CERTIFIED PUBLIC ACCOUNTANTS

Kamehameha Schools and Subsidiaries

Consolidated Financial Statements and Supplementary Schedules

June 30, 2014 and 2013

Quality *Integrity* *Insight*

Kamehameha Schools and Subsidiaries
Index
June 30, 2014 and 2013

Report of Independent Auditors

To the Audit Committee
Kamehameha Schools and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kamehameha Schools and Subsidiaries (the "Organization"), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information for the years ended June 30, 2014, 2013, 2012, 2011 and 2010 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Accuity LLP

Honolulu, Hawaii
September 30, 2014

Kamehameha Schools and Subsidiaries
Consolidated Balance Sheets
June 30, 2014 and 2013
(All dollars in thousands)

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 69,187	$ 44,326
Receivables, net	5,284	5,299
Other	3,549	3,825
Total current assets	78,020	53,450
Trust investments		
Financial investments	7,774,648	6,502,616
Amounts receivable for securities sold	147,725	33,948
Interest receivables	13,333	13,460
Real estate investments, net	204,588	292,107
	8,140,294	6,842,131
Other investments	40,124	37,999
Property and equipment, net	705,931	682,014
Deferred charges and other	108,269	111,170
Total assets	$ 9,072,638	$ 7,726,764
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 69,969	$ 51,481
Current portion of notes payable	10,786	20,783
Deferred income and other	26,196	23,783
Total current liabilities	106,951	96,047
Notes payable	233,762	254,550
Accrued pension liability	44,937	71,122
Accrued postretirement benefits	47,305	39,265
Amounts payable for securities purchased	44,981	20,460
Deferred income and other	132,380	23,443
Total liabilities	610,316	504,887
Commitments and contingencies		
Net assets – unrestricted	8,462,322	7,221,877
Total liabilities and net assets	$ 9,072,638	$ 7,726,764

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

Kamehameha Schools and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2014 and 2013
(All dollars in thousands)

	2014	2013
Revenues, gains, and other support		
Tuition and fees	$ 30,991	$ 29,402
Less: Financial aid	(19,911)	(18,552)
Net tuition and fees	11,080	10,850
Investment gains, net	983,911	674,009
Rental	252,124	250,216
Net gains on property sales	486,830	69,647
Other	5,406	5,827
Total revenues, gains and other support	1,739,351	1,010,549
Expenses		
Educational programs	277,852	269,841
Management and general		
Rental	140,226	132,117
Other	108,037	106,017
Total expenses	526,115	507,975
Change in net assets before retirement plan related changes other than net periodic cost	1,213,236	502,574
Retirement plan related changes other than net periodic cost	27,209	41,269
Change in net assets	1,240,445	543,843
Net assets		
Beginning of year	7,221,877	6,678,034
End of year	$ 8,462,322	$ 7,221,877

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, 2014 and 2013
(All dollars in thousands)

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 1,240,445	$ 543,843
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	54,959	53,798
Net realized and unrealized gains on investments	(910,408)	(618,350)
Net gains on property transactions	(486,830)	(69,647)
Retirement plan related changes other than net periodic cost	(27,209)	(41,269)
Changes in operating assets and liabilities		
Receivables, net	15	1,353
Deferred charges and other	3,191	(4,029)
Accounts payable, accrued expenses and other liabilities	30,903	(6,421)
Net cash used in operating activities	(94,934)	(140,722)
Cash flows from investing activities		
Proceeds from sales of investments	5,263,112	5,290,487
Purchases of investments	(5,718,374)	(5,171,339)
Proceeds from real estate transactions	712,243	66,153
Purchases of real estate	(32,970)	(22,340)
Proceeds from sales of property and equipment	28	400
Purchases of property and equipment	(73,459)	(54,450)
Net cash provided by investing activities	150,580	108,911
Cash flows from financing activities		
Proceeds from borrowings	-	25,000
Repayment of borrowings	(30,785)	(22,021)
Net cash provided by (used in) financing activities	(30,785)	2,979
Net increase (decrease) in cash and cash equivalents	24,861	(28,832)
Cash and cash equivalents		
Beginning of year	44,326	73,158
End of year	$ 69,187	$ 44,326
Supplemental disclosure of cash flow information		
Income taxes paid	$ 1,663	$ 1,800
Interest paid	8,429	9,964

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 – KBH, Inc. and Lake Manassas Limited Liability Company. KBH, Inc. includes the operations of the Keauhou Beach Hotel. The operations of the Keauhou Beach Hotel ceased in 2013.

- 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.

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 $14.2 million and $12.3 million at June 30, 2014 and 2013, respectively. The Schools have no board or donor designated funds. As the restricted net assets of KAPF 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, trust and other investments are exposed to interest rate, market and geographic risk.

Fair Value Measurements
For financial and nonfinancial assets and liabilities reported at fair value, the Organization defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants. The Organization measures fair value using assumptions developed based on market data obtained from independent external sources and the reporting entity's own 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. 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 noncurrent section titled Trust Investments represents financial, real estate and interest receivables subject to the Organization's investment policies described below. Other investments represent investments held at the Organization's various subsidiaries and deferred compensation plan investments that are not subject to the same investment policies. Property, plant and equipment represents assets used for educational and administrative purposes, as well as assets related to the Organization's agricultural and conservation land.

The Organization is subject to a spending policy that was approved by Court Order dated March 13, 2000. The investment policies seek to meet or exceed an investment objective of an annualized total real return (i.e., net of inflation) of 5%, 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, investment settlements and interest receivables are classified as noncurrent assets in the consolidated balance sheets regardless of maturity or liquidity. In any given year, investments may need to be liquidated to support annual educational spending, but on a long-term basis, the Organization's investment and spending objectives are designed to support the educational programs in perpetuity. Refer to Schedules of Trust Spending and Schedule of Total Return for the relevant policies and historical information of the Organization.

Investments in debt and equity securities with readily determinable market values are measured at fair value based on quoted market prices. Investments in real estate are reported at the lower of cost or fair value. 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.

The carrying value of interest receivables approximates fair value because of the short maturity of these instruments.

Unrealized gains and losses for marketable debt and equity securities and other investments are included in the consolidated statements of activities. 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 carrying value of tenant 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, 2014 or 2013.

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 and are recorded to “Deferred income and other” on the consolidated balance sheets. 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, 2014 and 2013, the Schools collected and remitted \$43.6 million and \$43.5 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. The amount recognized for deferred tax assets is reduced, if necessary, to the amount more likely than not to be realized. Income taxes are calculated by each subsidiary as if it filed separate income tax returns.

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

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, 2014 and 2013, 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.

Reclassification
Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation. Such reclassifications have no impact on the 2013 change in net assets as previously reported.

Subsequent Events
The Organization has reviewed all events that have occurred from July 1, 2014 through September 30, 2014, the date that the consolidated financial statements were available for issuance, for proper accounting and disclosure in the consolidated financial statements.

2. Fair Value Measurements of Financial Investments

The fair value of the Organization's financial 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 or observable prices in an active market or exchange and is generally categorized in Level 1 or Level 2.

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

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

- **Commingled funds, hedge funds, private equity funds and loans** – These investments are generally reported at fair value using a market approach 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. For investments in investment companies, 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. These funds are generally categorized in Level 3.

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

The Organization's financial investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2014 and 2013 as follows (in thousands):

	2014	2013
Trust financial investments	$ 7,774,648	$ 6,502,616
Other investments	40,124	37,999
Investments, total	$ 7,814,772	$ 6,540,615

	Level 1	Level 2	Level 3	Total
2014				
Common and preferred stocks	$ 894,779	$ -	$ -	$ 894,779
Fixed income				
U.S. government obligations	135,378	-	-	135,378
International government bonds	-	510,441	-	510,441
Other debt securities	-	338,122	-	338,122
Short-term investments and cash equivalents	24,056	203,796	-	227,852
Mutual funds	142,253	-	-	142,253
Hedge funds	-	-	3,663,402	3,663,402
Private equity funds	-	-	1,285,716	1,285,716
Commingled funds	-	-	531,379	531,379
Loans	-	-	85,450	85,450
Total investments	$ 1,196,466	$ 1,052,359	$ 5,565,947	$ 7,814,772
2013				
Common and preferred stocks	$ 740,099	$ -	$ -	$ 740,099
Fixed income				
U.S. government obligations	166,850	-	-	166,850
International government bonds	-	592,052	-	592,052
Other debt securities	-	261,399	-	261,399
Short-term investments and cash equivalents	26,870	96,810	-	123,680
Mutual funds	104,851	-	-	104,851
Hedge funds	-	-	3,092,927	3,092,927
Private equity funds	-	-	1,082,705	1,082,705
Commingled funds	-	-	376,052	376,052
Total investments	$ 1,038,670	$ 950,261	$ 4,551,684	$ 6,540,615

Futures contracts' fair value is measured using Level 1 inputs and forward currency contracts' fair value is measured using Level 2 inputs as defined in Note 1. Amounts are included in the consolidated balance sheets in "Financial investments." Gains (losses) on forward currency and futures contracts are included in the consolidated statements of activities as "Investment gains, net."

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, 2014 and 2013 were as follows (in thousands):

	Hedge Funds	Private Equity Funds	Commingled Funds	Loans	Total
As of July 1, 2012	$ 2,644,471	$ 1,061,072	$ 489,276	$ -	$ 4,194,819
Net realized and unrealized gains on investments	388,339	75,407	52,721	-	516,467
Purchases	865,146	166,300	35,208	-	1,066,654
Sales	(805,029)	(220,074)	(201,153)	-	(1,226,256)
As of June 30, 2013	3,092,927	1,082,705	376,052	-	4,551,684
Net realized and unrealized gains on investments	486,505	180,875	53,036	463	720,879
Purchases	813,195	260,519	109,975	112,039	1,295,728
Sales	(729,225)	(238,383)	(7,684)	(27,052)	(1,002,344)
As of June 30, 2014	$ 3,663,402	$ 1,285,716	$ 531,379	$ 85,450	$ 5,565,947
Change in unrealized gains relating to investments held at June 30, 2013	$ 368,371	$ 21,696	$ 60,862	$ -	$ 450,929
Change in unrealized gains relating to investments held at June 30, 2014	$ 486,377	$ 87,104	$ 84,505	$ 340	$ 658,326

The Organization's investments may be subject to restrictions that (i) limit the Organization's ability to redeem/withdraw capital from such investments during a specified period of time subsequent to the Organization's investment of capital in such investments and/or (ii) the amount of capital that investors in such investments, including the Organization, may redeem/withdraw as of a given redemption/withdrawal date. Capital available for redemption/withdrawal may also be subject to redemption/withdrawal charges and may or may not include capital attributable to the Organization's participation in illiquid investments and/or designated investments held by investments from which the Organization makes redemptions/withdrawals. These investments generally limit redemptions to monthly, quarterly, semi-annually, annually or longer, at fair value, and require between 30 and 90 days' prior written notice.

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.

The Organization's loan investments typically range in duration from three to five years.

Investment gains for the years ended June 30, 2014 and 2013 were as follows (in thousands):

	2014	2013
Interest and dividend income	$ 73,503	$ 55,659
Realized and unrealized gains, net of investment fees	910,408	618,350
Investment gains, net	$ 983,911	$ 674,009

3. Derivatives

The Organization utilizes a variety of derivative instruments as part of the overall investment strategy, including certain forward currency contracts and futures contracts. As described in Note 7, the Organization also utilizes interest rate swap agreements to manage interest rate risk associated with its variable debt facilities. Derivative instruments by their nature bear, to varying degrees, elements of market risk and credit risk that are not reflected in the amounts recorded in the consolidated financial statements. Market risk represents the potential for changes in the value of derivative instruments due to levels of volatility and liquidity or other events affecting the underlying asset, reference rate, or index, including those embodied in interest and foreign exchange rate movements and fluctuations in commodity or security prices. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of a contract. The Organization's risk of loss in the event of counterparty default is limited to the amounts recognized in the consolidated statements of financial position, not the notional amounts of the instruments.

The Organization's forward currency contracts are traded Over-the-Counter (OTC) and are primarily utilized to mitigate the impact of exchange rate fluctuations on the U.S. dollar value of international investment holdings. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The value of a forward currency contract fluctuates with changes in forward currency exchange rates. Forward currency contracts are marked-to-market daily and the change in value is recorded by the Organization as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency or, if a forward currency contract is offset by entering into another forward currency contract with the same broker, upon settlement of the net gain or loss.

The Organization's futures contracts are traded on centralized exchanges and are used to manage market exposures and to implement certain investment strategies in a more effective and efficient manner than would be expected by other alternatives such as the purchase or sale of the underlying market securities. Upon entering into a futures contract, the Organization is required to deposit with its broker an amount of cash or liquid securities in accordance with the initial margin requirements of the broker or exchange. Gains and losses are realized when the contracts expire or are closed. Futures contracts are marked-to-market daily based on settlement prices established by the board of trade or exchange on which they are traded, and an appropriate payable or receivable for the change in value is recorded by the Organization.

The following table presents amounts for investment-related derivatives, including the exposure amount, the fair values at June 30, 2014 and 2013, and gains and losses for the years ended June 30, 2014 and 2013 (in thousands):

	Exposure Amounts	Derivative Assets	Derivative Liabilities	Net Gain / (Loss)
2014				
Forward currency contracts	$ (2,866)	$ 3,104	$ (5,970)	$ (23,837)
Futures contracts	(236,005)	1,476	(3,241)	(46,061)
		$ 4,580	$ (9,211)	$ (69,898)
2013				
Forward currency contracts	$ 18,336	$ 25,155	$ (6,819)	$ 45,763
Futures contracts	(131,206)	2,884	(5,503)	(9,557)
		$ 28,039	$ (12,322)	$ 36,206

4. Real Estate Investments

The Organization's real estate investments primarily consist of commercial, residential and agricultural properties located in the State of Hawaii. At June 30, 2014 and 2013, the cost and fair value of real estate investments was as follows (in thousands):

	2014	2013
Land	$ 58,491	$ 61,640
Buildings and improvements	310,027	457,620
Less: Accumulated depreciation	(202,128)	(249,643)
	166,390	269,617
Construction in progress	38,198	22,490
Real estate, total at cost	$ 204,588	$ 292,107
Real estate, total at fair value	$ 3,124,825	$ 3,528,182

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

5. Property and Equipment

Property and equipment, net, at June 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Educational property and equipment		
Land	$ 16,201	$ 16,201
Buildings, improvements and equipment	874,787	830,319
Less: Accumulated depreciation	(337,261)	(308,157)
	553,727	538,363
Non-educational property and equipment		
Land and land improvements	36,774	35,849
Buildings, improvements and equipment	117,076	122,477
Less: Accumulated depreciation and amortization	(53,893)	(53,719)
	99,957	104,607
Construction in progress	52,247	39,044
Property and equipment, net	$ 705,931	$ 682,014

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

6. Receivables

Receivables, net, at June 30, 2014 and 2013 were as follows (in thousands):

	2014	2013
Tenant and tuition	$ 5,441	$ 5,134
Trade	1,482	1,302
Other	1,791	2,205
	8,714	8,641
Less: Allowance for doubtful accounts	(3,430)	(3,342)
Receivables, net	$ 5,284	$ 5,299

7. Notes Payable

At June 30, 2014 and 2013, unsecured notes payable consisted of the following (in thousands except percentages):

	2014	2013
Senior promissory notes payable under a $200.0 million private shelf facility		
3.85%, payable through January 2037	$ 50,000	$ 50,000
Senior promissory notes payable under a $150.0 million private shelf facility		
6.80%, payable through March 2027	12,381	13,333
4.88%, payable through June 2028	46,667	50,000
4.93%, payable through April 2029	36,000	40,000
Term loan, variable		
1.10% and 1.14% at June 30, 2014 and 2013, respectively, payable through March 2022	20,000	22,500
0.83% and 0.96% at June 30, 2014 and 2013, respectively, payable through August 2017	25,000	25,000
Revolving credit loans	54,500	74,500
Total notes payable	244,548	275,333
Less: Current portion	(10,786)	(20,783)
Long-term notes payable	$ 233,762	$ 254,550

The fair value of notes payable is estimated using the current rates at which similar loans would be made by lenders to borrowers with similar credit ratings and similar remaining maturities. The fair value of the Schools' notes payable was $253.1 million and $279.4 million as of June 30, 2014 and 2013, respectively.

In March 2012, the Schools entered into a $25 million, 10-year term loan with variable interest rates. The Schools entered into an interest rate swap agreement to pay a fixed interest rate of 2.48% with the same financial institution. The swap may be settled monthly. The interest rate swap's fair value is measured using Level 2 inputs. The fair value estimates were determined by the financial institution, based on an income approach that considers quoted prices for economically equivalent swaps, projected yield curves and volatility risks that may require significant estimates and judgments. The fair value of the interest rate swap was $0.02 million and $0.1 million as of June 30, 2014 and 2013, respectively, and was included in deferred charges and other assets. The change in fair value of the interest rate swap was included in other income.

The Schools have a revolving credit facility with two commercial banks that expire in 2017. The revolving credit facility provides for a commitment of $100 million. Amounts drawn under the facilities bear interest ranging from 1.15% to 1.23%, which are based on London Interbank Offered Rate ("LIBOR") plus a spread.

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

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

Year ending June 30,	
2015	$ 10,786
2016	9,786
2017	89,286
2018	9,786
2019	9,786
Thereafter	115,118
	$ 244,548

Interest expense incurred was $8.9 million and $10.4 million for the years ended June 30, 2014 and 2013, respectively.

8. Income Taxes

Total income tax expense amounted to approximately $0.9 million and $1.9 million for the years ended June 30, 2014 and 2013, 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, 2014 and 2013 were as follows (in thousands):

	2014	**2013**
Deferred tax assets		
Charitable contribution carryforwards	$ 52,142	$ 38,839
Net operating loss carryforwards	28,149	27,559
Passive activity loss carryforwards	23,839	19,936
Difference in basis of investments and real estate	5,745	5,523
Other	2,933	3,093
	112,808	94,950
Less: Valuation allowance	(112,808)	(94,950)
Net deferred taxes	$ -	$ -

The change in valuation allowance was an increase of $17.9 million and a decrease of $0.1 million for the years ended June 30, 2014 and 2013, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portions or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that it will not realize these deductible differences and has provided a full valuation allowance at June 30, 2014 and 2013. 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 $52.9 million available to carryforward indefinitely for federal and state tax purposes, charitable contribution carryforwards of $115.9 million expiring at various dates beginning in fiscal year 2014 through 2019, net operating loss carryforwards of $72.2 million expiring at various dates beginning in fiscal year 2027 through 2034.

As of June 30, 2014 and 2013, 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, 2011 through 2014.

9. Pension and Other Postretirement Benefits

The Organization has a defined benefit pension plan (the "Pension Plan") which covers substantially all employees after satisfying age and length of service requirements.

In 2013, the Organization elected to freeze the Pension Plan effective June 30, 2014. Eligible employees retain all benefits through June 30, 2014; however, pension benefits ceased accruing effective July 1, 2014.

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

The following table reconciles the changes to the benefit obligations and plan assets for the years ended June 30, 2014 and 2013 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2014 and 2013 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2014	**2013**	**2014**	**2013**
Change in benefit obligation				
Benefit obligation at beginning of year	$ 344,259	$ 354,569	$ 39,265	$ 41,681
Service cost	12,058	15,823	1,730	1,916
Interest cost	16,106	16,441	2,127	2,007
Benefits paid	(13,357)	(11,998)	(1,230)	(1,171)
Actuarial (gains) losses	33,316	(30,066)	5,413	(5,168)
Liability gain due to curtailment	(43,485)	-	-	-
Other	(924)	(510)	-	-
Benefit obligation at end of year	347,973	344,259	47,305	39,265
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	273,137	240,198	-	-
Actual return on plan assets	44,180	20,447	-	-
Employer contributions	-	25,000	1,230	1,171
Benefits paid	(13,357)	(11,998)	(1,230)	(1,171)
Other	(924)	(510)	-	-
Fair value of plan assets at end of year	303,036	273,137	-	-
Funded status and recognized liability	$ (44,937)	$ (71,122)	$ (47,305)	$ (39,265)

The accumulated benefit obligation for the Pension Plan was $347.9 million and $298.4 million at June 30, 2014 and 2013, respectively.

The net periodic benefit cost consisted of the following for the years ended June 30, 2014 and 2013 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2014	**2013**	**2014**	**2013**
Service cost	$ 12,058	$ 15,823	$ 1,730	$ 1,916
Interest cost	16,106	16,441	2,128	2,007
Expected return on plan assets	(19,997)	(18,725)	-	-
Amortization of prior service cost and actuarial losses	463	3,964	25	349
Preliminary net periodic benefit cost	8,630	17,503	3,883	4,272
Settlement/curtailment income	(2,217)	-	-	-
Net periodic benefit cost	$ 6,413	$ 17,503	$ 3,883	$ 4,272

Actuarial (gains) losses and amounts amortized into net periodic benefit cost for the years ended June 30, 2014 and 2013 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2014	**2013**	**2014**	**2013**
Actuarial losses (gains) arising during the year	$ 9,133	$ (31,788)	$ 5,413	$ (5,168)
Recognition due to curtailment of				
Prior service credit	(342)	-	-	-
Actuarial gain	(40,926)	-	-	-
Prior service costs and net actuarial losses reclassified as a component of net periodic benefit cost	(463)	(3,964)	(24)	(349)
Change in amounts not yet recognized as net periodic benefit cost	$ (32,598)	$ (35,752)	$ 5,389	$ (5,517)

The prior service cost and actuarial losses that have not yet been recognized as components of net periodic benefit cost at June 30, 2014 and 2013 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2014	**2013**	**2014**	**2013**
Actuarial losses	$ 17,533	$ 49,714	$ 8,007	$ 2,595
Prior service cost	-	417	-	23
Amounts not yet recognized as net periodic benefit cost	$ 17,533	$ 50,131	$ 8,007	$ 2,618

There are no estimated prior service costs expected to be amortized into net periodic benefit cost in 2015 for the pension and postretirement plans. The estimated actuarial losses expected to be amortized into net periodic benefit cost in 2015 are $40,000 and $228,000 for the pension and postretirement plans, respectively.

	Pension Benefits		Postretirement Benefits	
	2014	**2013**	**2014**	**2013**
Weighted average assumptions				
Benefit obligation				
Discount rate	4.47%	5.20%	4.71%	5.33%
Rate of compensation increase	N/A	3.60%	N/A	N/A
Net periodic benefit cost				
Discount rate	5.20%	4.71%	5.33%	4.81%
Expected return on plan assets	7.50%	7.50%	N/A	N/A
Rate of compensation increase	3.60%	3.60%	N/A	N/A

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

The assumed healthcare cost trend rates at June 30, 2014 and 2013 were as follows:

	2014	**2013**
Healthcare cost trend rate assumed for the next year	7.75%	7.75%
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	2022	2020

The fair value of the Organization's Pension Plan assets at June 30, 2014 and 2013 by asset category were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Level 1	**Level 2**	**Level 3**	**Total**
2014				
Cash and cash management funds	$ -	$ 4,122	$ -	$ 4,122
Mutual fund	63,572	-	-	63,572
Collective investment funds	-	-	118,143	118,143
Hedge funds and other	-	-	117,199	117,199
Total investments	$ 63,572	$ 4,122	$ 235,342	$ 303,036
2013				
Cash and cash management funds	$ -	$ 8,576	$ -	$ 8,576
Mutual fund	52,799	-	-	52,799
Collective investment funds	-	-	101,836	101,836
Hedge funds and other	-	-	109,926	109,926
Total investments	$ 52,799	$ 8,576	$ 211,762	$ 273,137

During 2014, the Organization adopted an investment strategy that will reduce return-seeking assets and increase long duration fixed income allocations over time with the intention of reducing volatility of funded status and pension costs. At June 30, 2014 and 2013, the target allocation to return-seeking assets was 70% and 75%, respectively and the target allocation to fixed income and cash equivalents was 30% and 25%, respectively. Return-seeking assets, some of which are included in common and collective funds, primarily include investments in large capital and small capital companies located in the U.S., as well as international equity securities in developed and emerging markets. Return-seeking assets also include hedge fund investments in absolute return/hedge funds that follow several different strategies and inflation-hedging assets such as real estate investment trusts, energy and commodities. Fixed income securities held by the collective investment and hedge funds primarily include corporate bonds of companies from diversified industries and U.S. Treasuries. The Organization engages 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, 2014 and 2013 (in thousands):

	Collective Investment Funds	Hedge Funds and Other	Total
As of July 1, 2012	$ 102,526	$ 85,421	$ 187,947
Actual return on plan assets			
Relating to assets still held at the reporting date	8,018	889	8,907
Relating to assets sold during the period	1,018	1,620	2,638
Purchases	10,231	34,063	44,294
Sales	(19,957)	(12,067)	(32,024)
As of June 30, 2013	101,836	109,926	211,762
Actual return on plan assets			
Relating to assets still held at the reporting date	6,731	10,823	17,554
Relating to assets sold during the period	11,879	2,450	14,329
Purchases	79,049	4,661	83,710
Sales	(81,352)	(10,661)	(92,013)
As of June 30, 2014	$ 118,143	$ 117,199	$ 235,342

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

	Pension Benefits	Postretirement Benefits
Year ending June 30,		
2015	$ 15,177	$ 1,362
2016	16,287	1,511
2017	17,097	1,611
2018	17,855	1,766
2019	18,560	1,907
2020–2024	101,083	11,438
	$ 186,059	$ 19,595

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 does not expect to make any contributions to its Pension Plan in 2015. The Organization expects to contribute $1.4 million to its postretirement medical plans in 2015.

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. Participants are immediately and fully vested in the Organization's contribution. Contributions to the 401(k) plan for the years ended June 30, 2014 and 2013 amounted to approximately $4.1 million and $3.8 million, respectively.

10. Natural Classification of Expenses

Operating expenses incurred for the years ended June 30, 2014 and 2013 were as follows (in thousands):

	2014	2013
Human resources and employee benefits	$ 196,741	$ 198,503
Taxes and recoveries	85,858	79,320
Depreciation and amortization	54,959	53,798
Professional fees and services	53,288	42,688
Scholarships	27,321	26,244
Collaborations	20,301	17,368
Rentals and utilities	18,144	20,312
Interest	8,953	10,487
Other expenses	60,550	59,255
Total expenses	$ 526,115	$ 507,975

11. Commitments and Contingencies

Rental Income

The majority of land and buildings are generally leased under long-term lease arrangements. At June 30, 2014, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Year ending June 30,	
2015	$ 111,752
2016	102,951
2017	87,627
2018	69,745
2019	59,194
Thereafter	861,069
	$ 1,292,338

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $23.5 million and $21.2 million for the years ended June 30, 2014 and 2013, respectively.

Capital Commitments

At June 30, 2014 and 2013, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $1.3 billion and $805 million, respectively.

At June 30, 2014 and 2013, open construction, renovation, major repair and other contracts amounted to $132 million and $97 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, 2014 and 2013, total Trustee compensation amounted to $849,000 and $713,000, respectively.

Supplementary Schedules

Kamehameha Schools and Subsidiaries
Schedules of Trust Spending
Years Ended June 30, 2014, 2013, 2012, 2011 and 2010
(All dollars in thousands) **Schedule 1**

	2014	2013	2012	2011	2010
Trust spending, net					
Campus-based programs					
Campus Education	$ 7,440	$ 7,436	$ 5,734	$ 2,263	$ 1,815
Kapalama	90,236	93,849	85,296	82,310	76,132
Hawaii	35,981	34,012	30,913	29,113	26,968
Maui	31,789	32,275	28,452	26,382	25,550
Outreach programs					
Community education (includes funding for Ho‘okako‘o, a not-for-profit organization, of $1,083 $50, $2,872, $2,938, and $2,784 for the years ended June 30, 2014, 2013, 2012, 2011, and 2010, respectively)	65,162	66,498	66,234	62,843	60,389
Collaborations	20,300	17,425	20,455	22,339	21,751
Scholarships	26,913	25,832	25,058	23,563	23,729
Educational support services	12,030	11,993	9,800	9,155	11,287
Ke Ali‘i Pauahi Foundation	1,738	644	1,271	1,340	984
Other program expenditures	2,976	(75)	3,210	2,352	3,364
Base spending	294,565	289,889	276,423	261,660	251,969
Less: Tuition, fees and other educational income, net	(12,486)	(12,030)	(9,821)	(10,603)	(10,313)
Base distributions	282,079	277,859	266,602	251,057	241,656
Equipment	2,616	2,634	1,396	858	815
Information technology investment plan	10,123	14,920	8,477	5,196	6,713
Major repairs	6,391	9,055	6,613	3,729	4,013
Capital projects	57,414	40,348	48,594	38,067	25,077
Interest on debt	7,913	8,423	7,144	6,519	6,944
Debt financing of capital projects	10,786	(14,839)	(66,714)	8,286	8,286
In-kind transactions	788	8,489	613	823	5,733
Total trust spending before reserve activity	378,110	346,889	272,725	314,535	299,237
Reserve activity – operating, net	-	(31,594)	(10,000)	-	-
Total trust spending	$ 378,110	$ 315,295	$ 262,725	$ 314,535	$ 299,237
Average fair value of endowment	$ 8,514,061	$ 8,425,932	$ 8,294,850	$ 8,031,082	$ 7,805,938
Trust spending rate before debt financing and reserve activity	4.3%	4.3%	4.1%	3.8%	3.7%
Trust spending rate	4.4%	3.7%	3.2%	3.9%	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, 2014, 2013, 2012, 2011 and 2010, the schedules were prepared on a modified accrual basis of accounting and presented total distributions made from the Endowment to fund educational programs (trust spending) by major program and activity. The schedules also presented trust spending rates for five fiscal years through June 30, 2014.

2. Trust Spending and Trust Spending Rate

Trust spending represents the amounts spent during the fiscal year on educational programs by major program and activity. The campus-based and outreach program costs represent direct and indirect costs of providing these programs. The Educational Support Services programs represent the costs of administering scholarships, financial aid, admissions, ancestry verification and other supporting functions for educational programs. Ke Ali'i Pauahi Foundation expenditures represent the direct and indirect costs of providing scholarship and financial aid programs. Other program expenditures represent the direct and indirect costs related to certain educational services that benefit the various campus-based and outreach programs. Indirect costs, which represent the portion of the finance, operations and legal services and other ancillary costs that support the Schools' educational programs and purpose are allocated to education based on various methods depending on the type of cost including headcount, square footage and proportion in relation to the other estimates based on management's best judgment. Information technology investment plan includes information technology projects that are directly attributable to education as well as an allocation of information technology projects that are attributable to the entire organization. Major repairs, capital projects, interest on debt, net borrowing of debt and repayment of principal, and in-kind transactions are directly and indirectly attributable to education. 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 debt financing and 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 trust investment assets as described in Note 1 of the consolidated financial statements. The average fair value of the Endowment is based on the average of the prior 20-quarter-end fair values. Accordingly, the trust spending rates for the years ended June 30, 2014, 2013, 2012, 2011 and 2010 are based on the estimated average fair values over the last five fiscal years utilizing the respective quarter-end values. For information on fair values, see Note 2 in the notes of the Schedule of Total Return.

Kamehameha Schools and Subsidiaries
Schedule of Total Return
June 30, 2014 Schedule 2

	Value at June 30, 2014 (In Thousands)	One-Year Total Return %	Five-Year Total Return %	Ten-Year Total Return %	Since July 1, 1999 Total Return %
Hawaii Real Estate	$ 3,124,825	10.7	15.6	14.9	11.7
Hawaii Real Estate Composite Index		11.2	9.7	6.1	6.7
Developed Markets (Economic Value)	1,855,004	25.6	17.4	8.5	7.9
Developed Markets Composite Index		24.0	15.5	7.2	4.5
Emerging Markets	495,498	16.6	12.0	13.5	N/A
Emerging Markets Composite Index		14.3	9.2	11.3	N/A
Private Equity	857,287	25.0	17.3	12.4	7.7
Private Equity Composite Index		20.9	15.4	10.1	11.0
Absolute Return	2,686,793	10.1	8.6	5.3	N/A
Absolute Return Composite Index		7.6	4.2	3.0	N/A
Marketable Real Assets	614,544	21.8	10.9	13.1	N/A
Marketable Real Assets Composite Index		22.8	11.6	9.2	N/A
Illiquid Real Assets	385,407	7.9	12.8	11.0	21.7
Illiquid Real Assets Composite Index		6.2	10.7	8.3	8.1
Real Estate (Mainland)	1,061	43.4	13.4	12.3	12.2
Real Estate (Mainland) benchmark		43.4	12.7	10.1	9.9
U.S. Fixed Income	93,804	2.3	4.0	5.1	5.8
Fixed Income Composite Index		2.6	4.2	5.1	5.7
Global Fixed Income	580,914	4.3	7.9	N/A	N/A
Citigroup World Government		6.8	3.6	N/A	N/A
Cash Equivalents and Synthetic Cash (Economic Value)	346,369	0.0	0.1	1.7	2.2
Three-month U.S. Treasury Bill		0.1	0.1	1.6	2.2
Total Endowment, before indirect expenses	$ 11,041,506	13.5	13.1	9.9	9.2
Total Endowment, net of all investment-related expenses		13.3	12.9	9.7	9.0
Endowment Fund Composite Benchmark		13.0	10.0	6.4	5.9
Total Endowment Fund Long-Term Objective (CPI+5%)		7.1	7.0	7.3	7.4

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

1. Background and Purpose

The Schools' investment policy establishes long-term and intermediate-term investment objectives, asset allocation targets, and performance measurement guidelines for the Endowment. The 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.

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

At June 30, 2014, the Schools held an S&P 500 short futures position to achieve asset allocation targets. The notional value of the short position was $211 million.

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

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

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

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

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

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.

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 U.S. government and money market funds.

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

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

2. Fair Value and Economic Value

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

Economic value is defined as fair value plus notional exposure.

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

Hawaii Real Estate
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.

Developed Markets
The market values of marketable equity securities and derivatives for positions held directly are based on quoted market prices. For positions held through commingled vehicles, the market values are based on quoted prices of the underlying assets. As of June 30, 2014, market value was $2,066 million.

Emerging Markets
The market values of marketable equity securities and derivatives for positions held directly are based on quoted market prices. For positions held through commingled vehicles, the market values are based on quoted prices of the underlying assets

Private Equity
Different techniques and many factors were considered in deriving the fair value of these investments. Several investments have been valued based on the underlying asset value and are based on a number of different factors including, among others, original cost, third-party financing transactions, discounted cash flows and comparable industry multiples.

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

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

U.S. Fixed Income, Global Fixed Income and Cash Equivalents and Synthetic Cash
The market values of marketable debt securities, cash equivalents and derivatives are primarily based on quoted market prices. As of June 30, 2014, market value of cash equivalents was $136 million.

3. Total Return

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

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

"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.

- **Developed Markets Composite Index**
  75% Russell 3000, 25% MSCI EAFE Net from July 1999 to December 2003; 67% Russell 3000, 33% MSCI EAFE Net from January 2004 to December 2006; 50% Russell 3000, 50% MSCI EAFE Net from January 2007 to February 2013; MSCI World Net from March 2013.

- **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.

- **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.