Total Return %	Ten-Year Total Return %	Since July 1, 1999 Total Return %
Hawaii Real Estate	$ 3,728,269	3.6	8.2	11.8	10.8
Hawaii Real Estate Composite Index		6.5	8.8	9.2	7.2
Developed Markets (Economic Value)	1,432,649	4.7	7.7	12.4	7.9
Developed Markets Composite Index		6.7	6.7	11.0	5.0
Emerging Markets	865,578	-1.6	3.8	7.8	N/A
Emerging Markets Composite Index		1.2	2.5	5.8	N/A
Private Equity	2,048,836	20.8	14.5	15.9	9.4
Private Equity Composite Index		14.7	11.6	13.5	11.1
Absolute Return	2,308,427	4.3	3.4	6.0	N/A
Absolute Return Composite Index		1.1	2.2	3.2	N/A
Marketable Real Assets	166,994	-25.9	-11.4	-1.2	N/A
Marketable Real Assets Composite Index		-15.5	-7.0	1.9	N/A
Illiquid Real Assets	593,999	-1.4	-0.3	6.1	15.8
Illiquid Real Assets Composite Index		1.9	0.5	5.4	6.1
Mainland Real Estate	219	-12.0	NM	NM	NM
Mainland Real Estate benchmark		NM	NM	NM	NM
U.S. Fixed Income	221,184	7.5	2.7	3.4	5.0
Fixed Income Composite Index		7.6	2.8	3.5	5.0
Global Fixed Income	293,565	4.9	2.2	5.0	N/A
Citigroup World Government Bond Index		5.5	0.8	2.2	N/A
Cash Equivalents (Economic Value)	445,672	2.1	0.6	0.3	1.8
Three-month U.S. Treasury Bill		2.3	0.9	0.5	1.9
Total endowment, net of fees and direct expenses	$ 12,105,392	4.8	5.7	9.3	8.3
Endowment Fund Composite Benchmark		5.1	5.2	7.6	5.7
Total Endowment Fund Long-Term Objective (CPI+5%)		6.6	6.5	6.7	7.2

See accompanying Report of Independent Auditors and notes to Schedule 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 long-term investment return objective of the Endowment Fund is to meet or exceed an annualized real return of 5.0% (CPI + 5 percentage points), net of fees and direct expenses, over most rolling 10-year periods, as well as over longer periods. During 2015, the investment objective was revised to include only fees and direct expenses but not allocated support costs, consistent with industry practice.

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. Hawaii real estate includes investments in partnerships for the primary purpose of investing in Hawaii real estate. 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.

At June 30, 2019, the Schools held U.S. and non-U.S. equity short futures positions to achieve asset allocation targets. The notional value of the short positions were $322 million.

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, diversified income, 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.

Mainland Real Estate
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
U.S. 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 U.S. government 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 and Synthetic Cash
Cash equivalents are comprised of short-term investments in debt securities issued by a corporation, government or government agency, and money market instruments. Synthetic cash represents the funds that would have been available if the long domestic equity was liquidated instead of holding the short futures position.

2. Fair Value and Economic Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal and most advantageous market in an orderly transaction between market participants. Unless otherwise indicated, values presented are fair values.

Economic value is defined as fair value plus notional exposure.

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

Hawaii Real Estate
All of the commercial properties are currently externally appraised. Prior to June 2015, the commercial properties were appraised internally and an annual external review was obtained for valuation reasonableness. Prior to June 2008, commercial properties were externally appraised every three years. Most commercial properties are appraised using the discounted cash flow methodology.

All of the multifamily residential properties are currently externally appraised. The single-family residential properties are internally and externally appraised. Prior to June 2015, the residential properties were appraised internally and an annual external review was obtained for valuation reasonableness. Most residential properties are currently estimated using the discounted cash flow methodology.

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

Developed 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. As of June 30, 2019, market value was $1,747 million.

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.

Mainland Real Estate
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 and any debt associated with such properties.

U.S. Fixed Income, Global Fixed Income, and Cash Equivalents and Synthetic Cash
The market values of marketable debt securities and cash equivalents are primarily based on quoted market prices. As of June 30, 2019, market value of cash equivalents was $131 million.

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.

Total return for asset classes with derivative positions incorporates the associated gain or loss of such derivative and is based on the economic value.

Total return excludes certain indirect expenses, which represents twenty basis points for all periods presented.

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

“NM” indicates total return is not meaningful.

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 to April 2018; MSCI World with USA Gross from May 2018.

- **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% Bloomberg Commodity Index to January 2010; 67% Wilshire 5000 Energy Index, 33% Bloomberg Commodity Index from February 2010 to January 2016, Wilshire 5000 Energy Index from February 2016.

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

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

- **Global Fixed Income Index**
  Citigroup World Government Bond Index from January 2008.