CERTIFIED PUBLIC ACCOUNTANTS

Kamehameha Schools and Subsidiaries

Consolidated Financial Statements and Supplementary Schedules

June 30, 2016 and 2015

Quality *Integrity* *Insight*

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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, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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, 2016 and 2015, 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, 2016, 2015, 2014, 2013, and 2012 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 29, 2016

Kamehameha Schools and Subsidiaries
Consolidated Balance Sheets
June 30, 2016 and 2015
(All dollars in thousands)

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 124,293	$ 32,529
Receivables, net	6,225	6,618
Other	2,680	2,981
Total current assets	133,198	42,128
Trust investments		
Financial investments	7,227,884	7,848,175
Amounts receivable for securities sold	107,221	118,747
Interest receivables	7,022	9,490
Real estate investments, net	248,779	207,281
	7,590,906	8,183,693
Other investments	37,482	36,369
Property and equipment, net	682,061	697,575
Deferred charges and other	117,125	113,809
Total assets	$ 8,560,772	$ 9,073,574
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 42,245	$ 44,484
Current portion of notes payable	9,786	9,783
Deferred income and other	26,231	26,393
Total current liabilities	78,262	80,660
Notes payable	159,690	183,979
Accrued pension liability	134,170	72,706
Accrued postretirement benefits	65,107	53,699
Amounts payable for securities purchased	17,118	74,831
Deferred income and other	187,689	188,715
Total liabilities	642,036	654,590
Commitments and contingencies		
Net assets – unrestricted	7,918,736	8,418,984
Total liabilities and net assets	$ 8,560,772	$ 9,073,574

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

Kamehameha Schools and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2016 and 2015
(All dollars in thousands)

	2016	2015
Revenues, gains (losses), and other support		
Tuition and fees	$ 36,725	$ 34,814
Less: Financial aid	(26,324)	(23,080)
Net tuition and fees	10,401	11,734
Investment gains (losses), net	(185,917)	78,929
Rental	209,178	225,172
Net gains on property sales	34,089	159,607
Other	3,966	4,390
Total revenues, gains (losses) and other support	71,717	479,832
Expenses		
Educational programs	285,424	277,933
Management and general		
Rental	109,308	111,527
Other	106,182	98,141
Total expenses	500,914	487,601
Change in net assets before retirement plan related changes other than net periodic cost	(429,197)	(7,769)
Retirement plan related changes other than net periodic cost	(71,051)	(35,569)
Change in net assets	(500,248)	(43,338)
Net assets		
Beginning of year	8,418,984	8,462,322
End of year	$ 7,918,736	$ 8,418,984

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, 2016 and 2015
(All dollars in thousands)

	2016	2015
Cash flows from operating activities		
Change in net assets	$ (500,248)	$ (43,338)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	52,665	52,148
Net realized and unrealized (gains) losses on investments	245,610	(18,838)
Net gains on property transactions	(34,089)	(159,607)
Retirement plan related changes other than net periodic cost	71,051	35,569
Changes in operating assets and liabilities		
Receivables, net	393	(1,334)
Deferred charges and other	(4,289)	(6,345)
Accounts payable, accrued expenses and other liabilities	(1,606)	(23,085)
Net cash used in operating activities	(170,513)	(164,830)
Cash flows from investing activities		
Proceeds from sales of investments	4,535,588	4,811,537
Purchases of investments	(4,205,738)	(4,799,801)
Proceeds from real estate transactions	34,294	239,173
Purchases of real estate	(49,210)	(35,284)
Proceeds from sales of property and equipment	4	70
Purchases of property and equipment	(28,375)	(36,737)
Net cash provided by investing activities	286,563	178,958
Cash flows from financing activities		
Proceeds from borrowings	-	14,500
Repayment of borrowings	(24,286)	(65,286)
Net cash used in financing activities	(24,286)	(50,786)
Net increase (decrease) in cash and cash equivalents	91,764	(36,658)
Cash and cash equivalents		
Beginning of year	32,529	69,187
End of year	$ 124,293	$ 32,529
Supplemental disclosure of cash flow information		
Income taxes paid	$ 1,362	$ 830
Interest paid	7,109	7,781

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"), Kaloko‘eli Properties LLC ("KPL"), 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.
- 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.

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

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

KPL is a wholly-owned limited liability company whose exclusive purpose is to engage in the planning, designing, financing, and construction of low-cost housing for sale or rental.

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

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

Basis of Financial Statement Presentation
The Organization's consolidated financial statements have been prepared on the accrual basis of accounting, and are presented in conformity with GAAP. Net assets, revenues, gains and other support, and expenses are classified based on the existence or absence of donor-imposed restrictions. KAPF's combined temporarily and permanently restricted net assets amounted to approximately $17.8 million and $17.9 million at June 30, 2016 and 2015, 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. Transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer.

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

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 real return of 5.0% (CPI + 5 percentage points), net of fees and direct expenses, over most rolling ten-year periods, as well as over longer periods. In meeting this objective, the Organization allocates assets in a prudent manner, balancing risks and potential rewards while maintaining adequate levels of liquidity.

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

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

Investments in debt and equity securities with readily determinable market values are measured at fair value based on quoted market prices. Investments 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 investment gains and losses.

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

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, 2016 or 2015.

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 over the fixed term of the respective leases. The deferred rent revenue is included in “Deferred income and other” on the consolidated balance sheets.

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, 2016 and 2015, the Schools collected and remitted $46.1 million and $40.6 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.

KPL is exempt from Hawaii income taxes. For federal income tax purposes, KPL is treated as a disregarded entity.

The Organization evaluates uncertain tax positions utilizing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. At June 30, 2016 and 2015, 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.

Fair Value of Financial Investments and Pension Plan Assets
The fair value of the Organization's financial investments and pension plan assets was determined as follows:

- **Common and preferred stocks, short-term investments and cash equivalents, and mutual funds** – The fair value of these investments is estimated using quoted or observable prices in an active market or exchange and is generally categorized in Level 1 or Level 2.

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

- **International government bonds 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, collective investment 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.

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, 2016 through September 29, 2016, the date that the consolidated financial statements were available for issuance, for proper accounting and disclosure in the consolidated financial statements.

2. Financial Investments

The Organization's financial investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2016 and 2015 as follows (in thousands):

	2016	2015
Trust financial investments	$ 7,227,884	$ 7,848,175
Other investments	37,482	36,369
Investments, total	$ 7,265,366	$ 7,884,544

	Level 1	Level 2	Level 3	Total
2016				
Common and preferred stocks	$ 498,012	$ -	$ -	$ 498,012
Fixed income				
U.S. government obligations	328,474	-	-	328,474
International government bonds	-	177,152	-	177,152
Other debt securities	-	286,237	-	286,237
Short-term investments and cash equivalents	7,248	6,218	-	13,466
Mutual funds	112,520	-	-	112,520
Hedge funds	-	-	3,143,708	3,143,708
Private equity funds	-	-	1,905,712	1,905,712
Commingled funds	-	-	658,974	658,974
Loans	-	-	141,111	141,111
Total investments	$ 946,254	$ 469,607	$ 5,849,505	$ 7,265,366
2015				
Common and preferred stocks	$ 729,952	$ -	$ -	$ 729,952
Fixed income				
U.S. government obligations	154,582	-	-	154,582
International government bonds	-	296,370	-	296,370
Other debt securities	-	359,709	-	359,709
Short-term investments and cash equivalents	4,872	15,228	-	20,100
Mutual funds	96,148	-	-	96,148
Hedge funds	-	-	3,790,016	3,790,016
Private equity funds	-	-	1,618,660	1,618,660
Commingled funds	-	-	667,322	667,322
Loans	-	-	151,685	151,685
Total investments	$ 985,554	$ 671,307	$ 6,227,683	$ 7,884,544

Net realized and unrealized gains/(losses) on Level 3 investments were included in the consolidated statements of activities. Changes in Level 3 investments measured at fair value on a recurring basis for the years ended June 30, 2016 and 2015 were as follows (in thousands):

	Hedge Funds	Private Equity Funds	Commingled Funds	Loans	Total
As of July 1, 2014	$ 3,663,402	$ 1,285,716	$ 531,379	$ 85,450	$ 5,565,947
Net realized and unrealized gains/(losses) on investments	128,869	86,357	(35,868)	(344)	179,014
Purchases	2,484,369	668,173	174,287	133,207	3,460,036
Sales	(2,486,624)	(421,586)	(2,476)	(66,628)	(2,977,314)
As of June 30, 2015	3,790,016	1,618,660	667,322	151,685	6,227,683
Net realized and unrealized gains/(losses) on investments	(170,813)	31,080	(29,624)	70	(169,287)
Purchases	313,358	535,979	172,830	45,857	1,068,024
Sales	(788,853)	(280,007)	(151,554)	(56,501)	(1,276,915)
As of June 30, 2016	$ 3,143,708	$ 1,905,712	$ 658,974	$ 141,111	$ 5,849,505
Change in unrealized gains/(losses) relating to investments held at June 30, 2015	$ 1,028,747	$ (46,432)	$ (7,116)	$ (181)	$ 975,018
Change in unrealized gains/(losses) relating to investments held at June 30, 2016	$ 72,718	$ (68,918)	$ (9,619)	$ 972	$ (4,847)

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 (losses) for the years ended June 30, 2016 and 2015 were as follows (in thousands):

	2016	2015
Interest and dividend income	$ 59,693	$ 60,091
Realized and unrealized gains (losses)	(245,610)	18,838
Investment gains (losses), net of investment fees	$ (185,917)	$ 78,929

3. Derivatives

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

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

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

The following table presents amounts for investment-related derivatives, including the exposure amount, the fair values at June 30, 2016 and 2015, and gains and losses for the years ended June 30, 2016 and 2015 (in thousands):

	Exposure Amounts	Derivative Assets	Derivative Liabilities	Net Gain / (Loss)
2016				
Forward currency contracts	$ (3,108)	$ 1,670	$ (4,778)	$ (11,169)
Futures contracts	(12,683)	-	(251)	(12,683)
		$ 1,670	$ (5,029)	$ (23,852)
2015				
Forward currency contracts	$ 5,503	$ 11,701	$ (6,198)	$ 59,307
Futures contracts	(120,618)	1,886	(957)	(25,598)
		$ 13,587	$ (7,155)	$ 33,709

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, 2016 and 2015, the cost and fair value of real estate investments was as follows (in thousands):

	2016	2015
Land	$ 58,681	$ 58,681
Buildings and improvements	309,389	255,904
Less: Accumulated depreciation	(166,447)	(155,681)
	201,623	158,904
Construction in progress	39,156	48,377
Investments in joint venture	8,000	-
Real estate, total at carrying value	$ 248,779	$ 207,281
Real estate, total at fair value	$ 3,295,958	$ 3,175,081

The Organization entered into a joint venture under the equity method as of June 30, 2016 and is included in real estate investments, net in the accompanying consolidated balance sheets.

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

5. Property and Equipment

Property and equipment, net, at June 30, 2016 and 2015 consisted of the following (in thousands):

	2016	2015
Educational property and equipment		
Land	$ 16,201	$ 16,201
Buildings, improvements and equipment	935,352	917,851
Less: Accumulated depreciation	(401,143)	(368,394)
	550,410	565,658
Non-educational property and equipment		
Land and land improvements	36,821	36,821
Buildings, improvements and equipment	144,730	138,749
Less: Accumulated depreciation and amortization	(71,327)	(64,780)
	110,224	110,790
Construction in progress	21,427	21,127
Property and equipment, net	$ 682,061	$ 697,575

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, 2016 and 2015 were as follows (in thousands):

	2016	2015
Tenant and tuition	$ 7,800	$ 5,987
Trade	1,192	1,800
Other	3,626	2,609
	12,618	10,396
Less: Allowance for doubtful accounts	(6,393)	(3,778)
Receivables, net	$ 6,225	$ 6,618

7. Notes Payable

At June 30, 2016 and 2015, unsecured notes payable consisted of the following (in thousands except percentages):

	2016	2015
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	10,476	11,429
4.88%, payable through June 2028	40,000	43,333
4.93%, payable through April 2029	29,000	32,000
Term loan, variable		
1.41% and 1.13% at June 30, 2016 and 2015, respectively, payable through March 2022	15,000	17,500
1.37% and 0.88% at June 30, 2016 and 2015, respectively, payable through August 2017	25,000	25,000
Revolving credit loans	-	14,500
Total notes payable	169,476	193,762
Less: Current portion	(9,786)	(9,783)
Long-term notes payable	$ 159,690	$ 183,979

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 $178.0 million and $198.5 million as of June 30, 2016 and 2015, 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 $(0.34 million) and $(0.05 million) as of June 30, 2016 and 2015, 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 $65 million. Amounts drawn under the facility bear interest based on the bank's prime interest rate or London Interbank Offered Rate ("LIBOR") plus a spread. At June 30, 2016, there were no outstanding balances.

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,	
2017	$ 9,786
2018	34,786
2019	9,786
2020	9,786
2021	9,786
Thereafter	95,546
	$ 169,476

Interest expense incurred was $7.0 million and $7.7 million for the years ended June 30, 2016 and 2015, respectively.

8. Income Taxes

Total income tax expense (benefit) amounted to approximately $(1.8) million and $1.1 million for the years ended June 30, 2016 and 2015, 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, 2016 and 2015 were as follows (in thousands):

	2016	**2015**
Deferred tax assets		
Charitable contribution carryforwards	$ 53,400	$ 53,069
Net operating loss carryforwards	29,908	28,371
Passive activity loss carryforwards	29,786	30,578
Difference in basis of investments and real estate	4,874	4,922
Other	4,405	4,387
	122,373	121,327
Less: Valuation allowance	(121,019)	(121,327)
Net deferred taxes	$ 1,354	$ -

The change in valuation allowance was a decrease of $0.3 million and an increase of $8.5 million for the years ended June 30, 2016 and 2015, 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 all but $1.4 million of these deductible differences and has provided a valuation allowance of $121.0 million and $121.3 million for the years ended June 30, 2016 and 2015, respectively. The amount of deferred tax assets considered realizable, however, could be increased in the near term if estimates of future taxable income during the carryforward period are increased. The Organization has passive activity losses of $66.0 million available to carryforward indefinitely for federal and state tax purposes, charitable contribution carryforwards of $118.7 million expiring at various dates beginning in fiscal year 2016 through 2021, net operating loss carryforwards of $76.2 million expiring at various dates beginning in fiscal year 2026 through 2035.

As of June 30, 2016 and 2015, 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, 2013 through 2016. State statute of limitations for various states remains open for the years ended June 30, 2008 through 2016.

9. Pension and Other Postretirement Benefits

The Organization has a defined benefit pension plan (the "Pension Plan") which covers substantially all employees after satisfying age and length of service requirements. The Pension Plan was frozen as of June 30, 2014.

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

The following table reconciles the changes to the benefit obligations and plan assets for the years ended June 30, 2016 and 2015 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2016 and 2015 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2016	2015	2016	2015
Change in benefit obligation				
Benefit obligation at beginning of year	$ 365,733	$ 347,973	$ 53,699	$ 47,305
Service cost	-	-	2,176	1,819
Interest cost	16,741	15,053	2,618	2,167
Benefits paid	(15,696)	(15,270)	(1,458)	(1,317)
Actuarial losses	34,984	17,977	8,072	3,725
Benefit obligation at end of year	401,762	365,733	65,107	53,699
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	293,027	303,036	-	-
Actual return on plan assets	(9,739)	5,261	-	-
Employer contributions	-	-	1,458	1,317
Benefits paid	(15,696)	(15,270)	(1,458)	(1,317)
Fair value of plan assets at end of year	267,592	293,027	-	-
Funded status and recognized liability	$ (134,170)	$ (72,706)	$ (65,107)	$ (53,699)

The accumulated benefit obligation for the Pension Plan was $401.8 million and $365.7 million at June 30, 2016 and 2015, respectively.

The net periodic benefit cost consisted of the following for the years ended June 30, 2016 and 2015 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2016	**2015**	**2016**	**2015**
Service cost	$ -	$ -	$ 2,176	$ 1,819
Interest cost	16,741	15,053	2,618	2,167
Expected return on plan assets	(19,219)	(19,323)	-	-
Amortization of actuarial losses	505	-	459	194
Net periodic benefit cost (income)	$ (1,973)	$ (4,270)	$ 5,253	$ 4,180

Actuarial losses and amounts amortized into net periodic benefit cost (income) for the years ended June 30, 2016 and 2015 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2016	**2015**	**2016**	**2015**
Actuarial losses arising during the year	$ 63,943	$ 32,038	$ 8,071	$ 3,725
Net actuarial losses reclassified as a component of net periodic benefit cost	(505)	-	(458)	(194)
Change in amounts not yet recognized as net periodic benefit cost	$ 63,438	$ 32,038	$ 7,613	$ 3,531

The actuarial losses that have not yet been recognized as components of net periodic benefit cost (income) at June 30, 2016 and 2015 were as follows (in thousands):

	Pension Benefits		Postretirement Benefits	
	2016	**2015**	**2016**	**2015**
Amounts not yet recognized as periodic benefit cost	$ 113,009	$ 49,571	$ 19,151	$ 11,538

There are no estimated prior service costs expected to be amortized into net periodic benefit cost in 2017 for the pension and postretirement plans. The estimated actuarial losses expected to be amortized into net periodic benefit cost in 2017 are $1,523,000 and $895,000 for the pension and postretirement plans, respectively.

	Pension Benefits		Postretirement Benefits	
	2016	**2015**	**2016**	**2015**
Weighted average assumptions				
Benefit obligation				
Discount rate	3.90%	4.63%	4.25%	4.91%
Net periodic benefit cost				
Discount rate	4.63%	4.47%	4.91%	4.71%
Expected return on plan assets	7.50%	7.50%	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, 2016 and 2015 were as follows:

	2016	2015
Healthcare cost trend rate assumed for the next year	8.90%	7.50%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	2025	2022

The fair value of the Organization's Pension Plan assets at June 30, 2016 and 2015 by asset category were as follows (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Level 1	**Level 2**	**Level 3**	**Total**
2016				
Cash and cash management funds	$ -	$ 1,505	$ -	$ 1,505
Mutual fund	60,927	-	-	60,927
Collective investment funds	-	3,312	128,791	132,103
Hedge funds and other	-	-	73,057	73,057
Total investments	$ 60,927	$ 4,817	$ 201,848	$ 267,592
2015				
Cash and cash management funds	$ -	$ 1,417	$ -	$ 1,417
Mutual fund	77,905	-	-	77,905
Collective investment funds	-	8,979	122,679	131,658
Hedge funds and other	-	-	82,047	82,047
Total investments	$ 77,905	$ 10,396	$ 204,726	$ 293,027

The Organization has 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, 2016 and 2015, the target allocation to return-seeking assets was 70% for both years and the target allocation to fixed income and cash equivalents was 30% for both years. 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, 2016 and 2015 (in thousands):

	Collective Investment Funds	Hedge Funds and Other	Total
As of July 1, 2014	$ 118,143	$ 117,199	$ 235,342
Actual return on plan assets			
Relating to assets still held at the reporting date	(3,431)	(5,459)	(8,890)
Relating to assets sold during the period	4,466	10,157	14,623
Purchases	71,235	4,911	76,146
Sales	(67,734)	(44,761)	(112,495)
As of June 30, 2015	122,679	82,047	204,726
Actual return on plan assets			
Relating to assets still held at the reporting date	2,510	(9,484)	(6,974)
Relating to assets sold during the period	132	494	626
Purchases	4,218	1,500	5,718
Sales	(748)	(1,500)	(2,248)
As of June 30, 2016	$ 128,791	$ 73,057	$ 201,848

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

	Pension Benefits	Postretirement Benefits
Year ending June 30,		
2017	$ 17,410	$ 1,593
2018	18,212	1,769
2019	18,904	1,918
2020	19,652	2,024
2021	20,182	2,190
2022–2026	107,076	13,129
	$ 201,436	$ 22,623

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 is not required to make any contributions to its Pension Plan in 2017. The Organization expects to contribute $1.6 million to its postretirement medical plan in 2017.

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

The Organization makes employer matching and non-elective employer contributions to the 401(k) plan. Contributions to the 401(k) plan for the years ended June 30, 2016 and 2015 amounted to approximately $14.0 million and $10.9 million, respectively.

10. Natural Classification of Expenses

Operating expenses incurred for the years ended June 30, 2016 and 2015 were as follows (in thousands):

	2016	2015
Human resources and employee benefits	$ 206,872	$ 194,290
Taxes and recoveries	66,519	67,854
Depreciation and amortization	52,665	52,148
Professional fees and services	47,553	47,420
Scholarships	29,812	27,882
Collaborations	20,468	18,353
Rentals and utilities	15,896	17,819
Interest	7,092	7,740
Other expenses	54,037	54,095
Total expenses	$ 500,914	$ 487,601

11. Commitments and Contingencies

Rental Income
The majority of land and buildings are generally leased under long-term lease arrangements. At June 30, 2016, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Year ending June 30,	
2017	$ 108,399
2018	90,204
2019	81,736
2020	70,378
2021	62,099
Thereafter	883,852
	$ 1,296,668

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $16.5 million and $15.4 million for the years ended June 30, 2016 and 2015, respectively.

Capital Commitments
At June 30, 2016 and 2015, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $1.3 billion for both years.

At June 30, 2016 and 2015, open construction, renovation, major repair and other contracts amounted to $172 million and $176 million, respectively.

Litigation
There are various claims and complaints against the Organization that are incidental to its operations. Management, after consideration with legal counsel, is of the opinion that the ultimate resolution of these matters should 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, 2016 and 2015, total Trustee compensation amounted to $541,000 and $690,000, respectively.

Supplementary Schedules

Kamehameha Schools and Subsidiaries
Schedules of Trust Spending
Years Ended June 30, 2016, 2015, 2014, 2013 and 2012
(All dollars in thousands) **Schedule 1**

	2016	2015	2014	2013	2012
Trust spending, net					
Campus-based programs					
Campus Education	$ 3,461	$ 5,770	$ 7,440	$ 7,436	$ 5,734
Kapalama	93,156	96,405	90,236	93,849	85,296
Hawaii	37,883	37,221	35,981	34,012	30,913
Maui	32,363	32,281	31,789	32,275	28,452
Preschools	31,855	29,381	28,961	29,340	29,698
Outreach programs					
Community education (includes funding for Hoʻokakoʻo, a not-for-profit organization, of $1,752 $1,161, $1,083, $50 and $2,872 for the years ended June 30, 2016, 2015, 2014, 2013, and 2012, respectively)	38,045	31,527	36,201	37,158	36,536
Collaborations	20,484	18,342	20,300	17,425	20,455
Scholarships	29,220	27,403	26,913	25,832	25,058
Educational support services	15,639	11,693	12,030	11,993	9,800
Ke Aliʻi Pauahi Foundation	1,239	1,723	1,738	644	1,271
Interest on debt	7,018	7,419	7,913	8,423	7,144
Other program expenditures	2,319	2,089	2,976	(75)	3,210
Base spending	312,682	301,254	302,478	298,312	283,567
Less: Tuition, fees and other educational income, net	(10,882)	(11,599)	(12,486)	(12,030)	(9,821)
Base distributions	301,800	289,655	289,992	286,282	273,746
Equipment	1,652	1,506	2,616	2,634	1,396
Information technology investment plan	4,042	5,880	10,123	14,920	8,477
Major repairs	6,767	7,225	6,391	9,055	6,613
Capital projects	15,843	20,512	57,414	40,348	48,594
Debt financing of capital projects	9,786	10,786	10,786	(14,839)	(66,714)
In-kind transactions	1,711	821	788	8,489	613
Total trust spending before reserve activity	341,601	336,385	378,110	346,889	272,725
Reserve activity – operating, net	-	-	-	(31,594)	(10,000)
Total trust spending	$ 341,601	$ 336,385	$ 378,110	$ 315,295	$ 262,725
Average fair value of endowment	$ 9,807,128	$ 9,142,326	$ 8,514,061	$ 8,425,932	$ 8,294,850
Trust spending rate before debt financing and reserve activity	3.4%	3.6%	4.3%	4.3%	4.1%
Trust spending rate	3.5%	3.7%	4.4%	3.7%	3.2%

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, 2016, 2015, 2014, 2013 and 2012, 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, 2016.

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, 2016, 2015, 2014, 2013 and 2012 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, 2016 — Schedule 2

	Value at June 30, 2016 (In Thousands)	One-Year Total Return %	Five-Year Total Return %	Ten-Year Total Return %	Since July 1, 1999 Total Return %
Hawaii Real Estate	$ 3,295,958	6.2	11.8	12.4	11.4
Hawaii Real Estate Composite Index		10.6	11.5	6.8	7.3
Developed Markets (Economic Value)	1,642,481	-3.1	9.1	6.2	7.0
Developed Markets Composite Index		-2.8	6.8	4.6	3.9
Emerging Markets	510,355	-8.0	0.4	5.9	N/A
Emerging Markets Composite Index		-12.1	-3.8	3.4	N/A
Private Equity	1,094,063	9.7	13.0	11.0	8.2
Private Equity Composite Index		6.1	10.5	9.3	10.7
Absolute Return	2,694,389	-2.2	4.0	3.9	N/A
Absolute Return Composite Index		-5.4	1.6	1.2	N/A
Marketable Real Assets (Economic Value)	388,811	-11.2	-4.8	2.4	N/A
Marketable Real Assets Composite Index		-7.0	-3.4	2.1	N/A
Illiquid Real Assets	428,301	-15.3	-0.6	5.5	17.4
Illiquid Real Assets Composite Index		-18.0	-1.5	3.6	5.4
Real Estate (Mainland)	229	NM	NM	NM	NM
Real Estate (Mainland) benchmark		NM	NM	NM	NM
U.S. Fixed Income	186,233	6.6	4.0	5.3	5.7
Fixed Income Composite Index		6.7	4.2	5.5	5.6
Global Fixed Income	265,136	2.4	3.1	N/A	N/A
Citigroup World Government		11.3	1.2	N/A	N/A
Cash Equivalents and Synthetic Cash (Economic Value)	137,035	0.0	-0.1	1.0	1.9
Three-month U.S. Treasury Bill		0.2	0.1	1.0	1.9
Total Endowment, net of fees and direct expenses	$ 10,642,991	0.0	7.0	7.3	8.4
Endowment Fund Composite Benchmark		0.7	5.7	4.7	5.4
Total Endowment Fund Long-Term Objective (CPI+5%)		6.0	6.3	6.7	7.2

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

1. Background and Purpose

The Schools' investment policy establishes long-term and intermediate-term investment objectives, asset allocation targets, and performance measurement guidelines for the Endowment. The long-term investment return objective of the Endowment Fund is to meet or exceed an annualized real return of 5.0% (CPI + 5 percentage points), net of fees and direct expenses, over most rolling 10-year periods, as well as over longer periods. During 2015, the investment objective was revised to include only fees and direct expenses but not allocated support costs, consistent with industry practice.

The purpose of this schedule is to report the Schools' total return results for the Endowment (by asset class) as compared to 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, 2016, the Schools held no S&P 500 short futures position to achieve asset allocation targets.

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.

At June 30, 2016, there were no long commodity positions held.

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.

At June 30, 2016, there was no synthetic cash.

2. Fair Value and Economic Value

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

Economic value is defined as fair value plus notional exposure.

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

Hawaii Real Estate
All of the commercial properties are currently externally appraised. Prior to June 2015, the commercial properties were appraised internally and an annual external review was obtained for valuation reasonableness. Prior to June 2008, commercial properties were externally appraised every three years. Most commercial properties are appraised using the discounted cash flow methodology.

All of the multifamily residential properties are currently externally appraised. The single-family residential properties are primarily internally appraised. Prior to June 2015, the residential properties were appraised internally and an annual external review was obtained for valuation reasonableness. Most residential properties are currently estimated using the discounted cash flow methodology.

The fair value of purchase money mortgages is estimated using the discounted cash flow methodology.

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

Developed Markets
The market values of marketable equity securities and derivatives for positions held directly are based on quoted market prices. For positions held through commingled vehicles, the market values are based on quoted prices of the underlying assets. As of June 30, 2016, market value was $1,642 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. As of June 30, 2016, Marketable Real Assets fair value was $389 million.

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, and cash equivalents are primarily based on quoted market prices. As of June 30, 2016, market value of cash equivalents was $137 million.

3. Total Return

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

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

Total return excludes certain indirect expenses, which represents twenty basis points for all period presented.

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

"NM" indicates total return is not meaningful.

4. Benchmark Indices

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

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

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

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

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

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

- **Marketable Real Assets Composite Index**
  40% Wilshire 5000 Energy Index, 40% Barclays Inflation-Indexed Bond Index (U.S. dollar hedged) and 20% Bloomberg Commodity Index to January 2010; 67% Wilshire 5000 Energy Index, 33% Bloomberg Commodity Index from February 2010, Wilshire 5000 Energy Index from February 2016.

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

- **Real Estate (Mainland) Benchmark**
  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.

- **Global Fixed Income Index**
  Citigroup World Government Bond Index from January 2008.