Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Kamehameha Schools and Subsidiaries

Consolidated Financial Statements and Supplemental Schedules

June 30, 2008 and 2007

Quality Integrity Insight

Kamehameha Schools and Subsidiaries
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June 30, 2008 and 2007

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To Board of Trustees
Kamehameha Schools

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Kamehameha Schools and Subsidiaries (the "Organization") at June 30, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits for the years ended June 30, 2008 and 2007 were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 for the years ended June 30, 2008 and 2007 were presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 for the years ended June 30, 2006, 2005, and 2004 were audited by other auditors, whose report dated October 24, 2006 expressed an opinion that the schedules were fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Accuity LLP

Honolulu, Hawaii
October 22, 2008

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Kamehameha Schools and Subsidiaries
Consolidated Balance Sheets
June 30, 2008 and 2007
(All dollars In thousands)

	2008	2007
Assets		
Cash and cash equivalents	$ 91,450	$ 65,639
Investments	6,504,783	6,584,085
Amounts receivable for securities sold	33,034	133,636
Collateral received for loaned securities	252,009	643,621
Receivables, net	26,841	25,596
Property and equipment, net	847,874	802,168
Real estate held for development and sale	24,059	23,014
Deferred charges and other	96,358	93,159
Total assets	$ 7,876,408	$ 8,370,918
Liabilities and Net Assets		
Obligation to repay securities lending collateral	$ 252,009	$ 643,621
Notes payable	244,062	270,208
Amounts payable for securities purchased	61,976	88,295
Accounts payable and accrued expenses	79,332	72,930
Accrued pension liability	28,505	27,851
Accrued postretirement benefits	23,759	26,090
Deferred compensation payable	7,497	9,809
Deferred income and other	19,014	18,952
Total liabilities	716,154	1,157,756
Commitments and contingencies		
Net assets – unrestricted	7,160,254	7,213,162
Total liabilities and net assets	$ 7,876,408	$ 8,370,918

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

Kamehameha Schools and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2008 and 2007
(All dollars in thousands)

	2008	2007
Revenues, gains, and other support		
Tuition and fees	$ 25,152	$ 25,281
Less: Financial aid	(13,062)	(11,614)
Net tuition and fees	12,090	13,667
Net realized and unrealized gains on investments	21,839	1,010,413
Rental	194,452	190,622
Investment income, net	103,092	108,098
Net gains on property sales	35,373	81,340
Other	1,097	4,873
Total revenues, gains, and other support	367,943	1,409,013
Expenses		
Educational programs	235,002	215,986
Management and general		
Rental	119,413	105,349
Other	66,436	70,566
Total expenses	420,851	391,901
Change in net assets before adjustment to initially apply SFAS No. 158	(52,908)	1,017,112
Adjustment to initially apply SFAS No. 158	-	17,744
Change in net assets	(52,908)	1,034,856
Net assets		
Beginning of year	7,213,162	6,178,306
End of year	$ 7,160,254	$ 7,213,162

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, 2008 and 2007
(All dollars In thousands)

	2008	2007
Cash flows from operating activities		
Change in net assets	$ (52,908)	$ 1,034,856
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	38,614	38,245
Net realized and unrealized gains on investments	(21,839)	(1,010,413)
Net gains on property sales	(35,373)	(81,340)
Initial adoption of SFAS No. 158	-	(17,744)
Changes in operating assets and liabilities		
Receivables, net	(1,245)	(7,015)
Real estate held for development and sale	(1,483)	(1,464)
Deferred charges and other	(3,199)	(13,142)
Accounts payable, accrued expenses, and other liabilities	2,475	(9,749)
Other	-	(450)
Net cash used in operating activities	(74,958)	(68,216)
Cash flows from investing activities		
Proceeds from sales of property and equipment	34,404	88,905
Purchases of property and equipment	(82,913)	(89,553)
Proceeds from sales of investments	4,286,969	10,186,916
Purchases of investments	(4,111,545)	(10,130,099)
Net cash provided by investing activities	126,915	56,169
Cash flows from financing activities		
Proceeds from borrowings	-	40,000
Repayment of borrowings	(26,146)	(12,812)
Net cash provided by (used in) financing activities	(26,146)	27,188
Net increase in cash and cash equivalents	25,811	15,141
Cash and cash equivalents		
Beginning of year	65,639	50,498
End of year	$ 91,450	$ 65,639
Supplemental disclosure of cash flow information		
Income taxes paid	$ 1,933	$ 4,945
Interest paid	$ 14,469	$ 11,875
Supplemental disclosure of noncash financing activities		
Donation of artwork	$ -	$ 450

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 for students of Hawaiian ancestry, including early education, campus-based programs, and other extension and 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 that are intended to provide educational opportunities to a greater population of students of Hawaiian ancestry. In addition, the Schools provide a significant amount of scholarships for post-secondary education.

Principles of Consolidation

The consolidated financial statements of Kamehameha Schools and Subsidiaries (the "Organization") include the accounts of the Schools, Bishop Holdings Corporation and its Subsidiaries ("BHC"), Ke Ali'i Pauahi Foundation ("KAPF"), and Newport Kohala, LLC and Bishop Financial Limited.

The consolidated financial statements of BHC include the accounts of:

- Pauahi Management Corporation ("PMC") and its wholly-owned subsidiaries – KDP Limited; KBH, Inc.; Lake Manassas Limited Liability Company; RTJ Limited Liability Company (dissolved in 2008); and Paradise Petroleum, Inc. dba Ali'i Petroleum.

- P&C Insurance Company, Inc.

- Kamehameha Investment Corporation and its wholly-owned subsidiaries – Keauhou Community Services, Inc.; Paki, Inc.; Keauhou Resort Development Corporation (dissolved in 2008); KIC Development Venture LLC ("KDV") (created in 2008); and Keauhou Kona Resort Company. The accounts of KDV include its investment in a variable interest entity ("VIE") as defined by Financial Accounting Standards Board Interpretation No. 46(R): Consolidation of Variable Interest Entities ("FIN 46(R)").

Bishop Holdings Corporation is a taxable holding corporation with subsidiaries primarily involved in property investment and management, the development and sale of real estate and investments in equity and debt instruments. Bishop Holdings Corporation also has a captive insurance company, providing property and liability coverage for the Schools and its affiliates.

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

In addition, under accounting principles generally accepted in the United States of America ("GAAP"), certain investments may be considered as entities for consolidation should they meet specified criteria. Newport Kohala, LLC and Bishop Financial Limited met these criteria as they both have a specific purpose and are managed by an independent investment management firm. Newport Kohala, LLC was terminated in December 2007.

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 temporarily and permanently restricted net assets amounted to approximately $10.0 million at June 30, 2008 and 2007. As the amounts are not significant, all net assets of the Organization and changes therein are classified and reported as unrestricted net assets.

Use of Estimates
The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Concentration of Credit 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.

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, and an investment company. Cash balances are maintained in excess of depository institution insurance limits. Cash equivalents held by external investment managers are classified as investments in the consolidated balance sheets and are not included in cash and cash equivalents.

Investments
Marketable Debt and Equity Securities – The Schools and KAPF
Investments in marketable debt and equity securities are reported at fair value based on quoted market prices. Unrealized gains and losses are included in the change in net assets.

The Schools may use derivative instruments for risk hedging and value-added strategies. Derivative financial instruments primarily include currency forward contracts, financial futures, and a swap contract and are recorded at fair value with the resulting gain or loss included in the change in net assets.

Marketable Debt and Equity Securities – BHC
Investments in marketable debt and equity securities are considered available for sale and reported at fair value, based on quoted market prices. Unrealized gains and losses are included in the change in net assets. Realized gains and losses on the disposition of marketable debt and equity securities are calculated using the cost method.

Other Investments – The Schools
Other investments are reported at fair value and include limited partnerships, hedge funds, commingled funds and other equity securities that do not have a readily determinable fair value.

Other investments are generally reported at fair value based on information provided by the respective external investment managers at the most recent valuation date and adjusted for cash flows from the valuation date to fiscal year end, if applicable. These valuations involve assumptions and methods that are reviewed by management. Because other 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. Unrealized gains and losses on other investments are included in the change in net assets. In addition, certain other investments contain lock up periods where capital contributions may not be readily distributed.

Receivables
Notes receivable are recognized from the sale of residential leasehold lots to lessees under the single-family and multi-family residential land sales program and mortgage agreements from the sale of real estate to developers. The residential leasehold interests were sold under various collateralized financing arrangements with 12 to 15 year terms and monthly payments of both principal and interest or interest only. Annual interest rates range from 7% to 10% with a weighted average interest rate of approximately 7% at June 30, 2008 and 2007. The sale of leasehold lots under the financing arrangements is accounted for using the cost-recovery method whereby no profit is recognized until cash payments are received.

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

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

The Organization reviews its long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists for an asset held for use when the cash flows expected to be generated by an asset are less than the carrying amount. Measurement of the impairment loss is based on the fair value of the asset. No impairment losses were recorded for the years ended June 30, 2008 and 2007.

Real Estate Held for Development and Sale
Real estate assets held for development and sale include land acquisition and holding costs, site development, construction, and other project-related costs. The Organization capitalizes development costs as required by Statement of Financial Accounting Standards ("SFAS") No. 67, *Accounting for Costs and Initial Rental Operation of Real Estate Projects*. Interest costs related to the development of real estate property are capitalized in accordance with SFAS No. 34, *Capitalization of Interest Costs*.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* management uses estimated expected future net cash flows (undiscounted and excluding interest costs) to measure the recoverability of real estate assets held for development. The recoverability of real estate assets held for sale is determined by comparing appraised value or the net present value of the estimated expected future cash flows (using a discount rate commensurate with the risks involved) to the carrying amount of the asset. The estimate of expected future net cash flows is inherently uncertain and relies to a considerable extent on assumptions regarding current and future economic conditions. If in future periods, there are changes in estimates or assumptions, the changes could result in an adjustment to the carrying amount of real estate. No impairment losses were recognized in 2008 and 2007.

Vacation

Professional teaching employees are employed under one-year contracts for school years ending in mid-August. School years comprise a "teaching period" from mid-August to mid-June and a "professional improvement period" for the balance of the year. Vacations for these employees are provided during the professional improvement period.

Substantially all the Schools' employees, except for professional teaching employees, earn vacation benefits and are entitled to receive payments for unused vacation benefits based upon their regular salary at the time of their termination of employment.

Revenue Recognition

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 collectibility of the note is reasonably assured, the risks and rewards of ownership have been transferred to the buyer, and there is no substantial continuing involvement with the property. If any of the aforementioned criteria are not met, the profit is deferred and recognized under either the installment, cost recovery, deposit, or percentage-of-completion methods. Costs are charged to cost of sales on the basis of the relative sales value of the units sold to the total sales value of all units in the project.

Lease rental income is recognized on a straight-line basis ratably over the fixed term of the respective leases.

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

In June 2006, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation).* The EITF requires companies to disclose their method of accounting for taxes collected from customers and remitted to government agencies. The Schools present such taxes on a gross basis in its consolidated statement of activities. For the years ended June 30, 2008 and 2007, the Schools collected and remitted $40.9 million and $34.5 million in taxes, respectively.

Income Taxes

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

Income taxes for BHC are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. BHC utilizes the percentage method of allocating its consolidated tax liability among its subsidiaries.

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.

Pension Obligation
On June 30, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 requires the recognition of the difference between the benefit obligation and fair value of plan assets on the consolidated balance sheet. In addition, the Company is required to recognize, as part of unrestricted net assets, the gains and losses due to differences between actuarial assumptions and actual experience and any effects on prior service due to plan amendments that arise during the period which are not yet recognized as net periodic benefit costs.

The following table summarizes the incremental effects of the initial adoption of SFAS No. 158 on the consolidated balance sheet at June 30, 2007 (in thousands):

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Accrued pension liability	$ 46,580	$ (18,729)	$ 27,851
Accrued postretirement benefits	25,105	985	26,090
Total liabilities	1,175,500	(17,744)	1,157,756
Total net assets – unrestricted	7,195,418	17,744	7,213,162

New Accounting Standards
In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements*, effective for financial statements issued for years beginning after November 15, 2007. On November 14, 2007, FASB agreed to defer the effective date of SFAS No. 157 for one year for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The statement will be effective for the Organization's fiscal year ending June 30, 2009, and management is currently reviewing the potential impact of this standard on the consolidated financial statements.

In June 2006, FASB issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes,* which clarifies and provides guidance on the accounting for uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The interpretation is currently effective for the Organization's fiscal year ending June 30, 2009; however, FASB has recently proposed another one year deferral of FIN 48's effective date. The deferral will be issued as a proposed FASB Staff Position ("FSP") subject to a public comment period. Management is currently reviewing the potential impact of this standard on the consolidated financial statements.

In May 2007, FASB issued FSP FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48.* This FSP amends FIN 48 and provides guidance on the determination of whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The FSP will be effective with the Organization's initial adoption of FIN 48.

In March 2008, FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement 133*, effective for financial statements issued for years beginning after November 15, 2008. SFAS No. 161 enhances required disclosures regarding derivatives and hedging activities, including disclosures regarding how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivatives Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The statement will be effective for the Organization's fiscal year ending June 30, 2010, and management is currently reviewing the potential impact of this standard on the consolidated financial statements.

2. Investments

A summary of investments, at fair value, at June 30, 2008 and 2007 is as follows (in thousands):

	2008	2007
Marketable debt and equity securities		
Common and preferred stocks	$ 1,761,350	$ 2,076,909
Fixed income	846,812	930,659
Mutual funds	211,988	453,280
Short-term investments and cash equivalents	115,393	121,094
Other investments		
Hedge funds	2,214,456	1,722,013
Commingled funds	628,967	756,400
Private equity funds	636,712	393,385
Other, including direct financing lease	89,105	130,345
	$ 6,504,783	$ 6,584,085

The School'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 mutual funds. These investments pose no off-balance sheet risk to the Schools due to the limited liability structure of the investments.

Investment income for the years ended June 30, 2008 and 2007 was as follows (in thousands):

	2008	2007
Interest and dividend income	$ 131,156	$ 129,819
Management fees	(28,064)	(21,721)
	$ 103,092	$ 108,098

Securities Lending

The Schools participate in a securities lending program administered by its custodian bank. Under the program, certain equity and fixed income securities of the Schools were lent to participating financial institutions in exchange for collateral which is marked to market daily. Borrowers are required to deliver collateral equal to a minimum of 102% of the securities loaned. As of June 30, 2008 and 2007, the Schools had limited credit exposure to borrowers because the fair value of collateral held by the Schools exceeded the fair value of securities loaned. As of June 30, 2008 and 2007, the fair value of securities loaned amounted to $241.7 million and $630.5 million, respectively, and the associated collateral, comprised primarily of money market funds, amounted to $252.0 million and $643.6 million, respectively.

Direct Financing Lease
BHC held a 40-year lease for a golf course facility located in Virginia, which had been accounted for as a direct financing lease. In 2008, BHC sold the golf course back to the golf club and recognized a loss of approximately $11.3 million.

At June 30, 2007, the net investment in the lease was composed of the following (in thousands):

Total minimum lease payments to be received	$	72,867
Less: unearned finance charges		(34,829)
Net investment	$	38,038

In addition to fixed minimum rentals, the lease agreement provided for a percentage rental, which was determined based on adjusted gross revenue of the golf club. In January 2004, the Company waived the percentage rent for the calendar years 2004 through 2008 contingent upon the golf club funding certain capital improvements. Accordingly, there was no percentage rent for the years ended June 30, 2008 and 2007.

3. Receivables

Receivables, net, at June 30, 2008 and 2007 were as follows (in thousands):

		2008		2007
Note agreements	$	15,627	$	12,765
Less: Deferred profit on note agreements		(15,627)		(12,765)
		-		-
Interest		16,105		16,187
Trade		3,573		2,963
Tenant and tuition		8,612		6,978
Other		3,080		3,081
		31,370		29,209
Less: Allowance for doubtful accounts		(4,529)		(3,613)
	$	26,841	$	25,596

4. Property and Equipment

Property and equipment, net, at June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Educational property and equipment		
Land	$ 16,201	$ 16,201
Buildings, improvements and equipment	689,789	649,998
Less: Accumulated depreciation	(193,360)	(171,287)
	512,630	494,912
All other property and equipment		
Land and land improvements	67,728	63,987
Buildings, improvements and equipment	370,550	340,625
Less: Accumulated depreciation and amortization	(214,163)	(201,049)
	224,115	203,563
Construction in progress	111,129	103,693
	$ 847,874	$ 802,168

Depreciation and amortization expense amounted to approximately $38.6 million and $38.2 million for the years ended June 30, 2008 and 2007, respectively.

Net gains on property sales for the years ended June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Property sales	$ 35,811	$ 88,905
Less: Cost of property sales	(438)	(7,565)
Net gains on property sales	$ 35,373	$ 81,340

5. Notes Payable

At June 30, 2008 and 2007, unsecured notes payable consisted of the following (columns in thousands):

	2008	2007
Senior promissory notes payable at the rate of 6.89% per annum with annual principal payments of $11.9 million beginning on June 22, 2004, with final payment on June 22, 2013. The note agreement contains certain restrictions on assumption of additional debt and requires maintenance of a minimum endowment value and a certain liquidity ratio	$ 59,300	$ 71,160
Senior promissory notes payable under a $150.0 million private shelf facility. The note agreement contains certain restrictions and requires maintenance of a minimum endowment value and a certain liquidity ratio:		
Interest rate of 6.80% per annum with annual principal payments of $952,000 beginning on March 1, 2007, with final payment on March 1, 2027	18,095	19,048
Interest rate of 4.88% per annum with annual principal payments of $3,333,000 beginning on June 10, 2008, with final payment on June 10, 2028	66,667	70,000
Interest rate of 4.93% per annum with annual principal payments of $4,000,000 beginning on April 14, 2009, $3,000,000 beginning on April 14, 2016, $2,000,000 beginning on April 14, 2022, and $1,000,000 beginning on April 14, 2028, with final payment due on April 14, 2029	60,000	60,000
Senior promissory notes payable under a $200.0 million private shelf facility at a rate of 5.15% per annum with annual principal payments of $10,000,000 beginning on March 1, 2008, with the final payment on March 1, 2012. The note agreement contains certain restrictions and requires maintenance of a minimum endowment value and a certain liquidity ratio	40,000	50,000
	$ 244,062	$ 270,208

In November 2007, the Schools entered into a $200 million uncommitted private shelf facility. Notes may be issued under this facility through June 2012 at interest rates determined at the time of issuance. As of June 30, 2008, the Schools did not draw upon the uncommitted private shelf facility.

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

Year ending June 30,	
2009	$ 30,145
2010	30,145
2011	30,145
2012	30,145
2013	20,145
Thereafter	103,337
	$ 244,062

Interest expense incurred for the years ended June 30, 2008 and 2007 is summarized as follows (in thousands):

	2008	**2007**
Interest expense incurred	$ 15,027	$ 15,401
Less: Interest expense capitalized	(781)	(2,886)
Interest expense	$ 14,246	$ 12,515

6. Income Taxes

Total income tax benefit amounted to approximately $4.6 million and $10.7 million for the years ended June 30, 2008 and 2007, respectively. These amounts are included in other management and general expenses in the accompanying consolidated statement of activities.

The components of deferred tax assets and liabilities as of June 30, 2008 and 2007 were as follows (in thousands):

	2008	**2007**
Deferred tax assets		
Difference in basis of investments and real estate	$ 16,821	$ 17,468
Capital loss carryforwards	3,685	-
Passive activity loss carryforwards	8,167	6,847
Net operating loss carryforwards	4,234	704
Other	5,476	5,248
	38,383	30,267
Less: Valuation allowance	(29,229)	(22,428)
	9,154	7,839
Deferred tax liabilities		
Tax over book depreciation	(2,432)	(2,239)
Other	(220)	-
	(2,652)	(2,239)
Net deferred taxes	$ 6,502	$ 5,600

The change in valuation allowance was an increase of $7.0 million and a decrease of $3.0 million for the years ended June 30, 2008 and 2007, 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 realize these deductible differences, net of the existing valuation allowance at June 30, 2008 and 2007. 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 $20.8 million available to carry forward indefinitely for federal and state tax purposes and has net operating losses of $10.8 million expiring at various dates beginning in 2026 through 2028 and capital loss carryforwards of $10.5 million expiring in 2013.

In fiscal year 2008 the Organization reduced its previously accrued tax reserves by $2.7 million. The reserve related to potential income tax liabilities for prior years unrelated business taxable income from sources within states other than Hawaii. As a result of Voluntary Disclosure Agreements reached between the Organization and those respective states, the potential tax liabilities have either been substantially eliminated or settled and the Organization has adjusted its tax reserves accordingly.

In fiscal year 2007, the State settled for $3.8 million (taxes, penalties, and interest included) with respect to the examinations of the Schools and Kamehameha Activities Association ("KAA") for the years ended June 30, 1992 through 1996, and the State of New York settled for $250,000 (taxes, penalties, and interest included) with respect to the examination of KAA for the year ended June 30, 1999.

As of June 30, 2008 and 2007, 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, 2005 through 2008.

7. Pension and Other Postretirement Benefits

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

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

The following table reconciles the changes to the benefit obligations and plan assets for the years ended June 30, 2008 and 2007 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2008 and 2007 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2008	**2007**	**2008**	**2007**
Change in benefit obligation				
Benefit obligation at beginning of year	$ 221,395	$ 206,636	$ 26,090	$ 23,863
Service cost	10,219	9,469	1,073	1,075
Interest cost	13,679	12,741	1,466	1,462
Benefits paid	(8,499)	(7,644)	(986)	(970)
Actuarial (gains) losses	(14,236)	592	(3,884)	660
Other	(361)	(399)	-	-
Benefit obligation at end of year	222,197	221,395	23,759	26,090
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	193,544	160,023	-	-
Actual return on plan assets	75	30,436	-	-
Employer contributions	8,933	11,128	986	970
Benefits paid	(8,499)	(7,644)	(986)	(970)
Other	(361)	(399)	-	-
Fair value of plan assets at end of year	193,692	193,544	-	-
Net amount recognized	$ (28,505)	$ (27,851)	$ (23,759)	$ (26,090)

The accumulated benefit obligation for the pension plan was $182.7 million and $180.3 million at June 30, 2008 and 2007, respectively.

The net periodic benefit cost consisted of the following for the years ended June 30, 2008 and 2007 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2008	**2007**	**2008**	**2007**
Service cost	$ 10,219	$ 9,469	$ 1,073	$ 1,075
Interest cost	13,679	12,741	1,466	1,462
Expected return on plan assets	(14,669)	(12,835)	-	-
Amortization of prior service cost	419	501	73	73
Net periodic benefit cost	$ 9,648	$ 9,876	$ 2,612	$ 2,610

Actuarial losses (gains) and prior service cost arising during the year and amounts amortized into net periodic benefit cost at June 30, 2008 are as follows (in thousands):

	Pension Benefits	Postretirement Benefits
Actuarial losses (gains) arising during the year	$ 339	$ (3,885)
Prior service costs reclassified as a component of net periodic benefit cost	(419)	(73)
Change in amounts not yet recognized as net periodic benefit cost	$ (80)	$ (3,958)

The prior service cost and actuarial losses (gains) that have not yet been recognized as components of net periodic benefit cost at June 30, 2008 and 2007 are as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2008	**2007**	**2008**	**2007**
Actuarial losses (gains)	$ (21,049)	$ (21,407)	$ (3,190)	$ 694
Prior service cost	2,259	2,678	217	291
Amounts not yet recognized as net periodic benefit cost	$ (18,790)	$ (18,729)	$ (2,973)	$ 985

The estimated prior service cost expected to be amortized into net periodic benefit cost in 2009 is $419,000 for the pension plan. No actuarial gains related to the pension plan are expected to be amortized into net periodic benefit cost in 2009. The estimated actuarial gains and prior service cost expected to be amortized into net periodic benefit cost in 2009 are $55,000 and $43,000, respectively, for the postretirement plan.

	Pension Benefits		Postretirement Benefits	
	2008	**2007**	**2008**	**2007**
Weighted average assumptions				
Benefit obligation				
Discount rate	6.75%	6.25%	6.75%	6.25%
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	4.80%	4.80%	N/A	N/A
Net periodic benefit cost				
Discount rate	6.25%	6.25%	6.25%	6.25%
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	4.80%	4.80%	N/A	N/A

The Schools' overall expected long-term rate of return on plan assets is 8.5%. The expected long-term rate of return on plan assets was projected by the plan's investment consultants based on strategies outlined in the portfolios policies and guidelines.

The assumed healthcare cost trend rates at June 30, 2008 and 2007 were as follows:

	2008	**2007**
Healthcare cost trend rate assumed for the next year		
Medical benefits	9.00%	9.00%
Drug benefits	9.00%	11.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2015	2014

The weighted average and target asset allocation of the Organization's pension plan assets is as follows:

	Pension Plan Assets at June 30	Targeted	
		Allocation	**Range**
Asset category			
2008			
Equity securities	48.0 %	47.0 %	25.0 – 65.0%
Alternative investments	24.0 %	17.0 %	10.0 – 30.0%
Debt securities	23.0 %	25.0 %	15.0 – 40.0%
Inflation hedging assets	5.0 %	11.0 %	8.0 – 25.0%
	100.0 %	100.0 %	
2007			
Equity securities	62.0 %	60.0 %	47.5 – 72.5%
Debt securities	29.0 %	35.0 %	22.5 – 50.0%
Real estate	9.0 %	5.0 %	2.5 – 10.0%
	100.0 %	100.0 %	

The investment goals for defined benefit pension plan assets are to maximize returns subject to specific risk management policies. The risk management policies permit investments in debt and equity securities, real estate and other inflation-hedging assets. Readily marketable securities are utilized to pay benefit obligations as they become due.

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

Year ending June 30	**Pension Benefits**	**Postretirement Benefits**
2009	$ 10,200	$ 1,046
2010	10,735	1,101
2011	11,537	1,181
2012	12,238	1,244
2013	13,170	1,321
2014–2018	80,329	7,764
	$ 138,209	$ 13,657

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

The Organization expects to contribute $2.2 million to their pension plan in 2009. The Organization does not expect to make any contributions to their postretirement medical plan in 2009.

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

The Organization makes matching contributions to the 401(k) plan up to a maximum 3% of employee pretax earnings. Participants are immediately and fully vested in the Schools' contribution. Contributions to the 401(k) plan for the years ended June 30, 2008 and 2007 amounted to approximately $2.7 million and $2.4 million, respectively.

8. Deferred Compensation Plan

On January 1, 1976, the Schools adopted a deferred compensation plan that allowed employees and others who perform services for the Schools under contract to defer compensation earned. Individual accounts are maintained for each participant and earnings are computed on the basis of alternative investment programs available. The liability has been fully funded and investments are included in investments in the consolidated balance sheets.

9. Fair Value of Financial Instruments

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

- **Cash and cash equivalents, amounts receivable for securities sold, amounts payable for securities purchased, collateral received for loaned securities, obligation to repay securities lending collateral, and accounts payable and accrued expenses:** The carrying amounts approximate fair value because of the short maturity of these instruments.

- **Investments:** The fair value of marketable debt and equity securities is based on quoted market prices, and if applicable, discounted for time restrictions. Different techniques and many factors were considered in estimating the fair value of other investments. Several investments have been valued based on the underlying asset value.

- **Receivables, net:** The fair value of note agreements and mortgage notes is valued at the present value of expected future cash flows discounted at an interest rate commensurate with the risk associated with the respective receivables. The carrying value of interest and other receivables approximates fair value because of the short maturity of these instruments.

- **Notes payable:** 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 following table presents the Organization's financial instruments with carrying amounts that differ from estimated fair values at June 30, 2008 and 2007 (in thousands):

	2008		2007	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Receivables, net	$ 26,841	$ 41,611	$ 25,596	$ 36,750
Notes payable	244,062	242,139	270,208	260,430

10. Commitments and Contingencies

Rental Income

The majority of land and buildings are generally leased under long-term lease arrangements. At June 30, 2008, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Year ending June 30,	
2009	$ 115,928
2010	106,142
2011	97,870
2012	91,971
2013	79,669
Thereafter	1,002,605
	$ 1,494,185

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $12.5 million and $14.4 million for each of the years ended June 30, 2008 and 2007, respectively.

Capital Commitments

At June 30, 2008 and 2007, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $618 million and $565 million, respectively.

At June 30, 2008 and 2007, open construction, renovation, major repair and other contracts amounted to $37 million and $59 million, respectively.

Litigation

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

Trustee Matters

The Trustees receive an annual retainer of $30,000, payable monthly, and will receive a meeting fee of $1,500 per meeting, except for the chairperson, who will receive $2,000 per meeting. On January 23, 2004, the Court approved increasing the maximum number of meetings from 45 to 90 during a 12-month period. The Trustees elected to waive compensation for meetings in excess of 45 during the calendar years 2004 through 2008. For the years ended June 30, 2008 and 2007, total Trustee compensation amounted to $514,500 and $521,500, respectively.

11. Variable Interest Entity

The Organization continues its strategic master plan (the "Plan") for the economic, educational and cultural development of the Keauhou Resort Community. The Plan includes the development, construction and eventual sale of a portion of the property, as well as the intention to honor the cultural, archaeological, educational and historical heritage of the region. In moving forward with the Plan, the Organization created KDV in 2008, and had KDV enter into an agreement with Brookfield Keauhou LLC ("Brookfield") to create a limited liability company named Keauhou Resort Development Venture LLC ("KRDV"). KRDV created two subsidiaries, Keauhou Resort Development Venture One LLC ("DV 1") and Keauhou Resort Development Venture Two LLC ("DV

2"). Terms of the limited liability company agreement call for the Organization to provide a large economic investment through several contributory and rental agreements. Due to the disproportionate voting rights relative to each entity's contributions expected to be made and the disproportionate rights and obligations to receive or absorb expected residual returns or losses relative to each entity's interest in KRDV, KRDV is considered to be a variable interest entity. As of June 30, 2008, no capital contributions were made, and all accounts of KRDV were zero. The Organization intends to evaluate whether it is the primary beneficiary of KRDV once initial capital contributions have been made, and will continue its evaluation on an ongoing basis to determine whether consolidation of KRDV is appropriate.

12. Subsequent Events

In July 2008, KIC contributed land to KDV for its initial capital contribution to KRDV. The total land contributed by KDV consisted of entitled land which was further contributed into DV 1 and partially entitled land which was further contributed into DV 2. Certain cash contributions have also been made by Brookfield in conjunction with a capital call from KRDV.

Subsequent to June 30, 2008, financial markets have continued to experience difficult conditions that have had an impact to the value of the Organization's investments. There are no adjustments stemming from the current market environment on the consolidated financial statements as of June 30, 2008. Management continues to assess the impact of these market conditions.

Supplemental Schedules

Kamehameha Schools and Subsidiaries
Schedules of Trust Spending
Years Ended June 30, 2008, 2007, 2006, 2005 and 2004
(All dollars In thousands) **Schedule 1**

	2008	2007	2006	2005	2004
Trust spending, net					
Campus-based programs					
Kapalama	$ 76,788	$ 74,124	$ 75,342	$ 74,931	$ 75,871
Hawaii	25,814	25,805	24,509	22,400	20,806
Maui	26,798	24,636	24,253	20,286	18,559
Outreach programs					
Community Education (includes funding for Ho'okako'o, a not-for-profit organization, of $2,858, $1,850, $2,517, $790 and $1,327 for the years ended June 30, 2008, 2007, 2006, 2005 and 2004, respectively)	59,546	59,112	42,674	36,793	35,115
Scholarships	22,197	17,899	14,662	15,650	16,176
Educational support services	9,210	10,495	8,372	5,821	4,716
Ke Ali'i Pauahi Foundation	244	451	559	378	730
Other program expenditures	6,422	8,999	8,654	9,845	10,948
Base spending	227,019	221,521	199,025	186,104	182,921
Less: Tuition, fees and other educational income, net	(12,076)	(13,614)	(12,978)	(10,313)	(7,787)
Base distributions	214,943	207,907	186,047	175,791	175,134
Information technology investment plan	12,276	4,002	-	-	-
Major repairs	7,878	10,427	4,341	5,738	5,529
Capital projects	26,102	20,689	18,060	36,995	90,618
Interest on debt	7,669	7,734	7,335	7,734	4,776
Debt financing of capital projects	4,286	952	-	-	(60,000)
In-kind transactions	251	1,500	-	-	-
Total trust spending before reserve activity	273,405	253,211	215,783	226,258	216,057
Reserve activity – operating, net	-	(3,000)	5,000	(3,800)	4,500
Total trust spending	$ 273,405	$ 250,211	$ 220,783	$ 222,458	$ 220,557
Average fair value of Endowment	$ 6,690,039	$ 6,136,107	$ 5,803,821	$ 5,614,498	$ 5,461,640
Trust spending rate before reserve activity	4.1%	4.1%	3.7%	4.0%	4.0%
Trust spending rate	4.1%	4.1%	3.8%	4.0%	4.0%

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 their Endowment to support its educational purpose. 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 schedule is prepared on a cash basis and presents the total distributions made from the Endowment to fund educational programs (trust spending) by major program and activity. It also presents the trust spending rates for five fiscal years through June 30, 2008.

Reclassification

Certain balances in the 2007 schedule of trust spending have been reclassified to conform to the 2008 presentation. Such reclassifications had no effect on the 2004 through 2006 schedules of trust spending or the total 2007 trust spending as previously reported.

2. Trust Spending and Trust Spending Rate

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

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

3. Endowment and Average Fair Value of the Endowment

The Endowment consists of all consolidated investment assets of the Schools except agriculture and conservation lands and reserve funds as defined in the Schools' investment policy. The average fair value of the Endowment is initially based on the average of the five prior fiscal June 30 year-end fair values and over time will be based on the average of the prior 20-quarter-end fair values. Accordingly, the trust spending rates for the years ended June 30, 2008, 2007, 2006, 2005 and 2004 are based on the estimated average fair values over the last five fiscal years utilizing the respective year-end and/or quarter-end values. The fair values for these fiscal years were based primarily on internal and external appraisals, to the extent available, and tax assessed values for the Hawaii real estate assets and the fair value of the other Endowment assets as reported in the audited consolidated financial statements for these fiscal years, net of any associated debt.

Kamehameha Schools and Subsidiaries
Schedules of Total Return
June 30, 2008 — Schedule 2

	Fair Value at June 30, 2008 (In Thousands)	One-Year Total Return %	Three-Year Total Return %	Five-Year Total Return %	Since July 1, 1999 Total Return %
Hawaii real estate	$ 3,015,281	23.3	28.1	21.9	13.6
CPI+5%		10.0	9.0	8.6	8.2
U.S. equity	1,214,145	-12.8	5.3	9.2	6.1
Russell 3000		-12.7	4.7	8.4	1.8
Non-U.S. equity	1,239,358	-8.0	12.9	16.3	9.2
MSCI EAFE net		-10.6	12.8	16.7	5.6
Emerging markets	537,948	1.7	27.2	29.8	N/A
Emerging Markets Composite		4.6	25.7	27.5	N/A
U.S. Fixed Income	637,330	11.5	5.4	5.1	6.7
U.S. Fixed Income Composite		11.3	5.3	4.6	6.4
Global Fixed Income	165,422	N/A	N/A	N/A	N/A
Citigroup World Government		N/A	N/A	N/A	N/A
Cash equivalents	17	3.2	4.7	3.5	3.7
Three-month U.S. Treasury Bill		3.6	4.3	3.2	3.5
Venture and private equity	491,111	11.6	17.4	19.6	6.6
Venture and Private Equity Long-Term Objective		13.8	12.8	12.6	12.7
Hawaii targeted investments	1,984	-16.1	N/A	N/A	N/A
Hawaii Targeted Investments Long-Term Objective		13.8	N/A	N/A	N/A
Absolute return	1,172,314	3.2	9.0	N/A	N/A
CPI+5%		10.0	9.0	N/A	N/A
Energy and other	865,004	29.0	23.3	30.4	37.2
CPI+5%		10.0	9.0	8.6	8.2
Real estate (Mainland)	102,012	-4.2	12.7	25.5	19.6
CPI +5%		10.0	9.0	8.6	8.2
Total endowment	$ 9,441,926	7.5	15.4	14.9	10.8
Endowment Fund Composite Benchmark		-2.0	7.9	9.3	6.4
Cambridge Associates Large Endowment Fund Median		0.1	11.1	12.6	8.9
CPI+5%		10.0	9.0	8.6	8.2

See accompanying Report of Independent Auditors and notes to schedules of total return.

1. Background and Purpose

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

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

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

U.S. Equity
U.S. equity is comprised of marketable equity securities of U.S. companies and derivative instruments.

Non-U.S. Equity
Non-U.S. equity is comprised of marketable equity securities of companies in developed markets and derivative instruments.

Emerging Markets
Emerging markets is comprised of marketable equity securities of companies in emerging markets and derivative instruments.

U.S. Fixed Income
Fixed income is comprised of investments in debt securities issued by a corporation, government, or government agency. This asset class also includes, to a lesser degree, money market instruments, which include U.S. Treasury bills, bank certificates of deposit, repurchase agreements, commercial paper, bankers' acceptances and derivative instruments. As of June 30, 2008, fixed income is comprised of investments in debt securities issued primarily by governments and money market funds.

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

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

Venture and Private Equity
Venture and 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 investments have the general objective of producing positive returns independent of the performance of the broad equity and fixed income markets though the underlying instruments are primarily equity and fixed income securities and derivatives. Absolute return investments include event-driven, relative value, market neutral, and equity long-short strategies. This asset class includes hedge funds and funds of funds.

Energy and Other
Energy and other investments are intended to serve as the inflation hedge component of the portfolio. This asset class includes marketable and illiquid exposures to energy assets, inflation-indexed bonds, commodities, mining, timber, and real estate. Forms of investments include separate accounts, hedge funds, mutual funds, and limited partnership interests in pooled funds.

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

2. Fair Values

Fair value of an asset is the amount at which the asset could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate the fair value of each asset class:

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

The fee simple land values used as inputs within the discounted cash flow model for leased properties are based on estimates by external appraisers and are updated internally for current market conditions since the time that external appraisals were performed.

Commercial properties are divided into two primary categories – leased and unleased. In general, commercial properties are internally-appraised using a discounted cash flow model and externally appraised every three years. At June 30, 2008, commercial properties were also internally-appraised using a discounted cash flow model with significant differences between internal and external valuations reviewed and reconciled whenever internal valuations are reported.

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

Either current tax-assessed value or external appraised values are used to approximate the fair value of real estate held for future development and sale.

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

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

U.S. Equity, Non-U.S. Equity, and Emerging Markets
The market value of marketable equity securities and derivatives are based on quoted market prices, and if applicable, discounted for time restrictions.

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

Venture and 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. In addition, restricted shares are valued at market prices less illiquidity discounts.

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.

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

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

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

3. Total Return

Total return is calculated using the Modified BAI Method, a time weighted rate of return. Total returns for periods greater than one year are annualized.

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

4. Benchmark Indices

The benchmarks 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 composites are comprised of the respective benchmarks:

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

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

Venture and Private Equity Long-Term Objective
CPI + 10% from July 1999 to June 2004; CPI + 8.75% from July 2004.

Hawaii Targeted Investments Long-Term Objective
CPI + 8.75% from September 2005 to December 2006; Cambridge Associates vintage-year weighted custom benchmark from January 2007.