Kamehameha Schools and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended June 30, 2023 and 2022, and Supplementary Schedules, and Independent Auditor's Report

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee of
Kamehameha Schools and Subsidiaries

Opinion

We have audited the consolidated financial statements of Kamehameha Schools and Subsidiaries (the "Organization"), which comprise the consolidated balance sheet as of June 30, 2023, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Predecessor Auditor's Opinion on 2022 Financial Statements

The financial statements of the Organization as of and for the year ended June 30, 2022 were audited by a predecessor auditor, whose report, dated September 29, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

In preparing the 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 for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 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 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 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 Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules listed in the table of contents on page 31 are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

September 28, 2023

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2023 AND 2022
(All dollars in thousands)

	2023	2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 136,463	$ 145,898
Receivables—net	5,135	6,262
Other	5,644	6,547
Total current assets	147,242	158,707
TRUST INVESTMENTS:		
Financial investments—net	9,953,841	10,351,390
Real estate investments—net	337,005	313,937
	10,290,846	10,665,327
OTHER INVESTMENTS	57,384	52,133
PROPERTY AND EQUIPMENT—net	583,351	607,463
ACCRUED PENSION ASSET	-	2,727
DEFERRED CHARGES AND OTHER	157,697	132,217
TOTAL ASSETS	$ 11,236,520	$ 11,618,574
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 78,173	$ 78,712
Current portion of notes payable	19,569	19,569
Deferred income and other	38,556	27,408
Total current liabilities	136,298	125,689
NOTES PAYABLE	241,749	277,568
ACCRUED POSTRETIREMENT BENEFITS	51,920	48,500
ACCRUED PENSION LIABILITY	2,320	-
DEFERRED INCOME AND OTHER	159,205	160,037
Total liabilities	591,492	611,794
NET ASSETS—without donor restrictions	10,645,028	11,006,780
TOTAL LIABILITIES AND NET ASSETS	$ 11,236,520	$ 11,618,574

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

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
(All dollars in thousands)

	2023	2022
OPERATING REVENUES:		
Tuition and fees (net of financial aid of $29,169 and $28,324 in 2023 and 2022, respectively)	$ 15,630	$ 12,917
Private gifts and other operating revenue	11,790	3,521
Investment earnings distributed from trust investments	505,700	514,200
Total operating revenues	533,120	530,638
OPERATING EXPENSES:		
Salaries and benefits	255,788	244,933
Professional fees and services	47,306	50,693
Depreciation	46,620	45,105
Community collaborations and grants	42,255	44,039
Scholarships	31,964	27,569
Repairs & maintenance	30,887	12,499
Interest, insurance, and utilities	29,188	26,831
Supplies and other expenses	38,775	35,856
Settlements	9,042	27,621
Total operating expenses	531,825	515,146
Operating income	1,295	15,492
NON-OPERATING ACTIVITIES:		
Investment earnings distributed for current operations from trust investments	(505,700)	(514,200)
Financial investment gains—net	63,821	100,251
Real estate net income and gains	89,148	119,766
Other components of net periodic benefit credit (cost)	(10,316)	6,125
Change in net assets without donor restrictions from non-operating activities	(363,047)	(288,058)
Total change in net assets without donor restrictions	(361,752)	(272,566)
NET ASSETS—WITHOUT DONOR RESTRICTIONS:		
Beginning of year	11,006,780	11,279,346
End of year	$ 10,645,028	$ 11,006,780

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

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022
(All dollars in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (361,752)	$ (272,566)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	46,620	45,105
Non-operating depreciation and amortization	27,047	21,893
Net realized and unrealized gains on investments	(43,727)	(92,566)
Net (gains) losses on property transactions	2,342	(10,753)
Gain on remeasurement of previously held equity interest	-	(4,311)
Other components of net periodic benefit cost (credit)	10,316	(6,125)
Changes in operating assets and liabilities:		
Receivables—net	1,127	(244)
Deferred charges and other	(26,495)	(6,432)
Accounts payable, accrued expenses, and other liabilities	12,216	5,053
Net cash used in operating activities	(332,306)	(320,946)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	4,313,621	6,023,694
Purchases of investments	(3,877,596)	(5,604,661)
Proceeds from real estate transactions	1,639	10,733
Purchases of real estate investments	(46,007)	(82,862)
Purchases of property and equipment	(28,678)	(48,194)
Net cash provided by investing activities	362,979	298,710
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowing	-	85,000
Repayment of borrowings	(35,819)	(43,111)
Repayments on finance leases	(4,289)	-
Net cash provided by (used in) financing activities	(40,108)	41,889
Net increase (decrease) in cash and cash equivalents	(9,435)	19,653
CASH AND CASH EQUIVALENTS:		
Beginning of year	145,898	126,245
End of year	$ 136,463	$ 145,898
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$ 91	$ 3
Interest paid	9,451	9,488
NONCASH INVESTING ACTIVITIES—Distribution of equity securities from investment funds	$ 47,962	$ 180,820
SUPPLEMENTAL DISCLOSURE:		
Operating cash outflows from operating leases	$ 3,206	$ -
ROU assets obtained in exchange for operating lease liabilities	25,723	-
ROU assets obtained in exchange for finance lease liabilities	4,648	-

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 (“KL”).

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. (“KCSI”). In December 2022, wastewater assets of KCSI were sold.
- 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.

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 December 2021. 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 accounting principles generally accepted in the United States of America ("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 $34.9 million and $30.6 million at June 30, 2023 and 2022, 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–Net—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, 2023 or 2022.

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 as recently as 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, 2023 and 2022, 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, 2023 and 2022, 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):

	2023	2022
Assets:		
Approved investment earnings to distribute for current operations from trust investments for the following year	$ 549,000	$ 527,800
Cash and cash equivalents	136,463	145,898
Receivables—net	5,135	6,262
Total assets available within one year	690,598	679,960
Liquidity resources:		
Undrawn credit facilities	703,000	696,000
Total assets and resources available within one year	$ 1,393,598	$ 1,375,960

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, 2022, the Organization adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02 *Leases (Topic 842)* and subsequent ASUs, which implement FASB Accounting Standards Codification ("ASC") 842 Leases framework for lease recognition to recognize an asset and a liability for lessee operating and finance leases, lessor lease accounting, and adds and modifies certain disclosure requirements. The Organization elected the transition method under the modified retrospective approach under which the results for the comparative prior periods were not restated. The effect of Topic 842 adoption was the Organization recognized $25.2 million of operating right-of-use ("ROU") assets and lease liabilities and $10.1 million of finance ROU assets, net and $7.3 million of lease liabilities as of July 1, 2022.

Reclassification—Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the 2023 presentation. Such reclassifications have no impact on the 2022 change in net assets as previously reported.

Subsequent Events—The Organization has reviewed all events that have occurred from July 1, 2023 through September 28, 2023, 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, 2023 and 2022 as follows (in thousands):

	2023	2022
Trust financial investments—net	$ 9,953,841	$ 10,351,390
Other investments—net	57,384	52,133
Total investments—net	$ 10,011,225	$ 10,403,523

2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Public equities and exchange traded funds	$ 41,552	$ -	$ -	$ 41,552
Fixed income				
U.S. government obligations	191,486	-	-	191,486
Other debt securities	-	19,324	-	19,324
Short-term investments and cash equivalents	301,382	5	-	301,387
Mutual funds	8,012	-	-	8,012
Illiquid real assets	-	-	51,154	51,154
Absolute return	-	6,153	144	6,297
Total investments at fair value	$ 542,432	$ 25,482	$ 51,298	619,212
Investments at NAV				9,244,854
Amounts receivable for securities sold				149,500
Interest receivables				3,672
Amounts payable for securities purchased				(6,013)
Total investments—net				$ 10,011,225

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

Purchases of Level 3 investments measured at fair value on a recurring basis for the years ended June 30, 2023 and 2022 were as follows (in thousands):

	2023	2022
Illiquid real assets	$ -	$ 536
Absolute return	-	32
Total purchases	$ -	$ 568

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, 2023 and 2022 were as follows (in thousands):

	2023	2022
Equity	$ 5,757,365	$ 5,964,651
Absolute return	2,828,477	2,941,967
Real assets	659,012	635,713
Total investments at NAV	$ 9,244,854	$ 9,542,331

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.

Investment gains for the years ended June 30, 2023 and 2022 were as follows (in thousands):

	2023	2022
Interest and dividend income—net of fees	$ 42,175	$ 27,868
Realized and unrealized gains—net of fees	21,646	72,383
Investment gains—net of investment fees	$ 63,821	$ 100,251

3. DERIVATIVES

The Organization utilizes a variety of derivative instruments as part of the overall investment strategy, including certain forward currency contracts, swaps and futures contracts. 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 derivatives were traded on centralized exchanges or between the Organization and a broker 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 derivative 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, exchange or terms of the underlying swap agreement. Gains and losses were realized when the contracts expired or were closed. Derivative 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, 2023, and losses for the year ended June 30, 2023 (in thousands).

The Organization held no derivative contracts at June 30, 2022 and incurred no losses for the year ended June 30, 2022.

2023	**Exposure Amounts**	**Derivative Liability**	**Net Loss**
Equity derivatives	$ (279,685)	$ (8,793)	$ (33,379)
		$ (8,793)	$ (33,379)

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, 2023 and 2022, the cost of real estate was as follows (in thousands):

	2023	**2022**
Land and land improvements	$ 104,438	$ 64,731
Buildings and improvements	471,633	485,562
Less: Accumulated depreciation	(247,055)	(244,879)
	329,016	305,414
Construction in progress	7,989	8,523
Trust real estate—total at carrying value	$ 337,005	$ 313,937

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

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, 2023 and 2022, the Organization's net income and gains from real estate investments and other real estate were as follows (in thousands):

	2023	**2022**
Rental revenue	$ 291,307	$ 267,927
Gain on remeasurement of previously held equity interest	-	4,311
Net gains (losses) on property sales	(2,342)	10,753
Other losses	(812)	(736)
Less: Rental expenses	(199,005)	(162,489)
Real estate net income and gains	$ 89,148	$ 119,766

5. PROPERTY AND EQUIPMENT

Property and equipment, net, at June 30, 2023 and 2022 consisted of the following (in thousands):

	2023	2022
Educational property and equipment:		
Land	$ 20,268	$ 19,831
Buildings, improvements and equipment	1,057,984	1,079,334
Less: Accumulated depreciation	(652,102)	(617,818)
	426,150	481,347
Non-educational property and equipment:		
Land and land improvements	4,723	4,723
Buildings, improvements and equipment	129,163	131,086
Less: Accumulated depreciation and amortization	(92,008)	(85,658)
	41,878	50,151
Construction in progress	11,813	13,754
Educational and non-educational property and equipment—net	479,841	545,252
Other real estate:		
Land and land improvements	39,166	38,546
Buildings, improvements and equipment	75,876	39,313
Less: Accumulated depreciation	(33,553)	(22,911)
	81,489	54,948
Construction in progress	22,021	7,263
Other real estate—total at carrying value	103,510	62,211
Property and equipment—net	$ 583,351	$ 607,463

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. LEASES

Lessor—The majority of the Organization's real estate investments are generally leased under long-term lease arrangements. At June 30, 2023, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Years ending June 30,	
2024	$ 148,801
2025	134,013
2026	122,224
2027	109,789
2028	93,647
Thereafter	1,762,357
	$ 2,370,831

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $15.4 million and $14.0 million for the years ended June 30, 2023 and 2022, respectively.

Lessee—The Organization leases real estate and equipment under operating and finance leases. ASC 842 identifies a contract as a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At lease inception, ROU assets and lease liabilities are recognized based on the present value of lease payments over the lease term.

The Organization elected the practical expedients to carry forward historical lease classifications, account for lease components and non-lease components as a single lease component, and the hindsight practical expedient to determine the lease term for existing leases. Real estate and equipment leases typically have initial terms of 3 to 65 years.

Other practical expedients elected are to not recognize short-term leases with a term of one year or less and to use a risk-free rate as the discount rate when the rate implicit in the lease is not readily determinable.

At June 30, 2023, operating leases recorded in the consolidated balance sheet were $22.5 million of ROU assets in deferred charges and other and $22.5 million of lease liabilities recorded in deferred income and other. At June 30, 2023, finance leases recorded in the consolidated balance sheet were $10.7 million of ROU assets in property and equipment, net and $7.7 million of lease liabilities in deferred income and other.

Lease expenses are recognized on a straight-line basis over the term of the lease. Operating lease costs recognized in the consolidated statement of activities as other expenses and real estate expenses were $3.8 million for the year ended June 30, 2023. Finance lease costs were recognized in the consolidated statement of activities as depreciation expense and interest expense and were $3.9 million and $0.2 million, respectively, for the year ended June 30, 2023.

At June 30, 2023, operating leases weighted average remaining lease term is 20 years and the weighted average discount rate is 3.04%. At June 30, 2023, finance leases weighted average remaining lease term is 3 years and the weighted average discount rate is 2.98%.

At June 30, 2023, future minimum lease payments are as follows (in thousands):

Years ending June 30,	**Operating**	**Finance**
2024	$ 3,615	$ 3,711
2025	2,565	3,130
2026	1,696	1,153
2027	1,416	-
2028	1,244	-
Thereafter	19,836	-
Total lease payments	30,372	7,994
Less: interest	(7,855)	(332)
Total lease liabilities	$ 22,517	$ 7,662

7. RECEIVABLES

Receivables, net, at June 30, 2023 and 2022 were as follows (in thousands):

	2023	2022
Tenant	$ 11,213	$ 12,275
Tuition and other	1,615	2,392
	12,828	14,667
Less: Allowance for doubtful accounts	(7,693)	(8,405)
Receivables—net	$ 5,135	$ 6,262

8. NOTES PAYABLE

At June 30, 2023 and 2022, unsecured notes payable consisted of the following (in thousands except percentages):

	2023	2022
Senior promissory notes payable under a $250.0 million private shelf facility		
3.47%, payable through March 2042	$ 95,000	$ 100,000
3.37%, payable through December 2039	19,800	21,000
Senior promissory notes payable under a $425.0 million private shelf facility		
6.80%, payable through March 2027	3,809	4,762
4.88%, payable through June 2028	16,667	20,000
4.93%, payable through April 2029	10,000	12,000
3.85%, payable through January 2037	46,667	50,000
Term loan—fixed:		
2.07%, payable through December 2041	69,375	73,125
Revolving credit facilities	-	16,250
Total notes payable	261,318	297,137
Less: Current portion	(19,569)	(19,569)
Long-term notes payable	$ 241,749	$ 277,568

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 2022, the Schools entered into an uncommitted $425.0 million private shelf facility. Notes may be issued under the amended and restated facility through December 2027, 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.

The Schools have a revolving credit facility with two commercial banks that expire in fiscal years 2025 and 2027. The revolving credit facilities provide for a total commitment of $220.0 million at June 30, 2023 and 2022, 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 at June 30, 2022. At June 30, 2023, the outstanding balance was paid in full.

Subsequent to June 30, 2023, the Schools committed to draw $75 million and $245 million from its $250 million and $425 million private shelf facilities noted above.

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,	
2024	$ 19,569
2025	19,569
2026	19,569
2027	19,569
2028	17,617
Thereafter	165,425
	$ 261,318

Interest expense incurred was $9.3 million and $9.4 million for the years ended June 30, 2023 and 2022, respectively.

9. INCOME TAXES

Total income tax expense amounted to approximately $0.97 million and $0.03 million for the years ended June 30, 2023 and 2022, respectively. These amounts are included in non-operating activities in the accompanying consolidated statements of activities.

The components of deferred tax assets as of June 30, 2023 and 2022 were as follows (in thousands):

	2023	2022
Deferred tax assets		
Charitable contribution carryforwards	$ 68,079	$ 73,646
Net operating loss carryforwards	21,751	21,789
Passive activity loss carryforwards	64,917	67,853
Other	11,885	11,441
	166,632	174,729
Less: Valuation allowance	(166,199)	(174,007)
Net deferred taxes	$ 433	$ 722

The change in valuation allowance was a decrease of $7.8 million and an increase of $14.9 million for the years ended June 30, 2023 and 2022, 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 $0.4 million of these deductible differences and has provided a valuation allowance of $166.2 million and $174.0 million for the years ended June 30, 2023 and 2022, 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. As of the fiscal year 2022 tax returns, the Organization has passive activity losses of $140.8 million available to carry forward indefinitely for federal and state tax purposes, charitable contribution carryforwards of $168.0 million and $168.7 million for federal and state tax purposes, respectively, expiring at various dates beginning in fiscal year 2023 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 $9.6 million available to carry forward indefinitely.

As of June 30, 2023 and 2022, 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, 2020 through 2023, as well as for the Organization’s June 30, 2018 and June 30, 2019 amended returns. State statute of limitations for various states remains open for the years ended June 30, 2020 through 2023, as well as for the Organization’s June 30, 2020 amended Hawaii return.

10. 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, 2023 and 2022 to the funded status of the plans and amounts recognized in the consolidated financial statements as of June 30, 2023 and 2022 (in thousands):

	Pension Benefits		Postretirement Benefits	
Change in projected benefit obligation (“PBO”) and accumulated benefit obligation (“ABO”)	**2023**	**2022**	**2023**	**2022**
PBO/ABO at beginning of year	$ 330,546	$ 417,735	$ 48,500	$ 62,870
Service cost	-	-	1,328	2,262
Interest cost	15,374	12,048	2,341	2,082
Benefits paid	(21,611)	(21,091)	(1,577)	(1,565)
Actuarial (gains) losses	(10,642)	(78,146)	1,328	(17,149)
PBO/ABO at end of year	313,667	330,546	51,920	48,500
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	333,273	427,804	-	-
Actual return on plan assets	(1,915)	(75,040)	-	-
Employer contributions	1,600	1,600	1,577	1,565
Benefits paid	(21,611)	(21,091)	(1,577)	(1,565)
Fair value of plan assets at end of year	311,347	333,273	-	-
Funded status and recognized asset (liability)	$ (2,320)	$ 2,727	$ (51,920)	$ (48,500)

The actuarial gains are from the change in discount rate assumptions are significant changes to the benefit obligations for the fiscal year ended June 30, 2023 and June 30, 2022.

The net periodic benefit cost (credit) consisted of the following for the years ended June 30, 2023 and 2022 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2023	2022	2023	2022
Service cost included in operating expenses	$ -	$ -	$ 1,328	$ 2,262
Other components of cost (credit)				
Interest cost	15,374	12,048	2,341	2,082
Expected return on plan assets	(13,536)	(11,771)	-	-
Actuarial (gains) losses	4,809	8,665	1,328	(17,149)
Other components of net periodic benefit cost (credit)	6,647	8,942	3,669	(15,067)
Net periodic benefit cost (credit)	$ 6,647	$ 8,942	$ 4,997	$ (12,805)

The assumptions used in the actuarial valuation at June 30, 2023 and 2022 were as follows:

	Pension Benefits		Postretirement Benefits	
	2023	2022	2023	2022
Weighted average assumptions				
Benefit obligation				
Discount rate	5.15 %	4.78 %	5.23 %	4.91 %
Net periodic benefit cost				
Discount rate	4.78 %	2.95 %	4.91 %	3.34 %
Expected return on plan assets	4.50 %	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, 2023 and 2022 were as follows:

	2023	2022
Healthcare cost trend rate assumed for the next year	8.81 %	8.46 %
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	2035	2034

The fair value of the Organization's Pension Plan assets at June 30, 2023 and 2022 by asset category were as follows (in thousands):

	Fair Value Measurements at Reporting Date		
2023	**Level 1**	**Level 2**	**Total**
Cash and cash management funds	$ 1,980	$ 27,065	$ 29,045
Fixed income:			
U.S. government obligations	39,709	-	39,709
Corporate debt	-	220,191	220,191
Other debt securities	-	22,198	22,198
Total investments	$ 41,689	$ 269,454	311,143
Amounts receivable for securities sold			-
Interest receivable			3,276
Amounts payable for securities purchased			(3,072)
Total plan assets			$ 311,347
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

The Organization has an investment strategy to reduce volatility of funded status and pension costs. For fiscal years 2023 and 2022, 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):

Years ending June 30,	Pension Benefits	Postretirement Benefits
2024	$ 21,885	$ 1,780
2025	22,038	1,911
2026	22,095	2,019
2027	22,195	2,164
2028	22,241	2,284
2029–2033	109,255	13,469
	$ 219,709	$ 23,627

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 2024 and regularly contributes to its Pension Plan for administrative expenses. The Organization expects to contribute $1.8 million to its postretirement medical plan in 2024.

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, 2023 and 2022 amounted to approximately $19.5 million and $18.6 million, respectively.

11. 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, 2023 and 2022 were as follows (in thousands):

	2023			
	Campus Based	Community Programs	Shared Services	Total
Salaries and benefits	$ 162,378	$ 17,107	$ 76,303	$ 255,788
Professional fees and services	13,780	3,220	30,306	47,306
Depreciation	40,964	1,738	3,918	46,620
Community collaborations and grants	-	42,255	-	42,255
Scholarships	-	31,964	-	31,964
Repairs & maintenance	28,542	623	1,722	30,887
Interest, insurance, and utilities	9,437	174	19,577	29,188
Supplies and other expenses	27,337	5,440	5,998	38,775
Settlements	9,042	-	-	9,042
Total operating expenses	$ 291,480	$ 102,521	$ 137,824	$ 531,825

	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
Repairs & maintenance	8,871	969	2,659	12,499
Interest, insurance, and utilities	7,959	329	18,543	26,831
Supplies and other expenses	22,914	4,158	8,784	35,856
Settlements	27,621	-	-	27,621
Total operating expenses	$ 265,797	$ 105,258	$ 144,091	$ 515,146

12. COMMITMENTS AND CONTINGENCIES

Capital Commitments—At June 30, 2023 and 2022, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $1.2 billion and $1.2 billion, respectively.

At June 30, 2023 and 2022, open construction, renovation, major repair, and other contracts amounted to $240 million and $186 million, respectively.

Litigation—At June 30, 2023 and 2022, settlements reached between Kamehameha Schools and various plaintiffs related to prior sexual offenses net of insurance coverages amounted to $9.0 million and $27.6 million, respectively.

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, 2023 and 2022, total Trustee compensation amounted to $914,000 and $827,000, respectively.

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SUPPLEMENTARY SCHEDULES

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

SCHEDULES OF TRUST SPENDING
YEARS ENDED JUNE 30, 2023, 2022, 2021, 2020 AND 2019
(All dollars in thousands) Schedule 1

	2023	2022	2021	2020	2019
Trust spending—net					
Campus-based programs					
Kapālama	$ 131,179	$ 122,411	$ 108,010	$ 106,512	$ 104,243
Hawaiʻi	52,566	48,888	46,212	44,017	44,880
Maui	44,549	42,018	37,642	37,190	36,745
Na Kūla Kamaliʻi	42,032	38,982	39,432	36,474	34,820
Multi-campus initiatives	1,790	663	-	-	-
KS Digital	1,764	3,379	2,536	-	-
Community programs					
Community teams	22,607	40,535	40,931	47,258	50,130
Community portfolio	73,160	64,941	61,286	77,611	76,314
Education shared services	41,555	34,902	28,065	34,317	33,123
Interest on debt	6,832	7,574	8,404	9,909	10,877
Settlements	9,042	27,621	-	-	-
Base spending	427,076	431,914	372,518	393,288	391,132
Less: Tuition, fees and other educational income—net	(16,271)	(14,426)	(8,466)	(9,583)	(10,364)
Base distributions	410,805	417,488	364,052	383,705	380,768
Equipment	1,576	1,695	3,044	1,676	1,090
Information technology investment plan	5,641	6,297	6,481	4,855	6,617
Major repairs and capital projects	37,035	34,806	33,899	35,445	26,414
Debt financing	30,509	29,676	30,676	30,675	(51,041)
Total trust spending	$ 485,566	$ 489,962	$ 438,152	$ 456,356	$ 363,848
Average fair value of endowment	$ 12,863,976	$ 12,101,912	$ 11,534,937	$ 11,340,561	$ 11,072,207
Trust spending rate before debt financing	3.5 %	3.8 %	3.5 %	3.8 %	3.7 %
Trust spending rate	3.8 %	4.0 %	3.8 %	4.0 %	3.3 %

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, 2023.

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, 2023 **Schedule 2**

	Value at June 30, 2023 (In Thousands)	One-Year Total Return %	Five-Year Total Return %	Ten-Year Total Return %	Since July 1, 1999 Total Return %
Hawaii Real Estate	$ 4,691,882	0.3	7.6	8.6	10.5
Hawaii Real Estate Composite Index		-6.6	5.9	7.8	7.0
Public Equities (economic value)	2,427,029	18.6	7.7	8.1	6.5
Public Equities Composite Index		12.9	6.6	8.1	7.9
Private Equity	3,090,926	-15.5	20.0	17.6	17.4
Private Equity Composite Index		-11.7	17.6	16.0	13.0
Absolute Return	2,942,881	6.8	3.1	3.8	3.5
Absolute Return Composite Index		3.7	3.3	3.4	4.6
Real Assets	710,167	5.6	6.2	4.0	4.1
Total Real Assets		7.6	4.8	2.8	3.6
Fixed Income (economic value)	340,695	-0.1	0.3	0.9	3.2
Barclays US Treasury Index		-2.1	0.4	1.0	6.3
Cash Equivalents	440,955	1.5	0.7	0.4	-0.1
Three-month U.S. Treasury Bill		3.7	1.6	1.0	4.5
Total endowment, net of fees and direct expenses	$ 14,644,535	0.5	7.9	7.7	8.4
Endowment Fund Composite Benchmark		-1.9	6.7	6.7	5.9
Total Endowment Fund Long-Term Objective (CPI+5%)		8.0	8.9	7.7	7.6

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 AND ECONOMIC VALUE

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

Economic value is defined as fair value plus notional exposure.

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

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

All of the multifamily residential properties are currently externally appraised. 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.

- **Barclays US Treasury 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.