CERTIFIED PUBLIC ACCOUNTANTS

Kamehameha Schools and Subsidiaries

Consolidated Financial Statements and Supplementary Schedules

June 30, 2011 and 2010

Kamehameha Schools and Subsidiaries
Index
June 30, 2011 and 2010

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, 2011 and 2010, 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, 2011 and 2010 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, 2011, 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.

As discussed in Note 2, the Organization revised its 2010 consolidated balance sheet to reclassify certain assets and liabilities from current to noncurrent.

Accuity LLP

Honolulu, Hawaii
September 27, 2011

Kamehameha Schools and Subsidiaries
Consolidated Balance Sheets
June 30, 2011 and 2010
(All dollars in thousands)

	2011	Revised 2010
Assets		
Current assets		
Cash and cash equivalents	$ 51,671	$ 54,512
Receivables, net	19,452	18,754
Other	3,491	2,283
Total current assets	74,614	75,549
Marketable debt and equity securities	2,122,217	1,810,871
Other investments	4,043,079	3,408,344
Amounts receivable for securities sold	23,701	123,991
Property and equipment, net	879,284	867,401
Real estate held for development and sale	25,789	24,409
Deferred charges and other	112,851	110,799
Total assets	$ 7,281,535	$ 6,421,364
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 48,629	$ 57,347
Current portion of notes payable	40,146	30,146
Deferred income and other	24,041	19,856
Total current liabilities	112,816	107,349
Notes payable	166,479	196,625
Accrued pension liability	73,666	107,457
Accrued postretirement benefits	32,918	31,995
Amounts payable for securities purchased	29,262	32,814
Other long-term liabilities	18,615	11,511
Total liabilities	433,756	487,751
Commitments and contingencies		
Net assets – unrestricted	6,847,779	5,933,613
Total liabilities and net assets	$ 7,281,535	$ 6,421,364

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

Kamehameha Schools and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2011 and 2010
(All dollars in thousands)

	2011	2010
Revenues, gains, and other support		
Tuition and fees	$ 26,961	$ 26,218
Less: Financial aid	(16,745)	(16,149)
Net tuition and fees	10,216	10,069
Investment gains, net	1,052,984	632,949
Rental	233,261	229,022
Net gains on property sales	40,193	39,880
Other	5,259	5,666
Total revenues, gains, and other support	1,341,913	917,586
Expenses		
Educational programs	244,891	245,700
Management and general		
Rental	132,848	132,824
Other	82,440	76,598
Total expenses	460,179	455,122
Change in net assets before retirement plan related changes other than net periodic cost	881,734	462,464
Retirement plan related changes other than net periodic cost	32,432	(26,336)
Change in net assets	914,166	436,128
Net assets		
Beginning of year	5,933,613	5,497,485
End of year	$ 6,847,779	$ 5,933,613

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, 2011 and 2010
(All dollars in thousands)

	2011	2010
Cash flows from operating activities		
Change in net assets	$ 914,166	$ 436,128
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	49,496	48,915
Net realized and unrealized gains on investments	(1,000,476)	(587,926)
Net gains on property sales	(40,193)	(39,880)
Retirement plan related changes other than net periodic cost	(32,432)	26,336
Changes in operating assets and liabilities		
Receivables, net	(698)	(999)
Real estate held for development and sale	(1,380)	722
Deferred charges and other	(5,958)	(7,199)
Accounts payable, accrued expenses, and other liabilities	2,533	(2,930)
Net cash used in operating activities	(114,942)	(126,833)
Cash flows from investing activities		
Proceeds from sales of property and equipment	40,373	40,235
Purchases of property and equipment	(59,257)	(51,092)
Proceeds from sales of investments	3,681,581	4,303,919
Purchases of investments	(3,530,450)	(4,155,891)
Net cash provided by investing activities	132,247	137,171
Cash flows from financing activities		
Proceeds from borrowings	10,000	21,500
Repayment of borrowings	(30,146)	(30,146)
Net cash used in financing activities	(20,146)	(8,646)
Net increase (decrease) in cash and cash equivalents	(2,841)	1,692
Cash and cash equivalents		
Beginning of year	54,512	52,820
End of year	$ 51,671	$ 54,512
Supplemental disclosure of cash flow information		
Income taxes paid (received)	$ 194	$ (577)
Interest paid	$ 10,887	$ 12,233

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

1. Summary of Significant Accounting Policies

Description of the Organization

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

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

Principles of Consolidation

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

The consolidated financial statements of BHC include the accounts of:

- Pauahi Management Corporation and its wholly-owned subsidiaries – KDP Limited (dissolved in 2010); KBH, Inc.; Lake Manassas Limited Liability Company; and Paradise Petroleum, Inc. (dissolved in 2011).

- Kamehameha Investment Corporation ("KIC") and its wholly-owned subsidiary, Keauhou Community Services, Inc.

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

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

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

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

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

Basis of Financial Statement Presentation
The Organization's consolidated financial statements have been prepared on the accrual basis of accounting, and are presented in conformity with GAAP. Net assets, revenues, gains and other support, and expenses are classified based on the existence or absence of donor-imposed restrictions. KAPF's combined temporarily and permanently restricted net assets amounted to approximately $10.6 million and $9.3 million at June 30, 2011 and 2010, 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.

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
The Organization is subject to investment policies and a spending policy as approved by Court Order. The investment policies seek to meet or exceed an investment objective of an annualized total real return (i.e., net of inflation) of 5.0% net of investment-related expenses, over most rolling ten-year periods. In meeting this objective, the Organization allocates assets in a prudent manner, balancing risks and potential rewards while maintaining adequate levels of liquidity.

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

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

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

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

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

Receivables

Notes receivable are recognized from the sale of residential leased fee interests to lessees under the single-family and multi-family residential land sales program and mortgage agreements from the sale of real estate to developers. The residential leased fee interests were sold under various collateralized financing arrangements with 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, 2011 and 2010. 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 $9.5 million and $11.1 million as of June 30, 2011 and 2010, respectively. The fair value relating to the note agreements was $9.3 million and $11.1 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, 2011 or 2010.

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 2011 or 2010.

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, 2011 and 2010, the Schools collected and remitted $42.5 million and $45.5 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 evaluates uncertain tax positions utilizing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. At June 30, 2011, management believes there were no significant uncertain tax positions.

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

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

Subsequent Events
The Organization has reviewed all events that have occurred from July 1, 2011 through September 27, 2011, the date that the consolidated financial statements were available for issuance, for proper accounting and disclosure in the consolidated financial statements.

2. Revision

In 2011, the Organization changed its method of presentation related to the balance sheet classification of investments, amounts receivable for securities sold and amounts payable for securities purchased, reporting all related described amounts as noncurrent. Previously, the investment amounts classified as current assets represented the approved amount for educational spending in the next fiscal year. As described in Note 1, all investments are currently classified as noncurrent assets in the consolidated balance sheets regardless of maturity or liquidity. In any given year, investments may need to be liquidated to support annual educational spending, but on a long-term basis, the Organization’s investment and spending objectives are designed to support the educational programs in perpetuity. Classification of investments as noncurrent demonstrates the long-term intent for the Organization’s investments to continue to increase over time in accordance with the Organization’s investment policies.

Accordingly, the Organization revised its 2010 consolidated financial statements from amounts previously reported as follows:

	As Previously Reported	Adjustments	Revised
Assets			
Current assets			
Cash and cash equivalents	$ 54,512	$ -	$ 54,512
Investments	310,000	(310,000)	-
Amounts receivable for securities sold	123,991	(123,991)	-
Receivables, net	18,754	-	18,754
Other	2,283	-	2,283
Total current assets	509,540	(433,991)	75,549
Investments	4,909,215	(4,909,215)	-
Marketable debt and equity securities	-	1,810,871	1,810,871
Other investments	-	3,408,344	3,408,344
Amounts receivable for securities sold	-	123,991	123,991
Property and equipment, net	867,401	-	867,401
Real estate held for development and sale	24,409	-	24,409
Deferred charges and other	110,799	-	110,799
Total assets	$ 6,421,364	$ -	$ 6,421,364
Liabilities and Net Assets			
Current liabilities			
Accounts payable and accrued expenses	$ 57,347	$ -	$ 57,347
Amounts payable for securities purchased	32,814	(32,814)	-
Current portion of notes payable	30,146	-	30,146
Deferred income and other	19,856	-	19,856
Total current liabilities	140,163	(32,814)	107,349
Notes payable	196,625	-	196,625
Accrued pension liability	107,457	-	107,457
Accrued postretirement benefits	31,995	-	31,995
Amounts payable for securities purchased	-	32,814	32,814
Other long-term liabilities	11,511	-	11,511
Total liabilities	487,751	-	487,751
Commitments and contingencies			
Net assets – unrestricted	5,933,613	-	5,933,613
Total liabilities and net assets	$ 6,421,364	$ -	$ 6,421,364

3. Fair Value Measurements of Financial Investments

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

- **Common and preferred stocks, short-term investments and cash equivalents, and mutual funds** – The fair value of these investments is estimated using quoted 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 Organization adopted the authoritative guidance under GAAP for estimating the fair value of investments in investment companies that have calculated net asset value per share. Accordingly, the Organization estimates the fair value of an investment using the net asset value of the investment without further adjustment unless the Organization determines that the net asset value is deemed to be not reflective of fair value. The adoption of this guidance does not have a material effect on the consolidated financial statements.

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

The Organization's investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2011 and 2010 as follows (in thousands):

	Level 1	Level 2	Level 3	Total
2011				
Marketable debt and equity securities				
Common and preferred stocks	$ 989,066	$ -	$ -	$ 989,066
Fixed income				
U.S. government obligations	298,678	-	-	298,678
International government bonds	-	361,023	-	361,023
Other debt securities	-	71,837	-	71,837
Short-term investments and cash equivalents	163,205	1,556	-	164,761
Mutual funds	236,852	-	-	236,852
Other investments				
Hedge funds	-	-	2,438,894	2,438,894
Private equity funds	-	-	971,332	971,332
Commingled funds	-	-	602,090	602,090
Other	-	-	30,763	30,763
Total investments	$ 1,687,801	$ 434,416	$ 4,043,079	$ 6,165,296
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

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, 2011 and 2010 were as follows (in thousands):

	Hedge Funds	Private Equity Funds	Commingled Funds	Other	Total
As of July 1, 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
Net realized and unrealized gains (losses) on investments	325,627	203,481	116,026	(3,137)	641,997
Purchases, sales, issuance, and settlements, net	59,323	(29,200)	(35,729)	(1,656)	(7,262)
As of June 30, 2011	$ 2,438,894	$ 971,332	$ 602,090	$ 30,763	$ 4,043,079
Change in unrealized gains (losses) relating to investments held at June 30, 2010	$ 284,673	$ 97,152	$ 56,339	$ (2,259)	$ 435,905
Change in unrealized gains (losses) relating to investments held at June 30, 2011	$ 273,605	$ 127,454	$ 125,638	$ (3,137)	$ 523,560

The Organization’s investments may be subject to restrictions that (i) limit the Organization’s ability to redeem/withdraw capital from such investments during a specified period of time subsequent to the Organization’s investment of capital in such investments and/or (ii) the amount of capital that investors in such investments, including the Organization, may redeem/withdraw as of a given redemption/withdrawal date. Capital available for redemption/withdrawal may also be subject to redemption/withdrawal charges and may or may not include capital attributable to the Organization’s participation in illiquid investments and/or designated investments held by investments from which the Organization 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 for the years ended June 30, 2011 and 2010 were as follows (in thousands):

	2011	2010
Interest and dividend income	$ 75,417	$ 64,323
Realized and unrealized gains, net of investment fees	977,567	568,626
Investment gains, net	$ 1,052,984	$ 632,949

4. Receivables

Receivables, net, at June 30, 2011 and 2010 were as follows (in thousands):

	2011	2010
Interest	$ 10,620	$ 11,889
Tenant and tuition	7,598	8,241
Trade	4,327	3,130
Other	1,448	2,118
	23,993	25,378
Less: Allowance for doubtful accounts	(4,541)	(6,624)
Receivables, net	$ 19,452	$ 18,754

5. Property and Equipment

Property and equipment, net, at June 30, 2011 and 2010 consisted of the following (in thousands):

	2011	2010
Educational property and equipment		
Land	$ 16,201	$ 16,201
Buildings, improvements and equipment	718,522	706,708
Less: Accumulated depreciation	(255,822)	(233,730)
	478,901	489,179
Non-educational property and equipment		
Land and land improvements	78,498	77,320
Buildings, improvements and equipment	518,233	509,414
Less: Accumulated depreciation and amortization	(274,571)	(253,006)
	322,160	333,728
Construction in progress	78,223	44,494
Property and equipment, net	$ 879,284	$ 867,401

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

6. Notes Payable

At June 30, 2011 and 2010, unsecured notes payable consisted of the following (columns in thousands):

	2011	2010
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	$ 23,720	$ 35,580
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	15,238	16,191
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	56,667	60,000
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	48,000	52,000
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	10,000	20,000
Credit facility payable under a $15.0 million unsecured revolving line of credit for a three-month LIBOR term of 0.38% at June 30, 2011, and a six-month LIBOR term of 0.84% at June 30, 2010, 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 1.65% to 1.71% and 1.97% to 2.00% at June 30, 2011 and 2010, respectively, with principal due on June 19, 2014, with an option to extend an additional two years	43,000	33,000
Total notes payable	206,625	226,771
Less: Current portion	40,146	30,146
Long-term notes payable	$ 166,479	$ 196,625

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 $214,857 and $234,727 as of June 30, 2011 and 2010, 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, 2011 and 2010, 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,	
2012	$ 40,146
2013	20,145
2014	51,285
2015	8,286
2016	7,286
Thereafter	79,477
	$ 206,625

Interest expense incurred was $10.6 million and $12.0 million for the years ended June 30, 2011 and 2010, respectively.

7. Income Taxes

Total income tax benefit amounted to approximately $1.3 million and $0.6 million for the years ended June 30, 2011 and 2010, 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, 2011 and 2010 were as follows (in thousands):

	2011	2010
Deferred tax assets		
Charitable contribution carryforwards	$ 30,270	$ 21,594
Difference in basis of investments and real estate	17,005	17,478
Passive activity loss carryforwards	19,154	13,185
Net operating loss carryforwards	13,277	10,797
Capital loss carryforwards	3,609	3,771
Other	3,867	4,841
	87,182	71,666
Less: Valuation allowance	(79,506)	(66,338)
Net deferred taxes	$ 7,676	$ 5,328

The change in valuation allowance was an increase of $13.2 million and $15.4 million for the years ended June 30, 2011 and 2010, 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, 2011 and 2010. 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 $49.0 million available to carryforward indefinitely for federal and state tax purposes, charitable contribution carryforwards of $77.6 million expiring at various dates beginning in fiscal year 2011 through 2016, net operating loss carryforwards of $34.0 million expiring at various dates beginning in 2026 through 2031 and capital loss carryforwards of $9.3 million expiring at various dates beginning in 2013 through 2014.

As of June 30, 2011 and 2010, 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, 2008 through 2011.

8. 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, 2011 and 2010 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2011 and 2010 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
Change in benefit obligation				
Benefit obligation at beginning of year	$ 290,036	$ 247,916	$ 31,995	$ 26,553
Service cost	12,323	10,055	1,339	1,039
Interest cost	15,669	15,242	1,737	1,629
Benefits paid	(11,034)	(10,230)	(1,197)	(1,118)
Actuarial (gains) losses	(9,448)	27,445	(956)	3,892
Other	(350)	(392)	-	-
Benefit obligation at end of year	297,196	290,036	32,918	31,995
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	182,579	161,586	-	-
Actual return on plan assets	38,773	21,030	-	-
Employer contributions	13,562	10,585	1,197	1,118
Benefits paid	(11,034)	(10,230)	(1,197)	(1,118)
Other	(350)	(392)	-	-
Fair value of plan assets at end of year	223,530	182,579	-	-
Funded status and recognized liability	$ (73,666)	$ (107,457)	$ (32,918)	$ (31,995)

The accumulated benefit obligation for the pension plan was $254.9 million and $248.2 million at June 30, 2011 and 2010, respectively.

The net periodic benefit cost consisted of the following for the years ended June 30, 2011 and 2010 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
Service cost	$ 12,323	$ 10,055	$ 1,339	$ 1,039
Interest cost	15,669	15,242	1,737	1,629
Expected return on plan assets	(17,715)	(16,487)	-	-
Amortization of prior service cost and net actuarial losses	931	419	39	39
Net periodic benefit cost	$ 11,208	$ 9,229	$ 3,115	$ 2,707

Actuarial (gains) losses and amounts amortized into net periodic benefit cost for the years ended June 30, 2011 and 2010 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
Actuarial (gains) losses arising during the year	$ (30,506)	$ 22,900	$ (956)	$ 3,894
Prior service costs and net actuarial losses reclassified as a component of net periodic benefit cost	(931)	(419)	(39)	(39)
Change in amounts not yet recognized as net periodic benefit cost	$ (31,437)	$ 22,481	$ (995)	$ 3,855

The prior service cost and actuarial losses that have not yet been recognized as components of net periodic benefit cost at June 30, 2011 and 2010 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
Actuarial losses	$ 30,425	$ 61,501	$ 1,418	$ 2,374
Prior service cost	1,059	1,420	96	135
Amounts not yet recognized as net periodic benefit cost	$ 31,484	$ 62,921	$ 1,514	$ 2,509

The estimated prior service cost expected to be amortized into net periodic benefit cost in 2012 is $321,000 and $39,000 for the pension and postretirement plans, respectively. No actuarial losses/gains related to the pension and postretirement plans are expected to be amortized into net periodic benefit cost in 2012.

	Pension Benefits		Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
Weighted average assumptions				
Benefit obligation				
Discount rate	5.75%	5.50%	5.75%	5.50%
Rate of compensation increase	4.20%	4.20%	N/A	N/A
Net periodic benefit cost				
Discount rate	5.50%	6.25%	5.50%	6.25%
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, 2011 and 2010 were as follows:

	2011	**2010**
Healthcare cost trend rate assumed for the next year	8.00%	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	2017

The fair value of the Organization's pension plan assets at June 30, 2011 and 2010 by asset category were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Level 1	**Level 2**	**Level 3**	**Total**
2011				
Cash and cash management funds	$ -	$ 7,252	$ -	$ 7,252
Mutual fund	31,078	-	-	31,078
Collective investment funds	-	-	108,015	108,015
Hedge funds and other	-	-	77,185	77,185
Total investments	$ 31,078	$ 7,252	$ 185,200	$ 223,530
2010				
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

The investment goals and strategy for defined benefit pension plan assets are to maximize returns to provide income and capital appreciation to meet current and future pension requirements of the pension plan's beneficiaries, subject to specific risk management policies. The risk management policies permit investments in debt and equity securities, real estate and other inflation hedging assets. Readily marketable securities are utilized to pay benefit obligations as they become due. The target allocations for plan assets are 47% equity securities, 25% fixed income securities, 17% hedge funds, and 11% to real estate and other. Equity securities held by the mutual fund, collective investment and hedge funds primarily include investments in large-cap and mid-cap companies primarily located in the United States and non-U.S. developed markets. Fixed income securities held by the collective investment and hedge funds primarily include corporate bonds of companies from diversified industries and U.S. Treasuries. Hedge fund investments include investments in absolute return/hedge funds that follow several different strategies and inflation-hedging assets such as real estate investment trusts, energy, and commodities. The Organization's 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, 2011 and 2010(in thousands):

	Collective Investment Funds	Hedge Funds and Other	Total
As of July 1, 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
Actual return on plan assets			
Relating to assets still held at the reporting date	24,719	10,942	35,661
Relating to assets sold during the period	(7,750)	3,586	(4,164)
Purchases, sales and settlements, net	5,711	(6,548)	(837)
As of June 30, 2011	$ 108,015	$ 77,185	$ 185,200

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

	Pension Benefits	Postretirement Benefits
Year ending June 30,		
2012	$ 13,731	$ 1,264
2013	14,366	1,342
2014	15,286	1,441
2015	16,195	1,557
2016	17,150	1,679
2017–2021	100,823	9,979
	$ 177,551	$ 17,262

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 $20.8 million to its pension plan in 2012. The Organization does not expect to make any contributions to its postretirement medical plan in 2012.

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, 2011 and 2010 amounted to approximately $3.2 million and $3.1 million, respectively.

9. Natural Classification of Expenses

Operating expenses incurred for the years ended June 30, 2011 and 2010 were as follows (in thousands):

	2011	2010
Human resources and employee benefits	$ 170,574	$ 161,704
Taxes and recoveries	76,950	76,998
Depreciation and amortization	49,496	48,915
Professional fees and services	44,113	42,275
Scholarships	24,024	23,824
Collaborations	22,709	22,106
Rentals and utilities	17,742	19,086
Interest	10,626	11,982
Other expenses	43,945	48,232
Total expenses	$ 460,179	$ 455,122

10. Commitments and Contingencies

Rental Income
The majority of land and buildings are generally leased under long-term lease arrangements. At June 30, 2011, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Year ending June 30,	
2012	$ 137,973
2013	125,833
2014	109,234
2015	100,479
2016	93,139
Thereafter	987,535
	$ 1,554,193

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $14.8 million and $10.6 million for the years ended June 30, 2011 and 2010, respectively.

Capital Commitments
At June 30, 2011 and 2010, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $557 million and $503 million, respectively.

At June 30, 2011 and 2010, open construction, renovation, major repair and other contracts amounted to $122 million and $133 million, respectively.

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

Trustee Matters
In accordance with Court approval, the Trustees are compensated with an annual retainer payable monthly and a meeting fee for each meeting attended which is subject to annual maximum meeting limitations. For the years ended June 30, 2011 and 2010, total Trustee compensation amounted to $571,250 and $470,475, respectively.

Supplementary Schedules

Kamehameha Schools and Subsidiaries
Schedules of Trust Spending
Years Ended June 30, 2011, 2010, 2009, 2008 and 2007
(All dollars in thousands) **Schedule 1**

	2011	2010	2009	2008	2007
Trust spending, net					
Campus-based programs					
Kapalama	$ 82,872	$ 76,709	$ 77,951	$ 76,788	$ 74,124
Hawaii	29,226	27,032	27,271	25,814	25,805
Maui	26,498	25,676	25,744	26,798	24,636
Outreach programs					
Community education (includes funding for Hoʻokakoʻo, a not-for-profit organization, of $2,938, $2,784, $2,771, $2,858 and $1,850 for the years ended June 30, 2011, 2010, 2009, 2008 and 2007, respectively)	82,566	78,621	72,709	59,546	59,112
Scholarships	23,563	23,729	24,369	22,197	17,899
Educational support services	9,157	11,287	10,299	9,210	10,495
Ke Aliʻi Pauahi Foundation	1,340	984	(9)	244	451
Other program expenditures	7,296	8,746	7,154	6,422	8,999
Base spending	262,518	252,784	245,488	227,019	221,521
Less: Tuition, fees and other educational income, net	(10,603)	(10,313)	(11,332)	(12,076)	(13,614)
Base distributions	251,915	242,471	234,156	214,943	207,907
Information technology investment plan	5,196	6,713	7,068	12,276	4,002
Major repairs	3,729	4,013	2,634	7,878	10,427
Capital projects	38,067	25,077	16,050	26,102	20,689
Interest on debt	6,519	6,944	7,369	7,669	7,734
Debt financing of capital projects	8,286	8,286	8,286	4,286	952
In-kind transactions	823	5,733	2,298	251	1,500
Total trust spending before reserve activity	314,535	299,237	277,861	273,405	253,211
Reserve activity – operating, net	-	-	(20,000)	-	(3,000)
Total trust spending	$ 314,535	$ 299,237	$ 257,861	$ 273,405	$ 250,211
Average fair value of endowment	$ 8,031,082	$ 7,805,938	$ 7,512,346	$ 6,690,039	$ 6,136,107
Trust spending rate before reserve activity	3.9%	3.8%	3.7%	4.1%	4.1%
Trust spending rate	3.9%	3.8%	3.4%	4.1%	4.1%

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, 2011, 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, 2011. 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, 2011, 2010, 2009, 2008 and 2007 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, 2011 — Schedule 2

	Fair Value at June 30, 2011 (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	$ 2,927,590	22.2	4.4	13.1	12.9	11.2
Hawaii Real Estate Composite Index		16.7	-2.6	2.2	4.9	5.5
U.S. Equity	708,506	32.2	5.0	4.1	4.8	5.8
Russell 3000		32.4	4.0	3.4	3.4	2.4
Non-U.S. Equity	678,849	27.5	-2.0	1.9	6.2	6.3
MSCI EAFE net		30.4	-1.8	1.5	5.7	3.7
Emerging Markets	539,409	27.7	4.7	11.8	16.0	N/A
Emerging Markets Composite Index		27.8	4.2	11.2	14.7	N/A
Global Equity	242,902	27.4	N/A	N/A	N/A	N/A
MSCI All Country World Net Index		30.1	N/A	N/A	N/A	N/A
Private Equity	729,117	22.1	5.1	8.9	5.5	6.2
Private Equity Composite Index		19.7	2.1	8.1	10.1	10.7
Absolute Return	1,587,736	10.3	0.6	3.8	N/A	N/A
Absolute Return Composite Index		6.7	-1.8	0.8	N/A	N/A
Marketable Real Assets	445,863	32.2	4.6	10.4	N/A	N/A
Marketable Real Assets Composite Index		43.5	1.6	7.9	N/A	N/A
Illiquid Real Assets	264,595	36.7	11.5	11.9	19.1	25.8
Illiquid Real Assets Composite Index		21.4	6.6	9.2	8.4	8.4
Real Estate (Mainland)	47,381	-9.2	-20.2	-10.2	6.0	8.0
Global Inflation-Indexed Bonds	297,718	15.1	N/A	N/A	N/A	N/A
Barclays Global IIB Index (USD Hedged)		13.0	N/A	N/A	N/A	N/A
U.S. Fixed Income	255,113	2.1	5.7	6.7	6.3	6.4
Fixed Income Composite Index		2.2	5.7	6.8	5.9	6.2
Global Fixed Income	311,485	12.1	5.8	N/A	N/A	N/A
Citigroup World Government		10.5	5.8	N/A	N/A	N/A
Cash Equivalents	23,831	0.0	0.2	2.1	2.3	2.8
Three-month U.S. Treasury Bill		0.2	0.4	2.0	2.1	2.7
Total Endowment	$ 9,060,095	20.5	2.6	7.3	8.6	8.7
Endowment Fund Composite Benchmark		18.5	0.0	3.7	5.5	5.3
Total Endowment Fund Long-Term Objective (CPI+5%)		8.6	6.0	7.2	7.4	7.6

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.

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

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

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

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

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

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.

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.

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

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

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

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

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

- **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.