



# **Kamehameha Schools and Subsidiaries**

**Consolidated Financial Statements  
and Supplementary Schedules**

**June 30, 2021 and 2020**



**Kamehameha Schools and Subsidiaries**  
**Index**  
**June 30, 2021 and 2020**

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b>	
<b>Consolidated Financial Statements</b>	
Balance Sheets	
June 30, 2021 and 2020 .....	3
Statements of Activities	
Years Ended June 30, 2021 and 2020 .....	4
Statements of Cash Flows	
Years Ended June 30, 2021 and 2020 .....	5
Notes to Financial Statements	
June 30, 2021 and 2020 .....	6–27
<b>Supplementary Schedules</b>	
Schedule 1 – Schedules of Trust Spending	
Years Ended June 30, 2021, 2020, 2019, 2018 and 2017 .....	28
Notes to Schedules of Trust Spending	
Years Ended June 30, 2021, 2020, 2019, 2018 and 2017 .....	29
Schedule 2 – Schedule of Total Return	
June 30, 2021 .....	30
Notes to Schedule of Total Return	
June 30, 2021 .....	31–34



## Report of Independent Auditors

To the Audit Committee of  
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, 2021 and 2020, 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 auditors consider 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.

999 Bishop Street  
Suite 1900  
Honolulu, HI 96813

OFFICE 808.531.3400  
FAX 808.531.3433  
accuityllp.com



## 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, 2021 and 2020, 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.

## 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, 2021, 2020, 2019, 2018 and 2017 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 23, 2021

**Kamehameha Schools and Subsidiaries**  
**Consolidated Balance Sheets**  
**June 30, 2021 and 2020**  
*(All dollars in thousands)*

	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 126,245	\$ 39,146
Receivables, net	6,018	11,911
Other	5,245	3,139
Total current assets	<u>137,508</u>	<u>54,196</u>
Trust investments		
Financial investments, net	10,671,823	8,213,564
Real estate investments, net	244,349	256,998
	<u>10,916,172</u>	<u>8,470,562</u>
Other investments	58,167	40,944
Property and equipment, net	606,526	617,704
Accrued pension asset	10,069	14,133
Deferred charges and other	129,224	128,474
Total assets	<u>\$ 11,857,666</u>	<u>\$ 9,326,013</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 71,060	\$ 53,676
Current portion of notes payable	14,986	15,986
Deferred income and other	27,284	20,870
Total current liabilities	<u>113,330</u>	<u>90,532</u>
Notes payable	240,262	271,498
Accrued postretirement benefits	62,870	67,667
Deferred income and other	161,858	167,227
Total liabilities	<u>578,320</u>	<u>596,924</u>
Commitments and contingencies		
Net assets – without donor restrictions	<u>11,279,346</u>	<u>8,729,089</u>
Total liabilities and net assets	<u>\$ 11,857,666</u>	<u>\$ 9,326,013</u>

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

**Kamehameha Schools and Subsidiaries**  
**Consolidated Statements of Activities**  
**Years Ended June 30, 2021 and 2020**  
*(All dollars in thousands)*

	<b>2021</b>	<b>2020</b>
<b>Operating revenues</b>		
Tuition and fees (net of financial aid of \$27,433 and \$32,681 in 2021 and 2020, respectively)	\$ 7,126	\$ 8,440
Private gifts and other operating revenue	8,263	3,966
Investment earnings distributed from trust investments	457,650	471,056
Total operating revenues	<u>473,039</u>	<u>483,462</u>
<b>Operating expenses</b>		
Salaries and benefits	234,818	227,324
Depreciation	43,880	41,878
Professional fees and services	41,769	45,281
Community collaborations and grants	35,696	37,186
Scholarships	28,686	39,276
Interest, insurance, and utilities	23,747	26,352
Supplies, repairs & maintenance, and other expenses	36,117	47,227
Total operating expenses	<u>444,713</u>	<u>464,524</u>
Operating income	<u>28,326</u>	<u>18,938</u>
<b>Non-operating activities</b>		
Investment earnings distributed for current operations from trust investments	(457,650)	(471,056)
Financial investment gains, net	2,891,706	176,444
Real estate net income and gains	88,412	106,560
Other components of net periodic benefit credit (cost)	(537)	10,457
Change in net assets without donor restrictions from non-operating activities	<u>2,521,931</u>	<u>(177,595)</u>
Total change in net assets without donor restrictions	<u>2,550,257</u>	<u>(158,657)</u>
<b>Net assets</b>		
Beginning of year	<u>8,729,089</u>	<u>8,887,746</u>
End of year	<u>\$ 11,279,346</u>	<u>\$ 8,729,089</u>

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, 2021 and 2020**  
*(All dollars in thousands)*

	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 2,550,257	\$ (158,657)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	43,880	41,878
Non-operating depreciation and amortization	18,759	18,591
Net realized and unrealized gains on investments	(2,881,407)	(158,032)
Net gains on property transactions	(15,360)	(6,090)
Real estate (gains) losses in limited liability companies	12,990	(553)
Other components of net periodic benefit cost (credit)	537	(10,457)
Changes in operating assets and liabilities		
Receivables, net	5,893	(5,706)
Deferred charges and other	(4,961)	(973)
Accounts payable, accrued expenses, and other liabilities	17,158	(9,029)
Settlement liability	-	(7,500)
Net cash used in operating activities	<u>(252,254)</u>	<u>(296,528)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	8,473,484	7,536,600
Purchases of investments	(8,067,559)	(7,229,077)
Proceeds from real estate transactions	15,379	10,814
Purchases of real estate	(14,859)	(21,313)
Purchases of property and equipment	(34,856)	(32,824)
Net cash provided by investing activities	<u>371,589</u>	<u>264,200</u>
<b>Cash flows from financing activities</b>		
Repayment of borrowings	(32,236)	(31,636)
Net cash used in financing activities	<u>(32,236)</u>	<u>(31,636)</u>
Net increase (decrease) in cash and cash equivalents	87,099	(63,964)
<b>Cash and cash equivalents</b>		
Beginning of year	39,146	103,110
End of year	<u>\$ 126,245</u>	<u>\$ 39,146</u>
<b>Supplemental disclosure of cash flow information</b>		
Income taxes paid	\$ 177	\$ 339
Interest paid	9,731	11,464
<b>Noncash investing activities</b>		
Distribution of equity securities from investment funds	\$ 299,727	\$ 59,415

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

# Kamehameha Schools and Subsidiaries

## Notes to Consolidated Financial Statements

### June 30, 2021 and 2020

---

#### 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. The campus-based programs include campuses on the islands of Oahu, Maui, and Hawaii which serve students from kindergarten through grade 12. Campus-based programs also include early education programs that are conducted in various facilities throughout the State. The Schools are also engaged in summer and outreach programs, educational partnerships and grants. As part of community programs, the Schools provide a significant amount of scholarships for early education, kindergarten through grade 12, and 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.

BHC is a taxable holding corporation with subsidiaries primarily involved in property investment. BHC consolidated financial statements include the accounts of:

- Pauahi Management Corporation and its wholly-owned subsidiary, KBH, Inc.
- Kamehameha Investment Corporation (“KIC”) and its wholly-owned subsidiary, Keauhou Community Services, Inc.
- Ho’oulu Mahi’ai LLC (“HM”)

KAPF is a charitable organization whose exclusive purpose is to actively engage in fundraising and development activities and administer scholarships in furtherance of the Schools’ educational purpose.

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.



# **Kamehameha Schools and Subsidiaries**

## **Notes to Consolidated Financial Statements**

### **June 30, 2021 and 2020**

---

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 net assets with donor restrictions amounted to approximately \$34.2 million and \$23.3 million at June 30, 2021 and 2020, respectively. The Schools have no board or donor designated funds. As the net assets with donor restrictions of KAPF are not significant, all net assets of the Organization and changes therein are classified and reported as net assets without donor restrictions.

The consolidated statement of activities classification of revenues and expenses are further classified into operating and non-operating classes. Operating activities include income and expenses directly related to carrying out its educational mission and shared services expenses to support the Organization. Non-operating activities include net amounts from financial investments, real estate activities, and changes to long-term benefit plan obligations. Non-operating activities for financial investments include net amounts inclusive of external investment management fees and internal direct office costs. Non-operating activities for real estate activities include net amounts inclusive of internal direct office costs.

The consolidated statements of activities include investment earnings distributed from trust investments to fund the Organization for the respective fiscal year and is shown as a transfer from non-operating activities to operating revenue. Investment earnings distributed from trust investments is based on the annual designated portion of the Organization’s investments to support operations. The annual distribution is determined in accordance with the Organization’s investment and spend policies, which targets an annual spend as a percentage of the average fair value of the endowment over the prior 20 quarters. As intended, annual investment earnings distributed may be higher or lower compared to the annual financial investment and real estate gains for the year.

#### **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.

# Kamehameha Schools and Subsidiaries

## Notes to Consolidated Financial Statements

### June 30, 2021 and 2020

---

#### **Risks and Uncertainties**

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 assumptions. 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. The carrying amounts of cash equivalents approximate fair value because of the short maturity of these instruments.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

**Investments**

The noncurrent section titled trust investments represents financial and real estate investments 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.

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 also include illiquid real assets, absolute return, 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 and, in some instances, may be limited to information for periods up to three months prior to the fiscal year end. Certain investments that do not have a readily determinable fair value, estimate fair value using net asset value ("NAV") as a practical expedient. Investments in real estate are reported at the lower of cost less accumulated depreciation or fair value.

Unrealized gains and losses for marketable debt and equity securities and other investments are included in the consolidated statements of activities. Investment expenses vary depending on investment structure and 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.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

**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:

	<b>Years</b>
Land improvements	30
Buildings and improvements	30
Equipment	5 to 10

Property and equipment represent assets used for educational and administrative purposes, as well as assets related to the Organization’s agricultural and conservation land. The Organization reviews its long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

An impairment loss exists for an asset held for use when the cash flows expected to be generated by an asset are less than the carrying amount. Measurement of the impairment loss is based on the fair value of the asset. No impairment losses were recorded for the years ended June 30, 2021 or 2020.

**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. Tuition and fees revenue and financial aid are presented as net tuition and fees in the consolidated statement of activities.

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 charges and other in the consolidated balance sheets. 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 in the consolidated balance sheets.

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

**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.

## Kamehameha Schools and Subsidiaries

### Notes to Consolidated Financial Statements

#### June 30, 2021 and 2020

---

Income taxes 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, 2021 and 2020, 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. The method of accounting is mark-to-market accounting and immediately recognizes actuarial gains and losses. The Organization recognizes retirement plan-related changes other than service cost as part of changes in net assets without donor restrictions from non-operating activities.

#### **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:

- **Public equities, exchange traded funds, 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, corporate debt securities, 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.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

- **Illiquid real assets and absolute return** – The fair value of these investments is generally reported at fair value using an income approach based on information provided by the respective external investment managers and using industry standard methodologies and, in some instances, may be limited to information for periods up to three months prior to the fiscal year end. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investment existed. These funds are generally categorized in Level 3.

The Organization’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.

**Liquidity**

As of June 30, 2021 and 2020, the Organization’s financial assets available within one year include most current assets and trust investments that are approved for spend within the following year, which were as follows (in thousands):

	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Approved investment earnings to distribute for current operations from trust investments for the following year	\$ 493,300	\$ 471,500
Cash and cash equivalents	126,245	39,146
Receivables, net	6,018	11,911
Total assets available within one year	625,563	522,557
<b>Liquidity resources</b>		
Undrawn credit facilities	567,000	538,000
Total assets and resources available within one year	\$ 1,192,563	\$ 1,060,557

As part of the Organization’s liquidity management strategy, the Organization forecasts the appropriate liquidity required in the financial investments portfolio by considering the expected cash flows from Hawaii real estate in combination with the Organization’s operational expenditures and the timing of capital expenditures and other obligations. The Organization invests cash in excess of daily requirements in short-term working capital investments. Approved investment earnings to distribute for current operations from trust investments for the following year represents the annual budgeted amount as approved by Trustees. The Organization has access to undrawn credit facilities to manage unanticipated liquidity needs.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

**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.

**New Accounting Pronouncements**

Effective July 1, 2020, the Organization adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates and modifies certain disclosure requirements for fair value measurements.

**Reclassifications**

Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation. Such reclassifications have no impact on the 2020 change in net assets as previously reported.

**Subsequent Events**

The Organization has reviewed all events that have occurred from July 1, 2021 through September 23, 2021, 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, 2021 and 2020 as follows (in thousands):

	<b>2021</b>	<b>2020</b>
Trust financial investments, net	\$ 10,671,823	\$ 8,213,564
Other investments, net	58,167	40,944
Total investments, net	<u>\$ 10,729,990</u>	<u>\$ 8,254,508</u>

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

	Level 1	Level 2	Level 3	Total
<b>2021</b>				
Public equities and exchange traded funds	\$ 162,241	\$ -	\$ -	\$ 162,241
Fixed income				
U.S. government obligations	398,085	-	-	398,085
Other debt securities	-	1,620	-	1,620
Short-term investments and cash equivalents	202,375	9	-	202,384
Mutual funds	8,749	-	-	8,749
Illiquid real assets	-	-	45,940	45,940
Absolute return	-	-	2,333	2,333
Total investments at fair value	<u>\$ 771,450</u>	<u>\$ 1,629</u>	<u>\$ 48,273</u>	821,352
Investments at NAV				9,370,940
Amounts receivable for private equity sales				418,167
Amounts receivable for securities sold				170,345
Interest receivables				2,294
Amounts payable for securities purchased/borrowed				<u>(53,108)</u>
Total investments, net				<u>\$ 10,729,990</u>
<b>2020</b>				
Public equities and exchange traded funds	\$ 32,171	\$ -	\$ -	\$ 32,171
Fixed income				
U.S. government obligations	276,323	-	-	276,323
International government bonds	-	6,806	-	6,806
Other debt securities	-	215,207	-	215,207
Short-term investments and cash equivalents	145,274	19,349	-	164,623
Mutual funds	24,398	-	-	24,398
Illiquid real assets	-	-	38,632	38,632
Absolute return	-	-	19,810	19,810
Total investments at fair value	<u>\$ 478,166</u>	<u>\$ 241,362</u>	<u>\$ 58,442</u>	777,970
Investments at NAV				7,136,743
Amounts receivable for securities sold				344,933
Interest receivables				3,760
Amounts payable for securities purchased				<u>(8,898)</u>
Total investments, net				<u>\$ 8,254,508</u>

In 2021, the Organization sold private equity investments on the secondary market to a single buyer for approximately \$700 million. Based on the terms of the purchase and sale agreement, the \$418 million outstanding receivable will be paid in 2022.



**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

The Organization estimates the fair value of certain investments using the NAV of the investment as a practical expedient. The NAV is reported by the respective external investment managers. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investment existed. These investments are not categorized in the fair value hierarchy.

Investments at NAV as of June 30, 2021 and 2020 were as follows (in thousands):

	<b>2021</b>	<b>2020</b>
Equity	\$ 5,952,354	\$ 4,667,661
Absolute return	2,900,690	2,025,857
Real assets	<u>517,896</u>	<u>443,225</u>
Total investments at NAV	<u>\$ 9,370,940</u>	<u>\$ 7,136,743</u>

Refer to the Notes to Schedule of Total Return for significant investment strategies.

Purchases of Level 3 investments measured at fair value on a recurring basis for the years ended June 30, 2021 and 2020 were as follows (in thousands):

	<b>2021</b>	<b>2020</b>
Illiquid real assets	\$ 1,173	\$ 1,505
Absolute return	<u>5,731</u>	<u>6,667</u>
Total purchases	<u>\$ 6,904</u>	<u>\$ 8,172</u>

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) limit 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.

Certain investment funds reported at NAV 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.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

Investment gains for the years ended June 30, 2021 and 2020 were as follows (in thousands):

	<b>2021</b>	<b>2020</b>
Interest and dividend income, net of fees	\$ 27,287	\$ 36,688
Realized and unrealized gains, net of fees	<u>2,864,419</u>	<u>139,756</u>
Investment gains, net of investment fees	<u>\$ 2,891,706</u>	<u>\$ 176,444</u>

**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 futures contracts were traded on centralized exchanges and were 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 was 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 were realized when the contracts expired or were closed. Futures contracts were marked-to-market daily based on settlement prices established by the board of trade or exchange on which they were traded, and an appropriate payable or receivable for the change in value was recorded by the Organization to trust financial investments, net in the consolidated balance sheets.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

The following table presents amounts for investment-related derivatives, including the exposure amount, the fair values at June 30, 2021 and 2020, and gains and losses for the years ended June 30, 2021 and 2020 (in thousands). The Organization held no derivative contracts at June 30, 2021.

	<b>Exposure Amounts</b>	<b>Derivative Liabilities</b>	<b>Net Gain / (Loss)</b>
<b>2021</b>			
Equity futures contracts	\$ -	\$ -	\$ (105,811)
Forward currency contracts	-	-	(227)
		<u>\$ -</u>	<u>\$ (106,038)</u>
<b>2020</b>			
Equity futures contracts	\$ (267,766)	\$ (6,253)	\$ 12,463
Fixed income futures contracts	-	-	1,216
Forward currency contracts	-	-	(9,114)
		<u>\$ (6,253)</u>	<u>\$ 4,565</u>

**4. Real Estate Investments**

The Organization's trust real estate investments primarily consist of commercial and residential properties located in the State. At June 30, 2021 and 2020, the cost of real estate was as follows (in thousands):

	<b>2021</b>	<b>2020</b>
Land and land improvements	\$ 64,791	\$ 65,063
Buildings and improvements	389,869	365,529
Less: Accumulated depreciation	<u>(227,413)</u>	<u>(213,496)</u>
	227,247	217,096
Construction in progress	17,102	26,912
Investments in limited liability companies	<u>-</u>	<u>12,990</u>
Trust real estate, total at carrying value	<u>\$ 244,349</u>	<u>\$ 256,998</u>

The Organization co-invested in limited liability companies under the equity method which are included in the consolidated balance sheets as real estate investments. At June 30, 2021, the values of the investments in limited liability companies under the equity method were zero. In fiscal year 2022, the Organization intends to exercise its option to acquire 100% ownership in one of the limited liability companies.

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

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

At June 30, 2021 and 2020, the Organization's net income and gains from real estate investments and other real estate were as follows (in thousands):

	<b>2021</b>	<b>2020</b>
Rental revenue	\$ 245,214	\$ 251,794
Net gains on property sales	15,360	6,090
Gains (losses) in limited liability companies	(12,990)	553
Other losses	(49)	(880)
Less: Rental expenses	<u>(159,123)</u>	<u>(150,997)</u>
Real estate net income and gains	<u>\$ 88,412</u>	<u>\$ 106,560</u>

**5. Property and Equipment**

Property and equipment, net, at June 30, 2021 and 2020 consisted of the following (in thousands):

	<b>2021</b>	<b>2020</b>
<b>Educational property and equipment</b>		
Land	\$ 18,567	\$ 18,063
Buildings, improvements and equipment	1,034,547	1,008,477
Less: Accumulated depreciation	<u>(578,030)</u>	<u>(541,441)</u>
	<u>475,084</u>	<u>485,099</u>
<b>Non-educational property and equipment</b>		
Land and land improvements	4,724	4,723
Buildings, improvements and equipment	124,855	122,820
Less: Accumulated depreciation and amortization	<u>(81,908)</u>	<u>(79,630)</u>
	47,671	47,913
Construction in progress	<u>32,010</u>	<u>31,087</u>
Educational and non-educational property and equipment, net	<u>554,765</u>	<u>564,099</u>
<b>Other real estate</b>		
Land and land improvements	31,507	32,012
Buildings, improvements and equipment	39,287	39,250
Less: Accumulated depreciation	<u>(21,421)</u>	<u>(19,816)</u>
	49,373	51,446
Construction in progress	<u>2,388</u>	<u>2,159</u>
Other real estate, total at carrying value	<u>51,761</u>	<u>53,605</u>
Property and equipment, net	<u>\$ 606,526</u>	<u>\$ 617,704</u>

Non-educational property and equipment are primarily comprised of assets used for shared services. Other real estate is primarily comprised of assets related to conservation and agriculture lands.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

**6. Receivables**

Receivables, net, at June 30, 2021 and 2020 were as follows (in thousands):

	<b>2021</b>	<b>2020</b>
Tenant	\$ 19,618	\$ 16,342
Tuition and other	2,301	1,677
Insurance	-	3,933
	<u>21,919</u>	<u>21,952</u>
Less: Allowance for doubtful accounts	<u>(15,901)</u>	<u>(10,041)</u>
Receivables, net	<u>\$ 6,018</u>	<u>\$ 11,911</u>

**7. Notes Payable**

At June 30, 2021 and 2020, unsecured notes payable consisted of the following (in thousands except percentages):

	<b>2021</b>	<b>2020</b>
Senior promissory notes payable under a \$250.0 million private shelf facility		
3.47%, payable through March 2042	\$ 105,000	\$ 110,000
3.37%, payable through December 2039	22,200	23,400
Senior promissory notes payable under a \$450.0 million private shelf facility		
6.80%, payable through March 2027	5,714	6,667
4.88%, payable through June 2028	23,334	26,667
4.93%, payable through April 2029	14,000	17,000
3.85%, payable through January 2037	50,000	50,000
Term loan, variable		
1.04% and 1.12% at June 30, 2021 and 2020, respectively, payable through March 2022	2,500	5,000
Revolving credit facilities	<u>32,500</u>	<u>48,750</u>
Total notes payable	255,248	287,484
Less: Current portion	<u>(14,986)</u>	<u>(15,986)</u>
Long-term notes payable	<u>\$ 240,262</u>	<u>\$ 271,498</u>

In March 2017, the Schools entered into an uncommitted \$250.0 million private shelf facility. Notes may be issued under this facility through March 2025, at interest rates determined at the time of issuance.

In December 2017, the Schools entered into an uncommitted \$450.0 million private shelf facility. Notes may be issued under the amended and restated facility through December 2022, at interest rates determined at the time of issuance.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

In March 2012, the Schools entered into a \$25.0 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 (\$0.07) million as of June 30, 2021 and 2020, respectively, and was included in deferred charges and other in the consolidated balance sheets. The change in fair value of the interest rate swap was included in other operating revenue.

The Schools have a revolving credit facility with two commercial banks that expire in 2025. The revolving credit facilities provide for a total commitment of \$120.0 million at June 30, 2021 and 2020. Amounts drawn under the facility bear interest based on the bank's prime interest rate or London Interbank Offered Rate ("LIBOR") plus a spread. The outstanding balance was \$32.5 million and \$48.8 million at June 30, 2021 and 2020, respectively.

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

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

<b>Year ending June 30,</b>	
2022	\$ 14,986
2023	15,819
2024	15,819
2025	48,319
2026	15,819
Thereafter	144,486
	<u>\$ 255,248</u>

Interest expense incurred was \$9.4 million and \$11.0 million for the years ended June 30, 2021 and 2020, respectively.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

**8. Income Taxes**

Total income tax expense (benefit) amounted to approximately (\$1.67) million and \$2.06 million for the years ended June 30, 2021 and 2020, respectively. These amounts are included in non-operating activities in the accompanying consolidated statements of activities.

The components of deferred tax assets and liabilities as of June 30, 2021 and 2020 were as follows (in thousands):

	<b>2021</b>	<b>2020</b>
<b>Deferred tax assets</b>		
Charitable contribution carryforwards	\$ 65,813	\$ 66,548
Net operating loss carryforwards	20,744	20,231
Passive activity loss carryforwards	62,075	58,185
Other	11,203	9,132
	<u>159,835</u>	<u>154,096</u>
Less: Valuation allowance	<u>(159,113)</u>	<u>(153,667)</u>
Net deferred taxes	<u>\$ 722</u>	<u>\$ 429</u>

The change in valuation allowance was an increase of \$5.4 million and \$17.7 million for the years ended June 30, 2021 and 2020, 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 \$0.7 million of these deductible differences and has provided a valuation allowance of \$159.1 million and \$153.7 million for the years ended June 30, 2021 and 2020, 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 \$147.8 million available to carry forward indefinitely for federal and state tax purposes, charitable contribution carryforwards of \$156.1 million and \$159.3 million for federal and state tax purposes, respectively, expiring at various dates beginning in fiscal year 2021 through 2026, net operating loss carryforwards of \$73.9 million expiring at various dates beginning in fiscal year 2026 through 2038, and net operating loss carryforwards of \$5.1 million available to carry forward indefinitely.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. Several provisions of the CARES Act apply to the Organization which resulted in a tax benefit for fiscal year 2021. These provisions are not expected to have a significant impact on the Organization's tax liability.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

As of June 30, 2021 and 2020, 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, 2018 through 2021. State statute of limitations for various states remains open for the years ended June 30, 2018 through 2021.

**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, 2021 and 2020 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2021 and 2020 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
<b>Change in projected benefit obligation ("PBO") and accumulated benefit obligation ("ABO")</b>				
PBO/ABO at beginning of year	\$ 428,752	\$ 400,652	\$ 67,667	\$ 64,745
Service cost	-	-	2,600	2,202
Interest cost	12,352	14,285	2,251	2,329
Benefits paid	(20,487)	(20,872)	(1,670)	(1,470)
Actuarial (gains) losses	(2,882)	34,687	(7,978)	(139)
PBO/ABO at end of year	417,735	428,752	62,870	67,667
<b>Change in fair value of plan assets</b>				
Fair value of plan assets at beginning of year	442,885	402,138	-	-
Actual return on plan assets	3,206	61,619	-	-
Employer contributions	2,200	-	1,670	1,470
Benefits paid	(20,487)	(20,872)	(1,670)	(1,470)
Fair value of plan assets at end of year	427,804	442,885	-	-
Funded status and recognized asset (liability)	\$ 10,069	\$ 14,133	\$ (62,870)	\$ (67,667)



**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

The net periodic benefit cost (credit) consisted of the following for the years ended June 30, 2021 and 2020 (in thousands):

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Service cost included in operating expenses	\$ -	\$ -	\$ 2,600	\$ 2,202
Other components of cost (credit)				
Interest cost	12,352	14,285	2,251	2,329
Expected return on plan assets	(11,846)	(15,813)	-	-
Actuarial (gains) losses	5,758	(11,119)	(7,978)	(139)
Other components of net periodic benefit cost (credit)	6,264	(12,647)	(5,727)	2,190
Net periodic benefit cost (credit)	\$ 6,264	\$ (12,647)	\$ (3,127)	\$ 4,392

The assumptions used in the actuarial valuation at June 30, 2021 and 2020 were as follows:

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
<b>Weighted average assumptions</b>				
Benefit obligation				
Discount rate	2.95 %	2.94 %	3.34 %	3.29 %
Net periodic benefit cost				
Discount rate	2.94 %	3.67 %	3.29 %	3.96 %
Expected return on plan assets	3.00 %	4.25 %	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, 2021 and 2020 were as follows:

	<b>2021</b>	<b>2020</b>
Healthcare cost trend rate assumed for the next year	7.61 %	4.45 %
Rate to which the cost trend rate is assumed (ultimate trend rate)	4.50 %	4.50 %
Year that the rate reaches the ultimate trend rate	2031	2029

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

The fair value of the Organization's Pension Plan assets at June 30, 2021 and 2020 by asset category were as follows (in thousands):

	<b>Fair Value Measurements at Reporting Date</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>2021</b>			
Cash and cash management funds	\$ 1,930	\$ 5,071	\$ 7,001
Fixed income			
U.S. government obligations	77,438	-	77,438
Corporate debt	-	317,310	317,310
Other debt securities	-	32,628	32,628
Total investments	<u>\$ 79,368</u>	<u>\$ 355,009</u>	434,377
Amounts receivable for securities sold			3,686
Interest receivable			3,185
Amounts payable for securities purchased			<u>(13,444)</u>
Total plan assets			<u>\$ 427,804</u>
<b>2020</b>			
Cash and cash management funds	\$ 1,871	\$ 5,541	\$ 7,412
Fixed income			
U.S. government obligations	73,568	-	73,568
Corporate debt	-	327,235	327,235
Other debt securities	-	40,096	40,096
Total investments	<u>\$ 75,439</u>	<u>\$ 372,872</u>	448,311
Amounts receivable for securities sold			7,686
Interest receivable			3,325
Amounts payable for securities purchased			<u>(16,437)</u>
Total plan assets			<u>\$ 442,885</u>

The Organization has an investment strategy to reduce volatility of funded status and pension costs. For fiscal years 2021 and 2020, the asset allocation target was 100% fixed income and cash equivalents. A third-party investment manager is engaged by the Organization to manage a custom long bond portfolio, which invests primarily in fixed income securities to match the duration of future pension payments. The assets are subject to investment grade, credit exposure, and interest rate exposure restrictions.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

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

<b>Year ending June 30,</b>	<b>Pension Benefits</b>	<b>Postretirement Benefits</b>
2022	\$ 21,271	\$ 1,617
2023	21,522	1,719
2024	21,754	1,825
2025	21,951	1,941
2026	22,117	2,042
2027–2031	110,911	11,777
	<u>\$ 219,526</u>	<u>\$ 20,921</u>

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

The Organization is not required to make any contributions to its Pension Plan in 2022 and regularly contributes to its Pension Plan for administrative expenses. The Organization expects to contribute \$1.6 million to its postretirement medical plan in 2022.

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, 2021 and 2020 amounted to approximately \$18.2 million and \$16.7 million, respectively.

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

**10. Functional and Natural Classification of Expenses**

Expenses are presented by functional classification in alignment with the Organization's operations. Shared services are separate from campus-based and community programs and include costs to support other non-educational operations. Operating expenses by function and nature incurred for the years ended June 30, 2021 and 2020 were as follows (in thousands):

	<b>2021</b>			
	<b>Campus Based</b>	<b>Community Programs</b>	<b>Shared Services</b>	<b>Total</b>
Salaries and benefits	\$ 141,052	\$ 22,889	\$ 70,877	\$ 234,818
Depreciation	37,040	2,687	4,153	43,880
Professional fees and services	8,115	5,343	28,311	41,769
Community collaborations and grants	-	35,696	-	35,696
Scholarships	-	28,686	-	28,686
Interest, insurance, and utilities	5,919	317	17,511	23,747
Other expenses	26,129	3,663	6,325	36,117
Total operating expenses	<u>\$ 218,255</u>	<u>\$ 99,281</u>	<u>\$ 127,177</u>	<u>\$ 444,713</u>

  

	<b>2020</b>			
	<b>Campus Based</b>	<b>Community Programs</b>	<b>Shared Services</b>	<b>Total</b>
Salaries and benefits	\$ 137,785	\$ 27,563	\$ 61,976	\$ 227,324
Depreciation	35,532	2,258	4,088	41,878
Professional fees and services	9,535	4,817	30,929	45,281
Community collaborations and grants	-	37,186	-	37,186
Scholarships	-	39,276	-	39,276
Interest, insurance, and utilities	7,509	511	18,332	26,352
Other expenses	29,414	6,816	10,997	47,227
Total operating expenses	<u>\$ 219,775</u>	<u>\$ 118,427</u>	<u>\$ 126,322</u>	<u>\$ 464,524</u>

**11. Commitments and Contingencies**

**Rental Income**

The majority of real estate investments are generally leased under long-term lease arrangements. At June 30, 2021, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

<b>Year ending June 30,</b>	
2022	\$ 136,345
2023	122,641
2024	115,493
2025	107,074
2026	97,347
Thereafter	1,782,038
	<u>\$ 2,360,938</u>

**Kamehameha Schools and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2021 and 2020**

---

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately \$5.7 million and \$10.9 million for the years ended June 30, 2021 and 2020, respectively.

**Capital Commitments**

At June 30, 2021 and 2020, the Schools were committed under agreements with certain partnerships and corporations to invest an additional \$1.1 billion and \$1.2 billion, respectively.

At June 30, 2021 and 2020, open construction, renovation, major repair, and other contracts amounted to \$186 million and \$168 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, 2021 and 2020, total Trustee compensation amounted to \$903,000 and \$879,000, respectively.

## **Supplementary Schedules**

**Kamehameha Schools and Subsidiaries**  
**Schedules of Trust Spending**  
**Years Ended June 30, 2021, 2020, 2019, 2018 and 2017**

*(All dollars in thousands)*

**Schedule 1**

	2021	2020	2019	2018	2017
<b>Trust spending, net</b>					
Campus-based programs					
Kapālama	\$ 108,010	\$ 106,512	\$ 104,243	\$ 101,331	\$ 93,418
Hawai'i	46,212	44,017	44,880	41,279	38,483
Maui	37,642	37,190	36,745	36,081	32,425
Na Kūla Kamali'i	39,432	36,474	34,820	35,331	32,893
KS Digital	2,536	-	-	-	-
Community programs					
Community engagement	40,931	47,258	50,130	47,987	39,326
Community investments	32,911	36,804	35,310	30,984	25,639
Scholarships	28,206	38,737	37,755	32,528	30,134
Innovations	169	2,070	3,249	1,747	1,432
Education shared services	28,065	34,317	33,123	29,810	23,349
Interest on debt	8,404	9,909	10,877	9,786	7,716
Settlements and other program expenditures	-	-	-	67,650	3,963
Base spending	<u>372,518</u>	<u>393,288</u>	<u>391,132</u>	<u>434,514</u>	<u>328,778</u>
Less: Tuition, fees and other educational income, net	<u>(8,466)</u>	<u>(9,583)</u>	<u>(10,364)</u>	<u>(12,103)</u>	<u>(10,653)</u>
Base distributions	364,052	383,705	380,768	422,411	318,125
Equipment	3,044	1,676	1,090	1,671	1,335
Information technology investment plan	6,481	4,855	6,617	8,312	5,518
Major repairs and capital projects	33,899	35,445	26,414	35,999	27,953
Debt financing	<u>30,676</u>	<u>30,675</u>	<u>(51,041)</u>	<u>14,426</u>	<u>9,786</u>
Total trust spending	<u>\$ 438,152</u>	<u>\$ 456,356</u>	<u>\$ 363,848</u>	<u>\$ 482,819</u>	<u>\$ 362,717</u>
Average fair value of endowment	\$ 11,534,937	\$ 11,340,561	\$ 11,072,207	\$ 10,655,968	\$ 10,210,432
Trust spending rate before debt financing	3.5 %	3.8 %	3.7 %	4.4 %	3.5 %
Trust spending rate	3.8 %	4.0 %	3.3 %	4.5 %	3.6 %

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

# **Kamehameha Schools and Subsidiaries**

## **Notes to Schedules of Trust Spending**

### **Years Ended June 30, 2021, 2020, 2019, 2018 and 2017**

---

#### **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%.

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, 2021.

#### **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 community programs costs represent direct and indirect costs of providing these programs. Education shared services represent the costs of administering scholarships, financial aid, admissions, ancestry verification, and other supporting functions for educational programs. Other program expenditures represent the direct and indirect costs of providing KAPF with scholarships and financial aid programs and certain educational services that benefit the various campus-based and community programs. Enterprise shared services 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.

The trust spending rates are determined by dividing the total trust spending before debt financing 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 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, 2021**

**Schedule 2**

	<b>Value at June 30, 2021 (In Thousands)</b>	<b>One-Year Total Return %</b>	<b>Five-Year Total Return %</b>	<b>Ten-Year Total Return %</b>	<b>Since July 1, 1999 Total Return %</b>
Hawaii Real Estate	\$ 4,006,948	9.7	7.2	9.5	10.4
Hawaii Real Estate Composite Index		7.4	6.1	8.8	7.0
Developed Markets	2,356,722	40.5	18.9	13.9	9.6
Developed Markets Composite Index		39.5	15.1	10.9	6.3
Emerging Markets	822,562	47.7	15.2	7.5	N/A
Emerging Markets Composite Index		40.9	13.0	4.3	N/A
Private Equity	2,927,775	73.7	24.8	18.8	11.8
Private Equity Composite Index		58.2	19.6	15.0	12.7
Absolute Return	2,953,135	15.5	5.5	4.7	N/A
Absolute Return Composite Index		18.3	6.1	3.9	N/A
Marketable Real Assets	239	0.0	-22.7	-14.2	N/A
Marketable Real Assets Composite Index		53.9	-1.1	-2.2	N/A
Illiquid Real Assets	563,599	17.5	2.4	0.9	13.8
Illiquid Real Assets Composite Index		20.5	3.5	1.0	5.0
U.S. Fixed Income	364,552	-1.7	2.5	3.3	5.0
Fixed Income Composite Index		-2.8	2.4	3.3	4.9
Global Fixed Income	86	NM	NM	NM	NM
Global Fixed Income Index		NM	NM	NM	NM
Cash Equivalents	683,272	0.0	1.0	0.4	1.7
Three-month U.S. Treasury Bill		0.1	1.2	0.6	1.8
Total endowment, net of fees and direct expenses	<u>\$ 14,678,890</u>	<u>27.2</u>	<u>10.6</u>	<u>8.8</u>	<u>8.9</u>
Endowment Fund Composite Benchmark		24.9	9.4	7.5	6.3
Total Endowment Fund Long-Term Objective (CPI+5%)		10.4	7.4	6.9	7.3

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

# Kamehameha Schools and Subsidiaries

## Notes to Schedule of Total Return

June 30, 2021

---

### 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 ten-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 approved benchmarks. 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. Hawaii real estate includes investments in partnerships for the primary purpose of investing in Hawaii real estate. 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.

#### **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.

# Kamehameha Schools and Subsidiaries

## Notes to Schedule of Total Return

June 30, 2021

---

### **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.

### **U.S. Fixed Income**

U.S. 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**

Cash equivalents are comprised of short-term investments in debt securities issued by a corporation, government or government agency, and money market instruments. It also includes amounts receivable for private equity sales and cash held at a brokerage.

## **2. Fair 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.

The following methods and assumptions were used to estimate the fair 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. From June 2021, single-family residential properties are appraised using the taxed assessed value. Prior to June 2021, the single-family residential properties were internally and externally appraised. Prior to June 2015, the residential properties were appraised internally and an annual external review

**Kamehameha Schools and Subsidiaries**  
**Notes to Schedule of Total Return**  
**June 30, 2021**

---

was obtained for valuation reasonableness. Most residential properties are currently 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.

**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.

**U.S. Fixed Income, Global Fixed Income, and Cash Equivalents**

The market values of marketable debt securities and cash equivalents are primarily based on quoted market prices. The carrying amounts of amounts receivable for private equity sales and cash held at a brokerage approximate fair value.

**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 periods presented.

**Kamehameha Schools and Subsidiaries**  
**Notes to Schedule of Total Return**  
**June 30, 2021**

---

“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 to April 2018; MSCI World with USA Gross from May 2018.
- **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 to January 2016, 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.
- **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.