CERTIFIED PUBLIC ACCOUNTANTS

Kamehameha Schools and Subsidiaries

Consolidated Financial Statements and Supplementary Schedules

June 30, 2020 and 2019

Quality Integrity Insight

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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, 2020 and 2019, 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, 2020 and 2019, 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 Matters
As discussed in Note 1 to the consolidated financial statements, in 2020, the Organization elected to change the presentation of its consolidated statement of activities. The change was applied retrospectively to 2019.

Also as discussed in Note 1 to the consolidated financial statements, in 2020, the Organization has elected to change its method of accounting for actuarial gains and losses related to its pension and other postretirement benefit obligations and changes in fair value of plan assets. The change was applied retrospectively to 2019.

Our opinion is not modified with respect to these matters.

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, 2020, 2019, 2018, 2017 and 2016 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 24, 2020

Kamehameha Schools and Subsidiaries
Consolidated Balance Sheets
June 30, 2020 and 2019
(All dollars in thousands)

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 39,146	$ 103,110
Receivables, net	11,911	6,205
Short-term investments	-	31,035
Other	3,139	2,925
Total current assets	54,196	143,275
Trust investments		
Financial investments, net	8,209,804	8,325,316
Real estate investments, net	256,998	253,853
Interest receivables	3,760	5,619
	8,470,562	8,584,788
Other investments	40,944	42,030
Property and equipment, net	617,704	629,369
Accrued pension asset	14,133	1,486
Deferred charges and other	128,474	129,697
Total assets	$ 9,326,013	$ 9,530,645
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 53,676	$ 54,315
Current portion of notes payable	15,986	15,386
Settlement liability	-	7,500
Deferred income and other	20,870	24,398
Total current liabilities	90,532	101,599
Notes payable	271,498	303,733
Accrued postretirement benefits	67,667	64,745
Deferred income and other	167,227	172,822
Total liabilities	596,924	642,899
Commitments and contingencies		
Net assets – without donor restrictions	8,729,089	8,887,746
Total liabilities and net assets	$ 9,326,013	$ 9,530,645

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

Kamehameha Schools and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2020 and 2019
(All dollars in thousands)

	2020	2019
Operating revenues		
Tuition and fees (net of financial aid of $32,681 and $31,779 in 2020 and 2019, respectively)	$ 8,440	$ 9,594
Private gifts and other operating revenue	3,966	5,467
Investment earnings distributed from trust investments	471,056	381,848
Total operating revenues	483,462	396,909
Operating expenses		
Salaries and benefits	227,324	220,714
Professional fees and services	45,281	48,595
Depreciation	41,878	41,977
Scholarships	39,276	38,465
Community collaborations and grants	37,186	37,709
Interest, insurance, and utilities	26,352	28,191
Supplies, repairs & maintenance, and other expenses	47,227	51,842
Total operating expenses	464,524	467,493
Operating income (loss)	18,938	(70,584)
Non-operating activities		
Investment earnings distributed for current operations from trust investments	(471,056)	(381,848)
Financial investment gains, net	176,444	429,499
Real estate net income and gains	106,560	112,758
Other components of net periodic benefit credit (cost)	10,457	(13,671)
Change in net assets without donor restrictions from non-operating activities	(177,595)	146,738
Total change in net assets without donor restrictions	(158,657)	76,154
Net assets		
Beginning of year	8,887,746	8,811,592
End of year	$ 8,729,089	$ 8,887,746

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, 2020 and 2019
(All dollars in thousands)

	2020	2019
Cash flows from operating activities		
Change in net assets	$ (158,657)	$ 76,154
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	41,878	41,977
Non-operating depreciation and amortization	18,591	18,612
Net realized and unrealized gains on investments	(158,032)	(392,995)
Net gains on property transactions	(6,090)	(6,847)
Other components of net periodic benefit cost (credit)	(10,457)	13,671
Contribution to pension plan	-	(16,500)
Changes in operating assets and liabilities		
Receivables, net	(5,706)	18,641
Deferred charges and other	(973)	(1,021)
Accounts payable, accrued expenses and other liabilities	(9,029)	2,529
Settlement liability	(7,500)	(77,500)
Net cash used in operating activities	(295,975)	(323,279)
Cash flows from investing activities		
Proceeds from sales of investments	7,536,600	5,682,183
Purchases of investments	(7,229,077)	(5,447,545)
Proceeds from real estate transactions	10,814	6,901
Purchases of real estate	(21,866)	(12,092)
Purchases of property and equipment	(32,824)	(24,950)
Net cash provided by investing activities	263,647	204,497
Cash flows from financing activities		
Proceeds from borrowings	-	89,000
Repayment of borrowings	(31,636)	(14,786)
Net cash provided by (used in) financing activities	(31,636)	74,214
Net decrease in cash and cash equivalents	(63,964)	(44,568)
Cash and cash equivalents		
Beginning of year	103,110	147,678
End of year	$ 39,146	$ 103,110
Supplemental disclosure of cash flow information		
Income taxes paid	$ 339	$ 18
Interest paid	11,464	10,717

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. The campus-based programs include campuses on the islands of Oahu, Maui, and Hawaii which serve students from kindergarten through grade 12. Campus-based programs also include early education programs that are conducted in various facilities throughout the State. The Schools are also engaged in summer and outreach programs, educational partnerships and grants. As part of community programs, the Schools provide a significant amount of scholarships for early education, kindergarten through grade 12, and 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.

BHC is a taxable holding corporation with subsidiaries primarily involved in property investment. BHC consolidated financial statements 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")

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 $23.3 million and $22.9 million at June 30, 2020 and 2019, 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.

In 2020, the Organization elected to change the presentation of the consolidated statement of activities. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 958, *Not-for-Profit Entities*, the consolidated statement of activities classification of revenues and expenses, are further classified into operating and non-operating classes. This election has been applied retrospectively to the 2019 consolidated statement of activities to conform to the 2020 presentation. Such reclassifications had no impact on the 2019 change in net assets as previously reported.

The operating and non-operating presentation is a common method of presentation among similar private educational institutions and reflects the Organization's operational framework. Operating activities include income and expenses directly related to carrying out its educational mission and central administration expenses to support the Organization. Non-operating activities include net amounts from financial investments, real estate activities, and changes to long-term benefit plan obligations. Non-operating activities for financial investments include net amounts inclusive of external investment management fees and internal direct office costs. Non-operating activities for real estate activities include net amounts inclusive of internal direct office costs.

The consolidated statements of activities include investment earnings distributed from trust investments to fund the Organization for the respective fiscal year and is shown as a transfer from non-operating activities to operating revenue. Investment earnings distributed from trust investments is based on the annual designated portion of the Organization's investments to support operations. The annual distribution is determined in accordance with the Organization's investment and spend policies, which targets an annual spend as a percentage of the average fair value of the endowment over the prior 20 quarters. As intended, annual investment earnings distributed may be higher or lower compared to the annual financial investment and real estate gains for the year.

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.

Risks and Uncertainties
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.

In March 2020, the World Health Organization declared the outbreak of the coronavirus ("COVID-19") as a pandemic which remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Organization will depend on future developments. The duration of the disruption and its overall financial impact cannot be reasonably estimated.

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. There were no short-term investments as of June 30, 2020.

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 ("NAV") as a practical expedient. Investments in real estate are reported at the lower of cost or fair value.

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 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.

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, 2020 or 2019.

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. Tuition and fees revenue and financial aid are presented as net tuition and fees in the consolidated statement of activities.

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 charges 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.

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, 2020 and 2019, 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 changes in net assets without donor restrictions from non-operating activities, retirement plan related changes other than service cost.

Effective July 1, 2019, the Organization changed the method of accounting for the defined benefit pension and postretirement healthcare plans. The method of accounting is mark-to-market (“MTM”) accounting. Historically, the Organization amortized actuarial gains and losses, subject to a corridor, over a period of time into net periodic benefit cost.

The adoption of MTM accounting is a voluntary change in accounting principle that was adopted retrospectively. The immediate recognition of actuarial gains and losses under MTM accounting is a preferable method of accounting for the Organization as it simplifies the recognition of changes in the net funded status of the plans on the consolidated balance sheets. Periods presented have been reclassified to conform to the 2020 presentation. Such reclassifications had no impact on the 2019 change in net assets as previously reported.

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, 2020 and 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):

	2020	2019
Assets		
Approved investment earnings to distribute for current operations from trust investments for the following year	$ 471,500	$ 489,100
Cash and cash equivalents	39,146	103,110
Receivables, net	11,911	6,205
Short-term investments	-	31,035
Total assets available within one year	522,557	629,450
Liquidity resources		
Undrawn credit facilities	538,000	493,000
Total assets and resources available within one year	$ 1,060,557	$ 1,122,450

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. Approved investment earnings to distribute for current operations from trust investments for the following year represents the annual budgeted amount as approved by Trustees. The Organization has access to undrawn credit facilities to manage unanticipated liquidity needs.

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, 2019, the Organization adopted FASB Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which implements a framework for revenue recognition to recognize revenue in a manner which reflects the consideration to which the entity expects to be entitled in exchange for goods and services. The Organization adopted ASU No. 2014-09 using the full retrospective method. The adoption of ASU No. 2014-09 resulted in the net presentation of tuition and fees revenue and financial aid in the consolidated statements of activities. Prior year amounts have been reclassified to conform to the 2020 presentation. Such reclassifications had no impact on the 2019 change in net assets as previously reported.

Effective July 1, 2019, the Organization adopted FASB ASU No. 2016-01, *Financial Instruments – Overall*, which eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost.

Effective July 1, 2019, the Organization adopted FASB ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost,* which requires the service cost component of net periodic benefit cost for pension and postretirement benefits to be reported separately from other components of net periodic benefit cost. The service cost component is reported as a part of salaries and benefits expense in the statements of activities. ASU No. 2017-07 requires the other components of net periodic benefit cost to be presented in the consolidated statements of activities separately from the service cost component and outside a subtotal of changes in net assets from operations. The other components of net periodic benefit cost are reported in non-operating activities. The Organization used the practical expedient provided by ASU No. 2017-07 using amounts disclosed in the retirement plan note in the 2019 consolidated financial statements as the estimation basis for applying the retrospective requirements. Such reclassifications had no impact on the 2019 change in net assets as previously reported.

Subsequent Events
The Organization has reviewed all events that have occurred from July 1, 2020 through September 24, 2020, 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, 2020 and 2019 as follows (in thousands):

	2020	2019
Trust financial investments, net	$ 8,209,804	$ 8,325,316
Amounts receivable for securities sold	(344,933)	(131,058)
Amounts payable for securities purchased	6,018	15,244
Trust financial investments	7,870,889	8,209,502
Other investments	40,944	42,030
Amounts payable for other securities purchased	2,880	-
Total investments	$ 7,914,713	$ 8,251,532

	Level 1	Level 2	Level 3	Total
2020				
Common and preferred stocks	$ 32,171	$ -	$ -	$ 32,171
Fixed income				
U.S. government obligations	276,323	-	-	276,323
International government bonds	-	6,806	-	6,806
Other debt securities	-	215,207	-	215,207
Short-term investments and cash equivalents	145,274	19,349	-	164,623
Mutual funds	24,398	-	-	24,398
Illiquid real assets	-	-	38,632	38,632
Absolute return	-	-	19,810	19,810
Total investments at fair value	$ 478,166	$ 241,362	$ 58,442	777,970
Investments at NAV				7,136,743
Total investments				$ 7,914,713
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

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, 2020 and 2019 were as follows (in thousands):

	2020	2019
Equity	$ 4,667,661	$ 4,336,523
Absolute return	2,025,857	2,092,735
Real assets	443,225	583,634
Total investments at NAV	$ 7,136,743	$ 7,012,892

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, 2020 and 2019 were as follows (in thousands):

	Illiquid Real Assets	Absolute Return	Total
As of July 1, 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
Net realized and unrealized gains (losses) on investments	(19,265)	8,551	(10,714)
Purchases	1,505	6,667	8,172
Sales	(84)	(23,088)	(23,172)
As of June 30, 2020	$ 38,632	$ 19,810	$ 58,442
Change in unrealized losses relating to investments held at June 30, 2019	$ (10,199)	$ (7,356)	$ (17,555)
Change in unrealized gains (losses) relating to investments held at June 30, 2020	$ (28,890)	$ 6,529	$ (22,361)

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, 2020 and 2019 were as follows (in thousands):

	2020	2019
Interest and dividend income	$ 36,688	$ 49,100
Realized and unrealized gains, net of fees	139,756	380,399
Investment gains, net of investment fees	$ 176,444	$ 429,499

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, 2020 and 2019, and gains and losses for the years ended June 30, 2020 and 2019 (in thousands):

	Exposure Amounts	Derivative Assets	Derivative Liabilities	Net Gain / (Loss)
2020				
Equity futures contracts	$ (267,766)	$ -	$ (6,253)	$ 12,463
Fixed income futures contracts	-	-	-	1,216
Forward currency contracts	-	-	-	(9,114)
		$ -	$ (6,253)	$ 4,565
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)

4. Real Estate Investments

The Organization's trust real estate investments primarily consist of commercial and residential properties located in the State. At June 30, 2020 and 2019, the cost of real estate was as follows (in thousands):

	2020	2019
Land and land improvements	$ 65,063	$ 69,903
Buildings and improvements	365,529	358,400
Less: Accumulated depreciation	(213,496)	(201,451)
	217,096	226,852
Construction in progress	26,912	16,575
Investments in limited liability companies	12,990	10,426
Trust real estate, total at carrying value	$ 256,998	$ 253,853

The Organization co-invested in limited liability companies under the equity method during 2016 and 2019 and are included in trust 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.

At June 30, 2020 and 2019, the Organization's net income and gains from real estate investments and other real estate were as follows (in thousands):

	2020	2019
Rental revenue	$ 251,794	$ 242,874
Net gains on property sales	6,090	6,847
Other losses	(327)	(2,244)
Less: Rental expenses	(150,997)	(134,719)
Real estate net income and gains	$ 106,560	$ 112,758

5. Property and Equipment

Property and equipment, net, at June 30, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Educational property and equipment		
Land	$ 18,063	$ 18,063
Buildings, improvements and equipment	1,008,477	991,860
Less: Accumulated depreciation	(541,441)	(504,517)
	485,099	505,406
Non-educational property and equipment		
Land and land improvements	4,723	4,723
Buildings, improvements and equipment	122,820	119,795
Less: Accumulated depreciation and amortization	(79,630)	(75,124)
	47,913	49,394
Construction in progress	31,087	19,383
Educational and non-educational property and equipment, net	564,099	574,183
Other real estate		
Land and land improvements	32,012	32,012
Buildings, improvements and equipment	39,250	39,211
Less: Accumulated depreciation	(19,816)	(18,013)
	51,446	53,210
Construction in progress	2,159	1,976
Other real estate, total at carrying value	53,605	55,186
Property and equipment, net	$ 617,704	$ 629,369

Non-educational property and equipment are primarily comprised of assets used for central administration. Other real estate is primarily comprised of assets related to conservation and agriculture lands.

6. Receivables

Receivables, net, at June 30, 2020 and 2019 were as follows (in thousands):

	2020	2019
Tenant	$ 16,342	$ 7,916
Insurance	3,933	172
Tuition and other	1,677	3,053
	21,952	11,141
Less: Allowance for doubtful accounts	(10,041)	(4,936)
Receivables, net	$ 11,911	$ 6,205

7. Notes Payable

At June 30, 2020 and 2019, unsecured notes payable consisted of the following (in thousands except percentages):

	2020	2019
Senior promissory notes payable under a $250.0 million private shelf facility		
3.47%, payable through March 2042	$ 110,000	$ 115,000
3.37%, payable through December 2039	23,400	24,000
Senior promissory notes payable under a $450.0 million private shelf facility		
6.80%, payable through March 2027	6,667	7,619
4.88%, payable through June 2028	26,667	30,000
4.93%, payable through April 2029	17,000	20,000
3.85%, payable through January 2037	50,000	50,000
Term loan, variable		
1.12% and 3.39% at June 30, 2020 and 2019, respectively, payable through March 2022	5,000	7,500
Revolving credit facilities	48,750	65,000
Total notes payable	287,484	319,119
Less: Current portion	(15,986)	(15,386)
Long-term notes payable	$ 271,498	$ 303,733

In March 2017, the Schools entered into an uncommitted $250.0 million private shelf facility. Notes may be issued under this facility through March 2025, 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 ($0.07) million and $0.03 million as of June 30, 2020 and 2019, 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 operating revenue.

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 $120.0 million and $105.0 million at June 30, 2020 and 2019, respectively. 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 $48.8 million and $65.0 million at June 30, 2020 and 2019, respectively.

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,	
2021	$ 15,986
2022	14,986
2023	15,819
2024	15,819
2025	64,569
Thereafter	160,305
	$ 287,484

Interest expense incurred was $11.0 million and $11.2 million for the years ended June 30, 2020 and 2019, respectively.

8. Income Taxes

Total income tax expense (benefit) amounted to approximately $2.06 million and ($0.42) million for the years ended June 30, 2020 and 2019, respectively. These amounts are included in non-operating activities in the accompanying consolidated statements of activities.

The components of deferred tax assets and liabilities as of June 30, 2020 and 2019 were as follows (in thousands):

	2020	2019
Deferred tax assets		
Charitable contribution carryforwards	$ 66,548	$ 61,042
Net operating loss carryforwards	20,231	20,158
Passive activity loss carryforwards	58,185	46,798
Other	9,132	8,727
	154,096	136,725
Less: Valuation allowance	(153,667)	(136,021)
Net deferred taxes	$ 429	$ 704

The change in valuation allowance was an increase of $17.7 million and $9.1 million for the years ended June 30, 2020 and 2019, 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 $153.7 million and $136.0 million for the years ended June 30, 2020 and 2019, 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 $138.5 million available to carryforward indefinitely for federal and state tax purposes, charitable contribution carryforwards of $158.3 million and $159.1 million for federal and state tax purposes, respectively, expiring at various dates beginning in fiscal year 2020 through 2025, 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 $3.4 million available to carryforward indefinitely.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. Although several provisions of the CARES Act apply to the Organization, those provisions do not have a significant impact on the Organization's tax liability.

As of June 30, 2020 and 2019, 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, 2017 through 2020. State statute of limitations for various states remains open for the years ended June 30, 2017 through 2020.

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, 2020 and 2019 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2020 and 2019 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2020	**2019**	**2020**	**2019**
Change in projected benefit obligation ("PBO") and accumulated benefit obligation ("ABO")				
PBO/ABO at beginning of year	$ 400,652	$ 360,133	$ 64,745	$ 62,303
Service cost	-	-	2,202	2,355
Interest cost	14,285	15,786	2,329	2,783
Benefits paid	(20,872)	(19,689)	(1,470)	(1,653)
Actuarial (gains) losses	34,687	44,422	(139)	(1,043)
PBO/ABO at end of year	428,752	400,652	67,667	64,745
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	402,138	357,050	-	-
Actual return on plan assets	61,619	48,277	-	-
Employer contributions	-	16,500	1,470	1,653
Benefits paid	(20,872)	(19,689)	(1,470)	(1,653)
Fair value of plan assets at end of year	442,885	402,138	-	-
Funded status and recognized asset (liability)	$ 14,133	$ 1,486	$ (67,667)	$ (64,745)

The net periodic benefit cost (credit) consisted of the following for the years ended June 30, 2020 and 2019 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2020	**2019**	**2020**	**2019**
Service cost included in operating expenses	$ -	$ -	$ 2,202	$ 2,355
Other components of cost (credit)				
Interest cost	14,285	15,786	2,329	2,783
Expected return on plan assets	(15,813)	(13,740)	-	-
Actuarial (gains) losses	(11,119)	9,885	(139)	(1,043)
Other components of net periodic benefit cost (credit)	(12,647)	11,931	2,190	1,740
Net periodic benefit cost (credit)	$ (12,647)	$ 11,931	$ 4,392	$ 4,095

The assumptions used in the actuarial valuation at June 30, 2020 and 2019 were as follows:

	Pension Benefits		Postretirement Benefits	
	2020	**2019**	**2020**	**2019**
Weighted average assumptions				
Benefit obligation				
Discount rate	2.94%	3.67%	3.29%	3.96%
Net periodic benefit cost				
Discount rate	3.67%	4.34%	3.96%	4.48%
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, 2020 and 2019 were as follows:

	2020	2019
Healthcare cost trend rate assumed for the next year	4.45%	24.95%
Rate to which the cost trend rate is assumed (ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2029	2028

The fair value of the Organization's Pension Plan assets at June 30, 2020 and 2019 by asset category were as follows (in thousands):

	Fair Value Measurements at Reporting Date		
	Level 1	Level 2	Total
2020			
Cash and cash management funds	$ 1,871	$ 5,541	$ 7,412
Fixed income			
U.S. government obligations	73,568	-	73,568
Corporate debt	-	327,235	327,235
Other debt securities	-	40,096	40,096
Total investments	$ 75,439	$ 372,872	448,311
Amounts receivable for securities sold			7,686
Interest receivable			3,325
Amounts payable for securities purchased			(16,437)
Total plan assets			$ 442,885
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

The Organization has an investment strategy to reduce volatility of funded status and pension costs. For fiscal years 2020 and 2019, 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,		
2021	$ 20,739	$ 1,577
2022	21,166	1,647
2023	21,447	1,768
2024	21,678	1,892
2025	21,886	2,032
2026–2030	110,744	11,852
	$ 217,660	$ 20,768

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 2021. The Organization expects to contribute $1.6 million to its postretirement medical plan in 2021.

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, 2020 and 2019 amounted to approximately $16.7 million and $16.1 million, respectively.

10. Functional and Natural Classification of Expenses

Expenses are presented by functional classification in alignment with the Organization's operations. Central administration costs are separate from campus-based and community programs and include costs to support other non-educational operations. Operating expenses by function and nature incurred for the years ended June 30, 2020 and 2019 were as follows (in thousands):

	2020			
	Campus Based	Community Programs	Central Administration Costs	Total
Salaries and benefits	$ 137,785	$ 27,563	$ 61,976	$ 227,324
Professional fees and services	9,535	4,817	30,929	45,281
Depreciation	35,532	2,258	4,088	41,878
Scholarships	-	39,276	-	39,276
Community collaborations and grants	-	37,186	-	37,186
Interest, insurance, and utilities	7,509	511	18,332	26,352
Other expenses	29,414	6,816	10,997	47,227
Total operating expenses	$ 219,775	$ 118,427	$ 126,322	$ 464,524

	2019			
	Campus Based	Community Programs	Central Administration Costs	Total
Salaries and benefits	$ 133,118	$ 27,340	$ 60,256	$ 220,714
Professional fees and services	11,269	4,652	32,674	48,595
Depreciation	35,467	2,427	4,083	41,977
Scholarships	-	38,465	-	38,465
Community collaborations and grants	-	37,709	-	37,709
Interest, insurance, and utilities	7,428	464	20,299	28,191
Other expenses	29,079	8,862	13,901	51,842
Total operating expenses	$ 216,361	$ 119,919	$ 131,213	$ 467,493

11. Commitments and Contingencies

Rental Income

The majority of real estate investments are generally leased under long-term lease arrangements. At June 30, 2020, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Year ending June 30,	
2021	$ 135,911
2022	121,697
2023	111,971
2024	106,049
2025	96,931
Thereafter	1,896,610
	$ 2,469,169

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $10.9 million and $11.8 million for the years ended June 30, 2020 and 2019, respectively.

Capital Commitments
At June 30, 2020 and 2019, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $1.2 billion and $1.5 billion, respectively.

At June 30, 2020 and 2019, open construction, renovation, major repair, and other contracts amounted to $168 million and $134 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, of which $72.5 million was paid in fiscal year 2019 and the remaining $7.5 million was paid in fiscal year 2020.

In addition to the matters noted above, there are various claims and complaints against the Organization. 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, are not determinable.

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, 2020 and 2019, total Trustee compensation amounted to $879,000 and $880,000, respectively.

Supplementary Schedules

Kamehameha Schools and Subsidiaries
Schedules of Trust Spending
Years Ended June 30, 2020, 2019, 2018, 2017 and 2016
(All dollars in thousands) **Schedule 1**

	2020	2019	2018	2017	2016
Trust spending, net					
Campus-based programs					
Kapālama	$ 106,512	$ 104,243	$ 101,331	$ 93,418	$ 93,156
Hawai'i	44,017	44,880	41,279	38,483	37,883
Maui	37,190	36,745	36,081	32,425	32,363
Na Kūla Kamali'i	36,474	34,820	35,331	32,893	31,855
Community programs					
Community engagement	47,258	50,130	47,987	39,326	38,045
Community investments	36,804	35,310	30,984	25,639	20,484
Scholarships	38,737	37,755	32,528	30,134	29,220
Innovations	2,070	3,249	1,747	1,432	-
Central administration – education	34,317	33,123	29,810	23,349	19,100
Interest on debt	9,909	10,877	9,786	7,716	7,018
Settlements and other program expenditures	-	-	67,650	3,963	3,558
Base spending	393,288	391,132	434,514	328,778	312,682
Less: Tuition, fees and other educational income, net	(9,583)	(10,364)	(12,103)	(10,653)	(10,882)
Base distributions	383,705	380,768	422,411	318,125	301,800
Equipment	1,676	1,090	1,671	1,335	1,652
Information technology investment plan	4,855	6,617	8,312	5,518	4,042
Major repairs and capital projects	35,445	26,414	35,999	27,953	22,610
Debt financing	30,675	(51,041)	14,426	9,786	9,786
In-kind transactions	-	-	-	-	1,711
Total trust spending	$ 456,356	$ 363,848	$ 482,819	$ 362,717	$ 341,601
Average fair value of endowment	$ 11,340,561	$ 11,072,207	$ 10,655,968	$ 10,210,432	$ 9,807,128
Trust spending rate before debt financing	3.8%	3.7%	4.4%	3.5%	3.4%
Trust spending rate	4.0%	3.3%	4.5%	3.6%	3.5%

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, 2020.

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 programs costs represent direct and indirect costs of providing these programs. Central administration – education 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 KAPF with scholarships and financial aid programs and certain educational services that benefit the various campus-based and community programs. Central administration enterprise 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.

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, 2020 Schedule 2

	Value at June 30, 2020 (In Thousands)	One-Year Total Return %	Five-Year Total Return %	Ten-Year Total Return %	Since July 1, 1999 Total Return %
Hawaii Real Estate	$ 3,743,804	3.3	6.5	10.7	10.5
Hawaii Real Estate Composite Index		2.7	6.8	9.7	7.0
Developed Markets (Economic Value)	1,646,587	17.3	10.4	13.0	8.3
Developed Markets Composite Index		3.2	7.1	10.2	5.0
Emerging Markets	702,278	4.6	4.8	6.0	N/A
Emerging Markets Composite Index		-3.4	2.9	3.3	N/A
Private Equity	2,350,109	10.2	13.9	14.7	9.4
Private Equity Composite Index		4.9	10.5	11.8	10.8
Absolute Return	2,293,423	-3.8	2.0	4.2	N/A
Absolute Return Composite Index		0.1	1.4	2.8	N/A
Marketable Real Assets	342	-65.6	-24.5	-11.9	N/A
Marketable Real Assets Composite Index		-36.9	-10.6	-2.9	N/A
Illiquid Real Assets	481,585	-22.3	-4.1	2.5	13.6
Illiquid Real Assets Composite Index		-26.7	-4.1	1.1	4.3
Mainland Real Estate	36	NM	NM	NM	NM
Mainland Real Estate Benchmark		NM	NM	NM	NM
U.S. Fixed Income	244,820	10.7	4.2	3.7	5.3
Fixed Income Composite Index		10.8	4.3	3.8	5.2
Global Fixed Income	3,363	3.2	3.5	4.2	N/A
Global Fixed Income Index		4.6	3.7	2.4	N/A
Cash Equivalents (Economic Value)	538,059	1.2	1.0	0.4	1.8
Three-month U.S. Treasury Bill		1.6	1.2	0.6	1.8
Total endowment, net of fees and direct expenses	$ 12,004,406	2.5	5.4	8.2	8.1
Endowment Fund Composite Benchmark		1.0	4.8	7.0	5.5
Total Endowment Fund Long-Term Objective (CPI+5%)		5.6	6.6	6.7	7.1

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 approved benchmarks. 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, 2020, the Schools held U.S. equity short futures positions to achieve asset allocation targets. The notional value of the short positions were $277 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, 2020, market value was $1,923 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, 2020, market value of cash equivalents was $261 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.