Accuity LLP

CERTIFIED PUBLIC ACCOUNTANTS

Kamehameha Schools and Subsidiaries

Consolidated Financial Statements and Supplementary Schedules

June 30, 2010 and 2009

Quality Integrity Insight

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CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To Audit Committee
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, 2010 and 2009, 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.

As discussed in Note 1 to the consolidated financial statements, the consolidated balance sheets as of June 30, 2010 and 2009 were changed from unclassified to classified.

Our audits for the years ended June 30, 2010 and 2009 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 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, 2010, 2009, 2008 and 2007 has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is 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 year ended June 30, 2006 was 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
January 25, 2011

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Kamehameha Schools and Subsidiaries
Consolidated Balance Sheets
June 30, 2010 and 2009
(All dollars in thousands)

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	$ 54,512	$ 52,820
Investments	310,000	294,000
Amounts receivable for securities sold	123,991	30,276
Receivables, net	18,754	17,755
Other	2,283	2,571
Total current assets	509,540	397,422
Investments	4,909,215	4,571,963
Property and equipment, net	867,401	862,052
Real estate held for development and sale	24,409	26,435
Deferred charges and other	110,799	105,136
Total assets	$ 6,421,364	$ 5,963,008
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 57,347	$ 59,353
Amounts payable for securities purchased	32,814	25,746
Current portion of notes payable	30,146	30,146
Deferred income and other	19,856	20,524
Total current liabilities	140,163	135,769
Notes payable	196,625	205,270
Accrued pension liability	107,457	86,330
Accrued postretirement benefits	31,995	26,553
Other long-term liabilities	11,511	11,601
Total liabilities	487,751	465,523
Commitments and contingencies		
Net assets – unrestricted	5,933,613	5,497,485
Total liabilities and net assets	$ 6,421,364	$ 5,963,008

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

Kamehameha Schools and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2010 and 2009
(All dollars in thousands)

	2010	2009
Revenues, gains (losses), and other support		
Tuition and fees	$ 26,218	$ 26,289
Less: Financial aid	(16,149)	(15,008)
Net tuition and fees	10,069	11,281
Investment gains (losses), net	632,949	(1,399,669)
Rental	229,022	227,273
Net gains on property sales	39,880	21,635
Other	5,666	1,807
Total revenues, gains (losses), and other support	917,586	(1,137,673)
Expenses		
Educational programs	245,700	237,784
Management and general		
Rental	132,824	140,568
Other	76,598	85,887
Total expenses	455,122	464,239
Change in net assets before retirement plan related changes other than net periodic cost	462,464	(1,601,912)
Retirement plan related changes other than net periodic cost	(26,336)	(60,857)
Change in net assets	436,128	(1,662,769)
Net assets		
Beginning of year	5,497,485	7,160,254
End of year	$ 5,933,613	$ 5,497,485

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, 2010 and 2009
(All dollars in thousands)

	2010	2009
Cash flows from operating activities		
Change in net assets	$ 436,128	$ (1,662,769)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	48,915	50,068
Net realized and unrealized (gains) losses on investments	(587,926)	1,461,110
Net gains on property sales	(39,880)	(21,635)
Retirement plan related changes other than net periodic cost	26,336	60,857
Changes in operating assets and liabilities		
Receivables, net	(999)	7,337
Real estate held for development and sale	722	(2,385)
Deferred charges and other	(7,199)	(9,600)
Accounts payable, accrued expenses, and other liabilities	(2,930)	(14,603)
Net cash used in operating activities	(126,833)	(131,620)
Cash flows from investing activities		
Proceeds from sales of property and equipment	40,235	26,154
Purchases of property and equipment	(51,092)	(68,756)
Proceeds from sales of investments	4,303,919	4,504,547
Purchases of investments	(4,155,891)	(4,360,309)
Net cash provided by investing activities	137,171	101,636
Cash flows from financing activities		
Proceeds from borrowings	21,500	21,500
Repayment of borrowings	(30,146)	(30,146)
Net cash used in financing activities	(8,646)	(8,646)
Net increase (decrease) in cash and cash equivalents	1,692	(38,630)
Cash and cash equivalents		
Beginning of year	52,820	91,450
End of year	$ 54,512	$ 52,820
Supplemental disclosure of cash flow information		
Income taxes paid (received)	$ (577)	$ 1,233
Interest paid	$ 12,233	$ 13,727

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 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. In addition, the Schools provide a significant amount of scholarships for post-secondary education.

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

The consolidated financial statements of BHC include the accounts of:

- Pauahi Management Corporation and its wholly-owned subsidiaries – KDP Limited (dissolved in 2010); KBH, Inc.; Lake Manassas Limited Liability Company; and Paradise Petroleum, Inc.

- P&C Insurance Company, LLC, formerly known as P&C Insurance Company, Inc. (distributed to the Schools on June 30, 2009).

- Kamehameha Investment Corporation ("KIC") and its wholly-owned subsidiaries – Keauhou Community Services, Inc.; Paki, Inc. (dissolved in 2009); KIC Development Venture LLC (rescinded in 2009); and Keauhou Kona Resort Company (dissolved in 2009).

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

In 2008, the Schools initiated a review of P&C Insurance Company, Inc., the captive insurance subsidiary of BHC, to determine its optimal governance and tax structure. Upon completion of the review in 2009, P&C Insurance Company, Inc. was converted into a limited liability company and restructured as a subsidiary of the Schools effective June 30, 2009. P&C provides property and liability coverage for the Schools and its affiliates.

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

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

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

Basis of Financial Statement Presentation
The Organization's consolidated financial statements have been prepared on the accrual basis of accounting, and are presented in conformity with GAAP. Net assets, revenues, gains and other support, and expenses are classified based on the existence or absence of donor-imposed restrictions. KAPF's combined temporarily and permanently restricted net assets amounted to approximately $9.3 million and $9.4 million at June 30, 2010 and 2009, respectively. The Schools have no board or donor designated funds. As the amounts are not significant, all net assets of the Organization and changes therein are classified and reported as unrestricted net assets.

The consolidated balance sheets were changed from unclassified to classified. Classified and unclassified are both acceptable methods of presentation in accordance with Financial Accounting Standard Board Accounting Standards Codification Topic 958 related to not-for-profit entities.

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

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

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

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

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

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

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

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

Cash and Cash Equivalents
Cash and cash equivalents include unrestricted demand deposits and all highly liquid deposits with an original maturity of three months or less. Cash and cash equivalents are held in financial institutions located in the State and other states, and in 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. The carrying amounts approximate fair value because of the short maturity of these instruments.

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

Investments are classified as both current and non-current assets in the consolidated balance sheets. The current portion is the amount available for educational spend in the next fiscal year and anticipated to be expended in accordance with the Organization's court-mandated spending policy.

See the Schedules of Trust Spending and their accompanying notes for relevant policies and historical information related to the Organization's spending activity.

Marketable Debt and Equity Securities
Investments in marketable debt and equity securities are reported at fair value.

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.

Other Investments
Other investments are reported at fair value and include limited partnerships, hedge funds, commingled funds and other investments that do not have a readily determinable fair value. These investments utilize a wide variety of investment strategies. Additional information is disclosed in the notes to the Schedules of Total Return.

Receivables
Notes receivable are recognized from the sale of residential leased fee interests to lessees under the single-family and multi-family residential land sales program and mortgage agreements from the sale of real estate to developers. The residential leased fee interests were sold under various collateralized financing arrangements with 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, 2010 and 2009. The sale of leased fee interests under financing arrangements are accounted for using the cost-recovery method whereby no profit is recognized until cash payments are received. The amount recorded and profit deferred relating to the note agreements was $11.1 million and $14.0 million as of June 30, 2010 and 2009, respectively. The fair value relating to the note agreements was $11.1 million and $13.8 million for the same periods, respectively.

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.

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

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

The Organization reviews its long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss exists for an asset held for use when the cash flows expected to be generated by an asset are less than the carrying amount. Measurement of the impairment loss is based on the fair value of the asset. No significant impairment losses were recorded for the years ended June 30, 2010 or 2009.

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

Management uses estimated expected future net cash flows (undiscounted and excluding interest costs) to measure the recoverability of real estate assets held for development. The recoverability of real estate assets held for sale is determined by comparing appraised value or the net present value of the estimated expected future cash flows (using a discount rate commensurate with the risks involved) to the carrying amount of the asset. The estimate of expected future net cash flows is inherently uncertain and relies to a considerable extent on assumptions regarding current and future economic conditions. If in future periods there are changes in estimates or assumptions, the changes could result in an adjustment to the carrying amount of real estate. No impairment losses were recognized in 2010 or 2009.

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

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

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

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

The Schools present taxes collected from customers and remitted to government agencies on a gross basis in its consolidated statements of activities. For the years ended June 30, 2010 and 2009, the Schools collected and remitted $45.5 million and $45.0 million in taxes, respectively.

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

Income taxes for BHC are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Income taxes are calculated by each subsidiary as if it filed separate income tax returns.

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

The Organization adopted authoritative guidance for uncertainty in income taxes on July 1, 2009. Uncertain tax positions are evaluated 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, 2010, management believes there were no significant uncertain tax positions.

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

Subsequent Events
The Organization has reviewed all events that have occurred from July 1, 2010 through January 25, 2011, the date that the consolidated financial statements were available for issuance, for proper accounting and disclosure in the consolidated financial statements.

Reclassifications
Certain balances in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation. Such reclassifications had no effect on net assets or change in net assets as previously reported.

2. Fair Value Measurements of Financial Investments

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

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

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

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

- **Commingled funds, hedge funds, private equity funds, and other investments** – These 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. 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 Schools adopted the authoritative guidance under GAAP for estimating the fair value of investments in investment companies that have calculated net asset value per share. Accordingly, the Schools estimate the fair value of an investment using the net asset value of the investment without further adjustment unless the Schools determine that the net asset value is deemed to be not reflective of fair value. The adoption of this guidance does not have a material effect on the consolidated financial statements.

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

The Organization's investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2010 and 2009 as follows (in thousands):

	Level 1	Level 2	Level 3	Total
2010				
Marketable debt and equity securities				
Common and preferred stocks	$ 699,650	$ -	$ -	$ 699,650
Fixed income				
U.S. government obligations	286,909	-	-	286,909
International government bonds	-	353,391	-	353,391
Other debt securities	-	104,732	-	104,732
Short-term investments and cash equivalents	125,829	579	-	126,408
Mutual funds	239,781	-	-	239,781
Other investments				
Hedge funds	-	-	2,053,944	2,053,944
Private equity funds	-	-	797,051	797,051
Commingled funds	-	-	521,793	521,793
Other	-	-	35,556	35,556
Total investments	1,352,169	458,702	3,408,344	5,219,215
Less: Current portion				310,000
Long-term investments				$ 4,909,215
2009				
Marketable debt and equity securities				
Common and preferred stocks	$ 803,926	$ -	$ -	$ 803,926
Fixed income				
U.S. government obligations	557,629	-	-	557,629
International government bonds	-	131,988	-	131,988
Other debt securities	-	71,673	-	71,673
Short-term investments and cash equivalents	368,083	1,026	-	369,109
Mutual funds	160,143	-	-	160,143
Other investments				
Hedge funds	-	-	1,769,841	1,769,841
Private equity funds	-	-	630,658	630,658
Commingled funds	-	-	333,923	333,923
Other	-	-	37,073	37,073
Total investments	1,889,781	204,687	2,771,495	4,865,963
Less: Current portion				294,000
Long-term investments				$ 4,571,963

Net realized and unrealized losses on Level 3 investments were included in the consolidated statements of activities. Changes in Level 3 investments measured at fair value on a recurring basis for the years ended June 30, 2010 and 2009 were as follows (in thousands):

	Hedge Funds	Private Equity Funds	Commingled Funds	Other	Total
As of July 1, 2008	$ 2,219,339	$ 614,138	$ 646,687	$ 89,076	$ 3,569,240
Net realized and unrealized losses on investments	(402,640)	(138,238)	(204,536)	(46,454)	(791,868)
Purchases, sales, issuance, and settlements, net	(46,858)	154,758	(108,228)	(5,549)	(5,877)
As of June 30, 2009	1,769,841	630,658	333,923	37,073	2,771,495
Net realized and unrealized gains (losses) on investments	283,323	113,390	51,423	(2,259)	445,877
Purchases, sales, issuance, and settlements, net	780	53,003	136,447	742	190,972
As of June 30, 2010	$ 2,053,944	$ 797,051	$ 521,793	$ 35,556	$ 3,408,344
Change in unrealized losses relating to investments held at June 30, 2009	$ (329,812)	$ (155,754)	$ (147,839)	$ (46,454)	$ (679,859)
Change in unrealized gains (losses) relating to investments held at June 30, 2010	$ 284,673	$ 97,152	$ 56,339	$ (2,259)	$ 435,905

The Schools' investments may be subject to restrictions that (i) limit the Schools' ability to redeem/withdraw capital from such investments during a specified period of time subsequent to the Schools' investment of capital in such investments and/or (ii) the amount of capital that investors in such investments, including the Schools, 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 Schools' participation in illiquid investments and/or designated investments held by investments from which the Schools make redemptions/withdrawals. These investments generally limit redemptions to monthly, quarterly, semi-annually, annually or longer, at fair value, and require between 30 and 90 days' prior written notice.

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

Investment gains (losses) for the years ended June 30, 2010 and 2009 were as follows (in thousands):

	2010	2009
Interest and dividend income	$ 64,323	$ 79,359
Realized and unrealized gains (losses), net of investment fees	568,626	(1,479,028)
	$ 632,949	$ (1,399,669)

3. Receivables

Receivables, net, at June 30, 2010 and 2009 were as follows (in thousands):

	2010	2009
Interest	$ 11,889	$ 12,965
Tenant and tuition	8,241	6,629
Trade	3,130	3,019
Other	2,118	1,612
	25,378	24,225
Less: Allowance for doubtful accounts	(6,624)	(6,470)
	$ 18,754	$ 17,755

4. Property and Equipment

Property and equipment, net, at June 30, 2010 and 2009 consisted of the following (in thousands):

	2010	2009
Educational property and equipment		
Land	$ 16,201	$ 16,201
Buildings, improvements and equipment	706,708	698,426
Less: Accumulated depreciation	(233,730)	(215,099)
	489,179	499,528
Non-educational property and equipment		
Land and land improvements	77,320	77,434
Buildings, improvements and equipment	509,414	476,676
Less: Accumulated depreciation and amortization	(253,006)	(238,193)
	333,728	315,917
Construction in progress	44,494	46,607
	$ 867,401	$ 862,052

Non-educational property and equipment are primarily comprised of assets used in leasing arrangements where the Schools act as the lessor.

5. Notes Payable

At June 30, 2010 and 2009, unsecured notes payable consisted of the following (columns in thousands):

	2010	2009
Senior promissory notes payable under a $118.6 million private shelf facility at a 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	$ 35,580	$ 47,440
Senior promissory notes payable under a $150.0 million private shelf facility:		
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	16,191	17,143
Interest rate of 4.88% per annum with annual principal payments of $3.3 million beginning on June 10, 2008, with final payment on June 10, 2028	60,000	63,333
Interest rate of 4.93% per annum with annual principal payments of $4.0 million beginning on April 14, 2009, $3.0 million beginning on April 14, 2016, $2.0 million beginning on April 14, 2022, and $1.0 million beginning on April 14, 2028, with final payment on April 14, 2029	52,000	56,000
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 $10.0 million beginning on March 1, 2008, with final payment on March 1, 2012	20,000	30,000
Credit facility payable under a $15.0 million unsecured revolving line of credit for a six-month LIBOR term of 0.84% and 1.88% at June 30, 2010 and 2009, respectively, with principal due on September 3, 2011	10,000	10,000
Credit facility payable under a $56.0 million unsecured revolving line of credit for a six-month LIBOR term at rates ranging from 1.97% to 2.00% and for a three-month LIBOR term of 1.86% at June 30, 2010 and 2009, respectively, with principal due on June 19, 2014, with an option to extend an additional two years	33,000	11,500
Total notes payable	226,771	235,416
Less current portion	30,146	30,146
Long-term notes payable	$ 196,625	$ 205,270

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

The fair value of notes payable is estimated using the current rates at which similar loans would be made by lenders to borrowers with similar credit ratings and similar remaining maturities. The fair value of the Organization's notes payable was $234,727 and $222,825 as of June 30, 2010 and 2009, respectively.

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, 2010 and 2009, 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,	
2011	$ 30,146
2012	40,145
2013	20,145
2014	41,285
2015	8,286
Thereafter	86,764
	$ 226,771

Interest expense incurred was $12.0 million and $13.6 million for the years ended June 30, 2010 and 2009, respectively.

6. Income Taxes

Total income tax expense (benefit) amounted to approximately ($0.6) million and $2.1 million for the years ended June 30, 2010 and 2009, respectively. These amounts are included in other management and general expenses in the accompanying consolidated statements of activities.

The components of deferred tax assets and liabilities as of June 30, 2010 and 2009 were as follows (in thousands):

	2010	**2009**
Deferred tax assets		
Charitable contribution carryforwards	$ 21,594	$ 11,893
Difference in basis of investments and real estate	17,478	17,766
Passive activity loss carryforwards	13,185	10,184
Net operating loss carryforwards	10,797	8,375
Capital loss carryforwards	3,771	3,771
Other	4,841	4,386
	71,666	56,375
Less: Valuation allowance	(66,338)	(50,934)
Net deferred taxes	$ 5,328	$ 5,441

The change in valuation allowance was an increase of $15.4 million and $13.1 million for the years ended June 30, 2010 and 2009, 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, 2010 and 2009. 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 $33.7 million available to carryforward indefinitely for federal and state tax purposes, charitable contribution carryforwards of $55.4 million expiring at various dates beginning in 2011 through 2015, net operating loss carryforwards of $27.7 million expiring at various dates beginning in 2026 through 2030 and capital loss carryforwards of $9.7 million expiring at various dates beginning in 2013 through 2014.

As of June 30, 2010 and 2009, 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, 2007 through 2010.

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, 2010 and 2009 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2010 and 2009 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Change in benefit obligation				
Benefit obligation at beginning of year	$ 247,916	$ 222,197	$ 26,553	$ 23,759
Service cost	10,055	8,725	1,039	833
Interest cost	15,242	14,386	1,629	1,489
Benefits paid	(10,230)	(9,337)	(1,118)	(1,036)
Actuarial losses	27,445	12,426	3,892	1,508
Other	(392)	(481)	-	-
Benefit obligation at end of year	290,036	247,916	31,995	26,553
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	161,586	193,692	-	-
Actual return on plan assets	21,030	(30,967)	-	-
Employer contributions	10,585	8,679	1,118	1,036
Benefits paid	(10,230)	(9,337)	(1,118)	(1,036)
Other	(392)	(481)	-	-
Fair value of plan assets at end of year	182,579	161,586	-	-
Funded status and recognized liability	$ (107,457)	$ (86,330)	$ (31,995)	$ (26,553)

The accumulated benefit obligation for the pension plan was $248.2 million and $214.4 million at June 30, 2010 and 2009, respectively.

The net periodic benefit cost consisted of the following for the years ended June 30, 2010 and 2009 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
Service cost	$ 10,055	$ 8,725	$ 1,039	$ 833
Interest cost	15,242	14,386	1,629	1,489
Expected return on plan assets	(16,487)	(16,224)	-	-
Amortization of prior service cost and net actuarial losses (gains)	419	387	39	(120)
Net periodic benefit cost	$ 9,229	$ 7,274	$ 2,707	$ 2,202

Actuarial losses and amounts amortized into net periodic benefit cost for the years ended June 30, 2010 and 2009 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2010	**2009**	**2010**	**2009**
Actuarial losses arising during the year	$ 22,900	$ 59,617	$ 3,894	$ 1,507
Prior service costs and net actuarial gains (losses) reclassified as a component of net periodic benefit cost	(419)	(387)	(39)	120
Change in amounts not yet recognized as net periodic benefit cost	$ 22,481	$ 59,230	$ 3,855	$ 1,627

The prior service cost and actuarial losses (gains) that have not yet been recognized as components of net periodic benefit cost at June 30, 2010 and 2009 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2010	**2009**	**2010**	**2009**
Actuarial losses (gains)	$ 61,501	$ 38,600	$ 2,374	$ (1,520)
Prior service cost	1,420	1,840	135	174
Amounts not yet recognized as net periodic benefit cost	$ 62,921	$ 40,440	$ 2,509	$ (1,346)

The estimated prior service cost expected to be amortized into net periodic benefit cost in 2011 is $361,000 and $39,000 for the pension and postretirement plans, respectively. The actuarial losses related to the pension plan expected to be amortized into net periodic benefit cost in 2011 is $505,000. No actuarial losses/gains related to the postretirement plan are expected to be amortized into net periodic benefit cost in 2011.

	Pension Benefits		Postretirement Benefits	
	2010	**2009**	**2010**	**2009**
Weighted average assumptions				
Benefit obligation				
Discount rate	5.50%	6.25%	5.50%	6.25%
Rate of compensation increase	4.20%	4.20%	N/A	N/A
Net periodic benefit cost				
Discount rate	6.25%	6.75%	6.25%	6.75%
Expected return on plan assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	4.20%	4.20%	N/A	N/A

The Organization’s 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 pension plan’s investment consultants based on strategies outlined in the portfolios policies and guidelines.

The assumed healthcare cost trend rates at June 30, 2010 and 2009 were as follows:

	2010	2009
Healthcare cost trend rate assumed for the next year	9.00%	9.00%
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	2017	2016

The fair value of the Organization's pension plan assets at June 30, 2010 and 2009 by asset category were as follows:

	Fair Value Measurements at Reporting Date Using			
2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash management funds	$ -	$ 2,543	$ -	$ 2,543
Mutual fund	25,496	-	-	25,496
Collective investment funds	-	-	85,335	85,335
Hedge funds and other	-	-	69,205	69,205
Total investments	$ 25,496	$ 2,543	$ 154,540	$ 182,579
2009				
Cash and cash management funds	$ -	$ 1,847	$ -	$ 1,847
Mutual fund	25,394	-	-	25,394
Collective investment funds	-	-	77,676	77,676
Hedge funds and other	-	-	56,669	56,669
Total investments	$ 25,394	$ 1,847	$ 134,345	$ 161,586

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

The following table sets forth a summary of the changes in the fair value of the pension plan's Level 3 investments for the years ended June 30, 2010 and 2009:

	Collective Investment Funds	Hedge Funds and Other	Total
As of July 1, 2008	$ 98,835	$ 67,792	$ 166,627
Actual return on plan assets			
Relating to assets still held at the reporting date	(20,567)	(8,297)	(28,864)
Relating to assets sold during the period	(1,770)	872	(898)
Purchases, sales and settlements, net	1,178	(3,698)	(2,520)
As of June 30, 2009	77,676	56,669	134,345
Actual return on plan assets			
Relating to assets still held at the reporting date	10,436	8,648	19,084
Relating to assets sold during the period	(1,033)	135	(898)
Purchases, sales and settlements, net	(1,744)	3,753	2,009
As of June 30, 2010	$ 85,335	$ 69,205	$ 154,540

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

	Pension Benefits	Postretirement Benefits
Year ending June 30,		
2011	$ 12,821	$ 1,203
2012	13,623	1,268
2013	14,347	1,349
2014	15,328	1,450
2015	16,124	1,557
2016–2020	95,411	9,365
	$ 167,654	$ 16,192

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 $8.6 million to its pension plan in 2011. The Organization does not expect to make any contributions to its postretirement medical plan in 2011.

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

The Organization makes matching contributions to the 401(k) plan up to a maximum 3% of employee pretax earnings. Participants are immediately and fully vested in the Schools' contribution. Contributions to the 401(k) plan for the years ended June 30, 2010 and 2009 amounted to approximately $3.1 million and $2.9 million, respectively.

8. Natural Classification of Expenses

Operating expenses incurred for the years ended June 30, 2010 and 2009 were as follows (in thousands):

	2010	2009
Human resources and employee benefits	$ 161,704	$ 153,126
Taxes and recoveries	76,998	75,274
Depreciation and amortization	48,915	50,068
Professional fees and services	42,275	55,636
Scholarships	23,824	24,504
Collaborations	22,106	15,831
Rentals and utilities	19,086	19,238
Interest	11,982	13,583
Other expenses	48,232	56,979
	$ 455,122	$ 464,239

9. Commitments and Contingencies

Rental Income
The majority of land and buildings are generally leased under long-term lease arrangements. At June 30, 2010, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Year ending June 30,	
2011	$ 133,990
2012	126,082
2013	114,749
2014	99,712
2015	91,008
Thereafter	1,010,690
	$ 1,576,231

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $10.6 million and $10.5 million for the years ended June 30, 2010 and 2009, respectively.

Capital Commitments
At June 30, 2010 and 2009, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $503 million and $523 million, respectively.

At June 30, 2010 and 2009, open construction, renovation, major repair and other contracts amounted to $133 million and $58 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
From July 2008 through February 2009, the Trustees received an annual retainer of $30,000, payable monthly, and received a meeting fee of $1,500 per meeting, except for the chairperson, who received $2,000 per meeting. After electing to take a 10% decrease in compensation effective March 2009, the Trustees received an annual retainer of $27,000, payable monthly, and received a meeting fee of $1,350 per meeting, except for the chairperson, who received $1,800 per meeting. Effective January 1, 2010, the Trustees receive an annual retainer of $27,000, payable monthly, and receive a meeting fee of $1,350 per meeting. The chairperson receives an additional annual retainer of $20,250, payable monthly.

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 2009 and meetings in excess of 60 per year after January 1, 2010. For the years ended June 30, 2010 and 2009, total Trustee compensation amounted to $470,475 and $522,150, respectively.

Supplementary Schedules

Kamehameha Schools and Subsidiaries
Schedules of Trust Spending
Years Ended June 30, 2010, 2009, 2008, 2007 and 2006
(All dollars in thousands) **Schedule 1**

	2010	2009	2008	2007	2006
Trust spending, net					
Campus-based programs					
Kapalama	$ 76,709	$ 77,951	$ 76,788	$ 74,124	$ 75,342
Hawaii	27,032	27,271	25,814	25,805	24,509
Maui	25,676	25,744	26,798	24,636	24,253
Outreach programs					
Community Education (includes funding for Ho‘okako‘o, a not-for-profit organization, of $2,784, $2,771, $2,858, $1,850 and $2,517 for the years ended June 30, 2010, 2009, 2008, 2007 and 2006, respectively)	78,621	72,709	59,546	59,112	42,674
Scholarships	23,729	24,369	22,197	17,899	14,662
Educational support services	11,287	10,299	9,210	10,495	8,372
Ke Ali‘i Pauahi Foundation	984	(9)	244	451	559
Other program expenditures	8,746	7,154	6,422	8,999	8,654
Base spending	252,784	245,488	227,019	221,521	199,025
Less: Tuition, fees and other educational income, net	(10,313)	(11,332)	(12,076)	(13,614)	(12,978)
Base distributions	242,471	234,156	214,943	207,907	186,047
Information technology investment plan	6,713	7,068	12,276	4,002	-
Major repairs	4,013	2,634	7,878	10,427	4,341
Capital projects	25,077	16,050	26,102	20,689	18,060
Interest on debt	6,944	7,369	7,669	7,734	7,335
Debt financing of capital projects	8,286	8,286	4,286	952	-
In-kind transactions	5,733	2,298	251	1,500	-
Total trust spending before reserve activity	299,237	277,861	273,405	253,211	215,783
Reserve activity – operating, net	-	(20,000)	-	(3,000)	5,000
Total trust spending	$ 299,237	$ 257,861	$ 273,405	$ 250,211	$ 220,783
Average fair value of endowment	$ 7,805,938	$ 7,512,346	$ 6,690,039	$ 6,136,107	$ 5,803,821
Trust spending rate before reserve activity	3.8%	3.7%	4.1%	4.1%	3.7%
Trust spending rate	3.8%	3.4%	4.1%	4.1%	3.8%

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

1. Background and Purpose

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

For the years ended June 30, 2010 and 2009, the schedule was 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. It also presented trust spending rates for five fiscal years through June 30, 2010. Prior to fiscal year 2009, the schedule was prepared on a cash basis.

2. Trust Spending and Trust Spending Rate

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

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

3. Endowment and Average Fair Value of the Endowment

The Endowment consists of all consolidated investment assets of the Schools except agriculture and conservation lands and reserve funds as defined in the Schools' investment policy. The average fair value of the Endowment is based on the average of the prior 20-quarter-end fair values. Accordingly, the trust spending rates for the years ended June 30, 2010, 2009, 2008, 2007 and 2006 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 to Schedules of Total Return.

Kamehameha Schools and Subsidiaries
Schedules of Total Return
June 30, 2010 — Schedule 2

	Fair Value at June 30, 2010 (In Thousands)	One-Year Total Return %	Three-Year Total Return %	Five-Year Total Return %	Ten-Year Total Return %	Since July 1, 1999 Total Return %
Hawaii Real Estate	$ 2,530,188	14.9	4.7	14.4	10.5	10.3
Hawaii Real Estate Composite Index		-1.5	-4.7	0.9	4.2	4.6
Hawaii Real Estate Long-Term Objective (CPI+5%)		6.1	6.5	7.3	7.4	7.5
U.S. Equity	589,860	15.6	-8.6	0.4	1.7	3.7
Russell 3000		15.7	-9.5	-0.5	-0.9	0.0
Non-U.S. Equity	612,414	7.5	-12.1	1.2	2.3	4.6
MSCI EAFE net		5.9	-13.4	0.9	0.2	1.6
Emerging Markets	440,310	24.4	-2.9	13.1	9.5	N/A
Emerging Markets Composite Index		23.2	-2.5	12.0	8.4	N/A
Global Equity	72,526	N/A	N/A	N/A	N/A	N/A
MSCI All Country World Net Index		N/A	N/A	N/A	N/A	N/A
Venture and Private Equity	601,553	22.3	2.0	8.9	3.3	4.9
Venture and Private Equity Composite Index		22.3	0.9	7.1	9.7	10.1
Venture and Private Equity Long-Term Objective (CPI+8.75%)		9.8	10.3	11.1	11.7	11.9
Absolute Return	1,319,095	13.3	-1.6	3.6	N/A	N/A
Absolute Return Composite Index		4.7	-4.0	1.3	N/A	N/A
Absolute Return Long-Term Objective (CPI+5%)		6.1	6.5	7.3	N/A	N/A
Marketable Real Assets	310,084	8.9	4.0	9.9	N/A	N/A
Marketable Real Assets Composite Index		2.1	-3.2	3.1	N/A	N/A
Marketable Real Assets Long-Term Objective (CPI+5%)		6.1	6.5	7.3	N/A	N/A
Illiquid Real Assets	212,413	9.7	6.8	10.9	21.1	24.9
Illiquid Real Assets Composite Index		11.4	4.2	6.4	6.9	7.1
Illiquid Real Assets Long-Term Objective (CPI+5%)		6.1	6.5	7.3	7.4	7.5
Real Estate (Mainland)	55,072	-7.1	-18.8	-4.4	10.1	9.8
Global Inflation-Indexed Bonds	523,080	N/A	N/A	N/A	N/A	N/A
Barclays Global IIB Index (USD Hedged)		N/A	N/A	N/A	N/A	N/A
U.S. Fixed Income	250,643	7.7	8.9	6.3	7.2	6.8
Fixed Income Composite Index		7.8	8.8	6.2	6.8	6.6
Global Fixed Income	270,111	11.5	N/A	N/A	N/A	N/A
Citigroup World Government		3.0	N/A	N/A	N/A	N/A
Cash Equivalents	32,698	0.0	1.2	2.9	2.9	3.1
Three-month U.S. Treasury Bill		0.2	1.6	2.8	2.7	2.9
Total Endowment	$ 7,820,047	13.5	-1.2	6.6	7.1	7.7
Endowment Fund Composite Benchmark		7.0	-4.6	2.3	3.7	4.1
Total Endowment Fund Long-Term Objective (CPI+5%)		6.1	6.5	7.3	7.4	7.5

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

1. Background and Purpose

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

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

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

U.S. Equity
U.S. equity is comprised primarily of marketable equity securities and derivative instruments of U.S. companies. Investments in this asset class are held directly or through commingled vehicles.

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

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

Global Equity
Global equity is comprised primarily of marketable equity securities and derivative instruments of companies in global markets, including U.S., non-U.S., and emerging markets equities. Investments in this asset class are held directly or through commingled vehicles.

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

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

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

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

Global Inflation-Indexed Bonds
Global inflation-indexed bonds are comprised primarily of debt securities issued by governments of developed countries. Principal and coupon payments are linked to the inflation rates of the issuing countries. The portfolio is hedged back to the U.S. dollar.

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

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

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

2. Fair Values

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

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

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

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

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

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

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

U.S. Equity, Non-U.S. Equity, Emerging Markets and Global Equity
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.

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.

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

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

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

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

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

3. Total Return

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

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

4. Benchmark Indices

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

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

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

- **Venture & 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.

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

- **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.

- **Absolute Return Long-Term Objective**
  CPI + 8% from July 1999 to June 2004; CPI + 5% from July 2004.

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

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

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

- **Global Inflation-Indexed Bonds Index**
  Two times the Barclays Inflation-Indexed Bond Index (U.S. dollar hedged) less one-month LIBOR.

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