Kamehameha Schools and Subsidiaries

Consolidated Financial Statements and Supplementary Schedules

June 30, 2022 and 2021

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Report of Independent Auditors

To the Audit Committee of
Kamehameha Schools and Subsidiaries

Opinion

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, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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, 2022 and 2021, 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 ("GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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, 2022, 2021, 2020, 2019 and 2018 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 GAAS. 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, 2022

Kamehameha Schools and Subsidiaries
Consolidated Balance Sheets
June 30, 2022 and 2021
(All dollars in thousands)

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 145,898	$ 126,245
Receivables, net	6,262	6,018
Other	6,547	5,245
Total current assets	158,707	137,508
Trust investments		
Financial investments, net	10,351,390	10,671,823
Real estate investments, net	313,937	244,349
	10,665,327	10,916,172
Other investments	52,133	58,167
Property and equipment, net	607,463	606,526
Accrued pension asset	2,727	10,069
Deferred charges and other	132,217	129,224
Total assets	$ 11,618,574	$ 11,857,666
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 78,712	$ 71,060
Current portion of notes payable	19,569	14,986
Deferred income and other	27,408	27,284
Total current liabilities	125,689	113,330
Notes payable	277,568	240,262
Accrued postretirement benefits	48,500	62,870
Deferred income and other	160,037	161,858
Total liabilities	611,794	578,320
Commitments and contingencies		
Net assets – without donor restrictions	11,006,780	11,279,346
Total liabilities and net assets	$ 11,618,574	$ 11,857,666

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

Kamehameha Schools and Subsidiaries
Consolidated Statements of Activities
Years Ended June 30, 2022 and 2021
(All dollars in thousands)

	2022	2021
Operating revenues		
Tuition and fees (net of financial aid of $28,324 and $27,433 in 2022 and 2021, respectively)	$ 12,917	$ 7,126
Private gifts and other operating revenue	3,521	8,263
Investment earnings distributed from trust investments	514,200	457,650
Total operating revenues	530,638	473,039
Operating expenses		
Salaries and benefits	244,933	234,818
Professional fees and services	50,693	41,769
Depreciation	45,105	43,880
Community collaborations and grants	44,039	35,696
Scholarships	27,569	28,686
Interest, insurance, and utilities	26,831	23,747
Supplies, repairs & maintenance, and other expenses	48,355	36,117
Settlements	27,621	-
Total operating expenses	515,146	444,713
Operating income	15,492	28,326
Non-operating activities		
Investment earnings distributed for current operations from trust investments	(514,200)	(457,650)
Financial investment gains, net	100,251	2,891,706
Real estate net income and gains	119,766	88,412
Other components of net periodic benefit credit (cost)	6,125	(537)
Change in net assets without donor restrictions from non-operating activities	(288,058)	2,521,931
Total change in net assets without donor restrictions	(272,566)	2,550,257
Net assets		
Beginning of year	11,279,346	8,729,089
End of year	$ 11,006,780	$ 11,279,346

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, 2022 and 2021
(All dollars in thousands)

	2022	2021
Cash flows from operating activities		
Change in net assets	$ (272,566)	$ 2,550,257
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	45,105	43,880
Non-operating depreciation and amortization	21,893	18,759
Net realized and unrealized gains on investments	(92,566)	(2,881,407)
Net gains on property transactions	(10,753)	(15,360)
Gain on remeasurement of previously held equity interest	(4,311)	-
Real estate losses in limited liability companies	-	12,990
Other components of net periodic benefit cost (credit)	(6,125)	537
Changes in operating assets and liabilities		
Receivables, net	(244)	5,893
Deferred charges and other	(6,432)	(4,961)
Accounts payable, accrued expenses, and other liabilities	5,053	17,158
Net cash used in operating activities	(320,946)	(252,254)
Cash flows from investing activities		
Proceeds from sales of investments	6,023,694	8,473,484
Purchases of investments	(5,604,661)	(8,067,559)
Proceeds from real estate transactions	10,733	15,379
Purchases of real estate investments	(82,862)	(14,859)
Purchases of property and equipment	(48,194)	(34,856)
Net cash provided by investing activities	298,710	371,589
Cash flows from financing activities		
Proceeds from borrowing	85,000	-
Repayment of borrowings	(43,111)	(32,236)
Net cash provided by (used in) financing activities	41,889	(32,236)
Net increase in cash and cash equivalents	19,653	87,099
Cash and cash equivalents		
Beginning of year	126,245	39,146
End of year	$ 145,898	$ 126,245
Supplemental disclosure of cash flow information		
Income taxes paid	$ 3	$ 177
Interest paid	9,488	9,731
Noncash investing activities		
Distribution of equity securities from investment funds	$ 180,820	$ 299,727

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

1. Summary of Significant Accounting Policies

Description of the Organization

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

The Schools provide a variety of educational services, including early education, campus-based programs, and other extension, 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 Aliʻi Pauahi Foundation ("KAPF"), P&C Insurance Company, LLC ("P&C"), Kalokoʻeli Properties LLC ("KPL"), and GE Hawaii Block A2 Holding, LLC.

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.
- Hoʻoulu Mahiʻai 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.

GE Hawaii Block A2 Holding, LLC ("KL") is a wholly-owned limited liability company whose purpose is to engage solely in the investment and ownership of GE Hawaii Block A2, LLC, to develop, manage, and operate Keauhou Lane, a property that contains low-cost housing rentals and commercial spaces for rent. The Organization obtained the remaining 20% membership interest in KL during 2022. Refer to Note 4 for further information on the acquisition.

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 $30.6 million and $34.2 million at June 30, 2022 and 2021, 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 property management and 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.

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.

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.

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

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, 2022 or 2021.

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, 2000, and 2019, 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 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 and KL are exempt from Hawaii income taxes. For federal income tax purposes, KPL and KL are treated as disregarded entities.

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, 2022 and 2021, 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.

- **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, 2022 and 2021, 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):

	2022	2021
Assets		
Approved investment earnings to distribute for current operations from trust investments for the following year	$ 527,800	$ 493,300
Cash and cash equivalents	145,898	126,245
Receivables, net	6,262	6,018
Total assets available within one year	679,960	625,563
Liquidity resources		
Undrawn credit facilities	696,000	567,000
Total assets and resources available within one year	$ 1,375,960	$ 1,192,563

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.

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, 2021, the Organization adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans*, which adds, eliminates, and modifies certain disclosure requirements related to defined benefit pension and postretirement plans.

Subsequent Events

The Organization has reviewed all events that have occurred from July 1, 2022 through September 29, 2022, 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, 2022 and 2021 as follows (in thousands):

	2022	2021
Trust financial investments, net	$ 10,351,390	$ 10,671,823
Other investments, net	52,133	58,167
Total investments, net	$ 10,403,523	$ 10,729,990

	Level 1	Level 2	Level 3	Total
2022				
Public equities and exchange traded funds	$ 29,523	$ -	$ -	$ 29,523
Fixed income				
U.S. government obligations	355,305	-	-	355,305
Other debt securities	-	1,672	-	1,672
Short-term investments and cash equivalents	351,543	9	-	351,552
Mutual funds	7,240	-	-	7,240
Illiquid real assets	-	-	59,758	59,758
Absolute return	-	-	1,332	1,332
Total investments at fair value	$ 743,611	$ 1,681	$ 61,090	806,382
Investments at NAV				9,542,331
Amounts receivable for securities sold				206,569
Interest receivables				1,598
Amounts payable for securities purchased				(153,357)
Total investments, net				$ 10,403,523
2021				
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	$ 771,450	$ 1,629	$ 48,273	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				(53,108)
Total investments, net				$ 10,729,990

Purchases of Level 3 investments measured at fair value on a recurring basis for the years ended June 30, 2022 and 2021 were as follows (in thousands):

	2022	2021
Illiquid real assets	$ 536	$ 1,173
Absolute return	32	5,731
Total purchases	$ 568	$ 6,904

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.

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, 2022 and 2021 were as follows (in thousands):

	2022	**2021**
Equity	$ 5,964,651	$ 5,952,354
Absolute return	2,941,967	2,900,690
Real assets	635,713	517,896
Total investments at NAV	$ 9,542,331	$ 9,370,940

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.

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 was paid in 2022.

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

Investment gains for the years ended June 30, 2022 and 2021 were as follows (in thousands):

	2022	**2021**
Interest and dividend income, net of fees	$ 27,868	$ 27,287
Realized and unrealized gains, net of fees	72,383	2,864,419
Investment gains, net of investment fees	$ 100,251	$ 2,891,706

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 utilized 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.

The following table presents amounts for investment-related derivatives, including the exposure amount, the fair values at June 30, 2021, and losses for the year ended June 30, 2021 (in thousands). The Organization held no derivative contracts at June 30, 2022 and 2021, and incurred no losses for the year ended June 30, 2022.

	Exposure Amounts	Derivative Liabilities	Net Loss
2021			
Equity futures contracts	$ -	$ -	$ (105,811)
Forward currency contracts	-	-	(227)
		$ -	$ (106,038)

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, 2022 and 2021, the cost of real estate was as follows (in thousands):

	2022	2021
Land and land improvements	$ 64,731	$ 64,791
Buildings and improvements	485,562	389,869
Less: Accumulated depreciation	(244,879)	(227,413)
	305,414	227,247
Construction in progress	8,523	17,102
Trust real estate, total at carrying value	$ 313,937	$ 244,349

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

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 exercised its option to acquire the remaining 20% ownership in one of the limited liability companies.

As noted in Note 1, in December 2021 the Organization acquired the remaining 20% membership interest in KL, which was previously accounted for under the equity method. The acquisition was recorded in accordance with ASC 805 – *Business Combinations,* which resulted in a gain of $4.3 million based on the remeasurement of the previously held equity interest. The acquisition-date fair value of assets of $82.1 million and liabilities of $0.7 million were based on total consideration transferred by the Organization for the acquisition of $77.1 million, of which $75 million was obtained through a fixed term loan.

At June 30, 2022 and 2021, the Organization's net income and gains from real estate investments and other real estate were as follows (in thousands):

	2022	2021
Rental revenue	$ 267,927	$ 245,214
Net gains on property sales	10,753	15,360
Gain on remeasurement of previously held equity interest	4,311	-
Losses in limited liability companies	-	(12,990)
Other losses	(736)	(49)
Less: Rental expenses	(162,489)	(159,123)
Real estate net income and gains	$ 119,766	$ 88,412

5. Property and Equipment

Property and equipment, net, at June 30, 2022 and 2021 consisted of the following (in thousands):

	2022	2021
Educational property and equipment		
Land	$ 19,831	$ 18,567
Buildings, improvements and equipment	1,079,334	1,034,547
Less: Accumulated depreciation	(617,818)	(578,030)
	481,347	475,084
Non-educational property and equipment		
Land and land improvements	4,723	4,724
Buildings, improvements and equipment	131,086	124,855
Less: Accumulated depreciation and amortization	(85,658)	(81,908)
	50,151	47,671
Construction in progress	13,754	32,010
Educational and non-educational property and equipment, net	545,252	554,765
Other real estate		
Land and land improvements	38,546	31,507
Buildings, improvements and equipment	39,313	39,287
Less: Accumulated depreciation	(22,911)	(21,421)
	54,948	49,373
Construction in progress	7,263	2,388
Other real estate, total at carrying value	62,211	51,761
Property and equipment, net	$ 607,463	$ 606,526

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.

6. Receivables

Receivables, net, at June 30, 2022 and 2021 were as follows (in thousands):

	2022	2021
Tenant	$ 12,275	$ 19,618
Tuition and other	2,392	2,301
	14,667	21,919
Less: Allowance for doubtful accounts	(8,405)	(15,901)
Receivables, net	$ 6,262	$ 6,018

7. Notes Payable

At June 30, 2022 and 2021, unsecured notes payable consisted of the following (in thousands except percentages):

	2022	2021
Senior promissory notes payable under a $250.0 million private shelf facility		
3.47%, payable through March 2042	$ 100,000	$ 105,000
3.37%, payable through December 2039	21,000	22,200
Senior promissory notes payable under a $450.0 million private shelf facility		
6.80%, payable through March 2027	4,762	5,714
4.88%, payable through June 2028	20,000	23,334
4.93%, payable through April 2029	12,000	14,000
3.85%, payable through January 2037	50,000	50,000
Term loan, fixed		
2.07%, payable through December 2041	73,125	-
Term loan, variable		
1.04% at June 30, 2021, repaid in March 2022	-	2,500
Revolving credit facilities	16,250	32,500
Total notes payable	297,137	255,248
Less: Current portion	(19,569)	(14,986)
Long-term notes payable	$ 277,568	$ 240,262

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.

In December 2021, the Schools entered into a $75.0 million, 20-year term loan with fixed interest rate.

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 as of June 30, 2021, 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. At June 30, 2022 the loan was paid in full.

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 $220.0 million and $120.0 million at June 30, 2022 and 2021, respectively. 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 $16.3 million and $32.5 million at June 30, 2022 and 2021, 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):

Years ending June 30,	
2023	$ 19,569
2024	19,569
2025	35,819
2026	19,569
2027	19,569
Thereafter	183,042
	$ 297,137

Interest expense incurred was $9.4 million for the years ended June 30, 2022 and 2021.

8. Income Taxes

Total income tax expense (benefit) amounted to approximately $0.03 million and ($1.67) million for the years ended June 30, 2022 and 2021, 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, 2022 and 2021 were as follows (in thousands):

	2022	**2021**
Deferred tax assets		
Charitable contribution carryforwards	$ 73,646	$ 65,813
Net operating loss carryforwards	21,789	20,744
Passive activity loss carryforwards	67,853	62,075
Other	11,441	11,203
	174,729	159,835
Less: Valuation allowance	(174,007)	(159,113)
Net deferred taxes	$ 722	$ 722

The change in valuation allowance was an increase of $14.9 million and $5.4 million for the years ended June 30, 2022 and 2021, 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 $174.0 million and $159.1 million for the years ended June 30, 2022 and 2021, 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 $161.6 million available to carry forward indefinitely for federal and state tax purposes, charitable contribution carryforwards of $175.2 million and $175.9 million for federal and state tax purposes, respectively, expiring at various dates beginning in fiscal year 2022 through 2027, 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 $9.1 million available to carry forward indefinitely.

As of June 30, 2022 and 2021, 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, 2019 through 2022, and for the June 30, 2018 amended return. State statute of limitations for various states remains open for the years ended June 30, 2019 through 2022.

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, 2022 and 2021 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2022 and 2021 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2022	**2021**	**2022**	**2021**
Change in projected benefit obligation ("PBO") and accumulated benefit obligation ("ABO")				
PBO/ABO at beginning of year	$ 417,735	$ 428,752	$ 62,870	$ 67,667
Service cost	-	-	2,262	2,600
Interest cost	12,048	12,352	2,082	2,251
Benefits paid	(21,091)	(20,487)	(1,565)	(1,670)
Actuarial gains	(78,146)	(2,882)	(17,149)	(7,978)
PBO/ABO at end of year	330,546	417,735	48,500	62,870
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	427,804	442,885	-	-
Actual return on plan assets	(75,040)	3,206	-	-
Employer contributions	1,600	2,200	1,565	1,670
Benefits paid	(21,091)	(20,487)	(1,565)	(1,670)
Fair value of plan assets at end of year	333,273	427,804	-	-
Funded status and recognized asset (liability)	$ 2,727	$ 10,069	$ (48,500)	$ (62,870)

The actuarial gains are from the change in discount rate assumptions are significant changes to the benefit obligations at June 30, 2022. There were no significant gains or losses to the benefit obligations at June 30, 2021.

The net periodic benefit cost (credit) consisted of the following for the years ended June 30, 2022 and 2021 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2022	**2021**	**2022**	**2021**
Service cost included in operating expenses	$ -	$ -	$ 2,262	$ 2,600
Other components of cost (credit)				
Interest cost	12,048	12,352	2,082	2,251
Expected return on plan assets	(11,771)	(11,846)	-	-
Actuarial (gains) losses	8,665	5,758	(17,149)	(7,978)
Other components of net periodic benefit cost (credit)	8,942	6,264	(15,067)	(5,727)
Net periodic benefit cost (credit)	$ 8,942	$ 6,264	$ (12,805)	$ (3,127)

The assumptions used in the actuarial valuation at June 30, 2022 and 2021 were as follows:

	Pension Benefits		Postretirement Benefits	
	2022	**2021**	**2022**	**2021**
Weighted average assumptions				
Benefit obligation				
Discount rate	4.78 %	2.95 %	4.91 %	3.34 %
Net periodic benefit cost				
Discount rate	2.95 %	2.94 %	3.34 %	3.29 %
Expected return on plan assets	3.00 %	3.00 %	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, 2022 and 2021 were as follows:

	2022	2021
Healthcare cost trend rate assumed for the next year	8.46 %	7.61 %
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	2034	2031

The fair value of the Organization's Pension Plan assets at June 30, 2022 and 2021 by asset category were as follows (in thousands):

	Fair Value Measurements at Reporting Date		
	Level 1	Level 2	Total
2022			
Cash and cash management funds	$ 1,977	$ 5,239	$ 7,216
Fixed income			
U.S. government obligations	54,498	-	54,498
Corporate debt	-	245,388	245,388
Other debt securities	-	29,732	29,732
Total investments	$ 56,475	$ 280,359	336,834
Amounts receivable for securities sold			3,186
Interest receivable			3,227
Amounts payable for securities purchased			(9,974)
Total plan assets			$ 333,273
2021			
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	$ 79,368	$ 355,009	434,377
Amounts receivable for securities sold			3,686
Interest receivable			3,185
Amounts payable for securities purchased			(13,444)
Total plan assets			$ 427,804

The Organization has an investment strategy to reduce volatility of funded status and pension costs. For fiscal years 2022 and 2021, 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.

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

	Pension Benefits	Postretirement Benefits
Years ending June 30,		
2023	$ 21,367	$ 1,564
2024	21,596	1,678
2025	21,769	1,791
2026	21,861	1,895
2027	21,997	2,025
2028–2032	109,398	11,812
	$ 217,988	$ 20,765

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 2023 and regularly contributes to its Pension Plan for administrative expenses. The Organization expects to contribute $1.6 million to its postretirement medical plan in 2023.

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, 2022 and 2021 amounted to approximately $18.6 million and $18.2 million, respectively.

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, 2022 and 2021 were as follows (in thousands):

	2022			
	Campus Based	Community Programs	Shared Services	Total
Salaries and benefits	$ 147,763	$ 19,639	$ 77,531	$ 244,933
Professional fees and services	11,864	5,809	33,020	50,693
Depreciation	38,805	2,746	3,554	45,105
Community collaborations and grants	-	44,039	-	44,039
Scholarships	-	27,569	-	27,569
Interest, insurance, and utilities	7,959	329	18,543	26,831
Other expenses	31,785	5,127	11,443	48,355
Settlements	27,621	-	-	27,621
Total operating expenses	$ 265,797	$ 105,258	$ 144,091	$ 515,146

	2021			
	Campus Based	Community Programs	Shared Services	Total
Salaries and benefits	$ 141,052	$ 22,889	$ 70,877	$ 234,818
Professional fees and services	8,115	5,343	28,311	41,769
Depreciation	37,040	2,687	4,153	43,880
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	$ 218,255	$ 99,281	$ 127,177	$ 444,713

11. Commitments and Contingencies

Rental Income

The majority of real estate investments are generally leased under long-term lease arrangements. At June 30, 2022, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Years ending June 30,	
2023	$ 143,333
2024	134,400
2025	126,677
2026	115,312
2027	103,478
Thereafter	1,957,954
	$ 2,581,154

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $14.0 million and $5.7 million for the years ended June 30, 2022 and 2021, respectively.

Capital Commitments
At June 30, 2022 and 2021, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $1.2 billion and $1.1 billion, respectively.

At June 30, 2022 and 2021, open construction, renovation, major repair, and other contracts amounted to $186 million and $186 million, respectively.

Litigation
The following is a summary of the more significant legal matters involving the Organization:

In fiscal year 2022, settlements were reached between Kamehameha Schools and 26 plaintiffs related to prior sexual offenses. The settlements incurred during the year were $27.6 million, net of insurance coverage.

In addition to the matters noted above, there are various claims and complaints against the Organization that are incidental to its operations. Where applicable, the Organization actively pursues cross-claims against co-defendants and submits claims to insurance carriers for recovery.

Management, after consideration with legal counsel, is of the opinion that the ultimate resolution of all of these such matters, except those disclosed above should not have a material 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, 2022 and 2021, total Trustee compensation amounted to $827,000 and $903,000, respectively.

Supplementary Schedules

Kamehameha Schools and Subsidiaries
Schedules of Trust Spending
Years Ended June 30, 2022, 2021, 2020, 2019 and 2018
(All dollars in thousands) **Schedule 1**

	2022	2021	2020	2019	2018
Trust spending, net					
Campus-based programs					
Kapālama	$ 122,411	$ 108,010	$ 106,512	$ 104,243	$ 101,331
Hawaiʻi	48,888	46,212	44,017	44,880	41,279
Maui	42,018	37,642	37,190	36,745	36,081
Na Kūla Kamaliʻi	38,982	39,432	36,474	34,820	35,331
Multi-campus initiatives	663	-	-	-	-
KS Digital	3,379	2,536	-	-	-
Community programs					
Community engagement	40,535	40,931	47,258	50,130	47,987
Community portfolio	64,941	61,286	77,611	76,314	65,259
Education shared services	34,902	28,065	34,317	33,123	29,810
Interest on debt	7,574	8,404	9,909	10,877	9,786
Settlements	27,621	-	-	-	67,650
Base spending	431,914	372,518	393,288	391,132	434,514
Less: Tuition, fees and other educational income, net	(14,426)	(8,466)	(9,583)	(10,364)	(12,103)
Base distributions	417,488	364,052	383,705	380,768	422,411
Equipment	1,695	3,044	1,676	1,090	1,671
Information technology investment plan	6,297	6,481	4,855	6,617	8,312
Major repairs and capital projects	34,806	33,899	35,445	26,414	35,999
Debt financing	29,676	30,676	30,675	(51,041)	14,426
Total trust spending	$ 489,962	$ 438,152	$ 456,356	$ 363,848	$ 482,819
Average fair value of endowment	$ 12,101,912	$ 11,534,937	$ 11,340,561	$ 11,072,207	$ 10,655,968
Trust spending rate before debt financing	3.8 %	3.5 %	3.8 %	3.7 %	4.4 %
Trust spending rate	4.0 %	3.8 %	4.0 %	3.3 %	4.5 %

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%.

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, 2022.

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. 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, 2022 — Schedule 2

	Value at June 30, 2022 (In Thousands)	One-Year Total Return %	Five-Year Total Return %	Ten-Year Total Return %	Since July 1, 1999 Total Return %
Hawaii Real Estate	$ 4,755,744	22.2	9.0	10.3	10.9
Hawaii Real Estate Composite Index		21.5	8.9	9.7	7.6
Public Equities	2,393,432	-21.5	6.3	8.0	5.7
Public Equities Composite Index		-18.0	6.2	8.5	7.5
Private Equity	3,554,684	27.4	28.3	21.0	20.2
Private Equity Composite Index		24.1	24.5	18.5	15.1
Absolute Return	3,014,561	-5.9	2.6	4.1	3.2
Absolute Return Composite Index		-5.5	3.6	3.7	4.6
Real Assets	695,471	43.0	6.0	3.9	4.0
Total Real Assets		32.6	4.7	2.6	3.3
Fixed Income	341,488	-6.4	0.3	1.1	3.5
Barclays US Treasury Index		-8.9	0.7	1.0	6.5
Cash Equivalents	351,298	0.1	0.5	0.3	-0.2
Three-month U.S. Treasury Bill		0.2	1.1	0.6	4.5
Total endowment, net of fees and direct expenses	$ 15,106,678	6.7	9.5	9.0	8.8
Endowment Fund Composite Benchmark		6.2	8.8	7.9	6.3
Total Endowment Fund Long-Term Objective (CPI+5%)		14.1	8.9	7.6	7.5

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 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.

Public Equities
Public equities are comprised primarily of marketable equity securities and derivative instruments of companies in the U.S. and outside of the U.S. 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 hedge, relative value, event driven, diversified income, and macro strategies, and its exposure is global.

Real Assets
Real assets provide exposure to energy, commodities, and other real assets globally. Real assets are comprised of marketable equity securities, derivatives, and illiquid investments in privately held companies and assets.

Fixed Income
Fixed income is comprised of investments in debt securities issued by a corporation, government, or government agency in the U.S. or governments of other developed countries and emerging market countries. 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.

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 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.

Public Equities
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.

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.

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.

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.

Some benchmarks are restated "for presentation purposes only" in all prior years, as if the current policy benchmark was in effect for those prior years.

The Endowment Fund Composite Benchmark represents the benchmark as approved in the investment policy in effect at the time, and is not affected by restated benchmarks.

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.

- **Public Equities Composite Index**
  Russell 3000, MSCI World ex-US IMI Net, MSCI Emerging Markets IMI Net, MSCI All Country World IMI Net w/ USA Gross from July 2021. This composite index is also restated from inception to date "for presentation purposes only" in all prior years.

- **Private Equity Composite Index**
  CA Buyout + Growth Equity, CA Global Growth Equity, CA Global Venture Capital, CA Global Control-Orientated Distress + CA Global Credit Opportunities from July 2021. This composite index is also restated from inception to date "for presentation purposes only" in all prior years.

- **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.

- **Real Assets Composite Index**
  CA Global Private Equity Energy + CA Global Upstream Energy & Royalties, CA Global Real Estate from July 2021. This composite index is also restated from inception to date "for presentation purposes only" in all prior years.

- **Fixed Income Composite Index**
  Barclays U.S. Treasury Index from July 2021. This composite index is also restated from inception to date "for presentation purposes only" in all prior years.