Kamehameha Schools

ANNUAL REPORT

JULY 1, 1999 – JUNE 30, 2000

Hoʻokahi Makahiki

HISTORICAL REVIEW

"Refusing to rule her people,

she did what was better, she served

them, and in no way so grandly

as by her example."

— Sermon by Rev. J.A. Cruzan
At funeral service
for Ke Ali'i Pauahi
Fort Street Church
October 1884

Chief Executive Officer's MESSAGE

HAMILTON I. MCCUBBIN

RENEWAL

Kamehameha Schools has emerged from its time of uncertainty as a vital and expanding 21st century educational system with its focus on renewal and the collective commitment of our *'ohana* to seek guidance in Ke Ali'i Bernice Pauahi Bishop's Christian and Hawaiian cultural values.

Kamehameha Schools' arduous journey this past year has enabled this institution to reconnect to the vision of our beloved Ke Ali'i Pauahi and to rededicate its endowment, curricula and staff to ever-greater service to people of Hawaiian ancestry.

At no other period in our history has so much change occurred in such a short time; change that both prepared us for our future and restored the historic values of our mission.

GOVERNANCE

With Judge Kevin Chang's May 1999 naming of five Interim Trustees – attorney Ronald D. Libkuman, former Honolulu Police Chief Francis A. Keala, American Savings Chief Operating Officer Constance H. Lau, Vice Admiral Robert K. U. Kihune, and former 'Iolani School Headmaster Rev. David P. Coon – the work of shaping Kamehameha Schools' future began in earnest.

Between May and August 1999, the Interim Trustees and staff met almost continuously with representatives of the Internal Revenue Service (IRS) to tackle Kamehameha Schools' most pressing concern: maintenance of its tax-exempt status. With IRS contingencies met – including key policies guiding how Kamehameha Schools invests, spends and governs itself – a Closing Agreement was crafted and a settlement reached on February 23, 2000.[1]

[1]The complete text of the IRS/Kamehameha Schools Closing Agreement is available on Kamehameha Schools' website at http://www.ksbe.edu.

CEO MANAGEMENT STRUCTURE

Integral to reaching agreement with the IRS – and assuring Kamehameha Schools' tax-exempt status – was the stipulation that a Chief Executive Officer (CEO)-based management structure be established and implemented.

A CEO-based management structure was first recommended in the *100th Annual Account* for fiscal year 1985 by court appointed Master Michael D. Hong. The recommendation was reiterated by several subsequent Masters, in Arthur Andersen LLP's 336-page *Kamehameha Schools Bernice Pauahi Bishop Estate Management Audit Findings* of July 1998, and in Master Colbert Matsumoto's *Consolidated Report on the 109th, 110th, and 111th Annual Accounts* – for fiscal years 1994, 1995 and 1996 respectively. The recommended CEO structure was finally established as part of a new institutional *Governance Policy* adopted by the Interim Board of Trustees in August 1999.

While retaining the oversight and policymaking role of the Board of Trustees, the CEO management structure created a traditional business configuration at Kamehameha Schools by allocating authority over day-to-day operational activities to the CEO and an Executive Management Team (designation later changed to Chief Executives) representing Kamehameha Schools' principal groups. The Executive Management Team – Chief Education Officer, Chief Financial Officer, Chief Investment Officer, Chief Legal Officer, and Chief Administrative Officer – experts in their respective fields, advise and report to the CEO on the operations of the organization. In turn, the CEO reports and is accountable to the Trustees for policy implementation.

Thus, the CEO management structure broadened and balanced the governance of Kamehameha Schools by formalizing delegated authorities and establishing distinct lines of responsibility and accountability within its organizational framework.

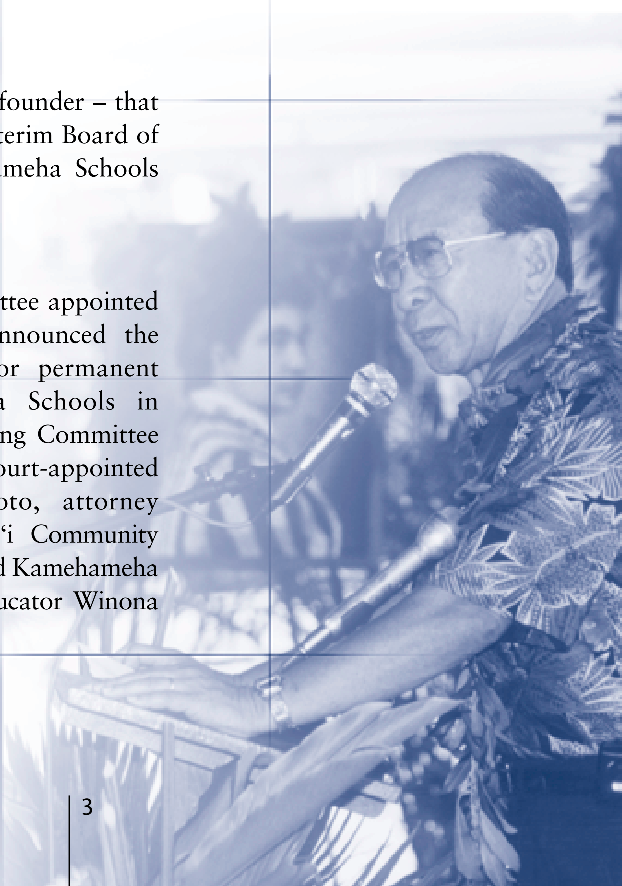
To further clarify responsibility and lines of authority within Kamehameha's newly developed educational system, the Chief Education Officer will oversee the administration of three K-12 campuses on O'ahu, Maui and Hawai'i, extension and outreach programs, and expanding early childhood programs.

KAMEHAMEHA SCHOOLS

Effective January 1, 2000, in a move that reaffirmed the wishes of our founder – that her schools "… be known as and called the Kamehameha Schools" – Interim Board of Trustees formally changed the name of our institution from Kamehameha Schools Bishop Estate to Kamehameha Schools.

TRUSTEE SELECTION

A Trustee Screening Committee appointed by Judge Kevin Chang announced the criteria of their search for permanent trustees for Kamehameha Schools in January 2000. The Screening Committee was made up of former court-appointed Master Colbert Matsumoto, attorney Melody MacKenzie, Hawai'i Community Foundation Executive Kelvin Taketa, business executive Kenneth Brown and Kamehameha Schools alumni including Alumni Association president Roy Benham, educator Winona Beamer and Col. Michael Rawlins, Hawai'i National Guard.



The Committee accepted nominations from the community in the search for persons with backgrounds in education, strategic planning, finance and business. Seeking persons of integrity and in good standing in the community, they stressed the importance of Hawaiian values although Hawaiian ancestry was not a selection prerequisite.

This community-based nomination process resulted in seven finalists who were recommended to the court for final selection.

Named in November 2000, the five permanent Trustees are: attorney J. Douglas Ing; real estate veteran Diane J. Plotts; retired Vice Admiral Robert K.U. Kihune and American Savings Bank executive Constance H. Lau, both Interim Trustees; and master navigator Nainoa Thompson.

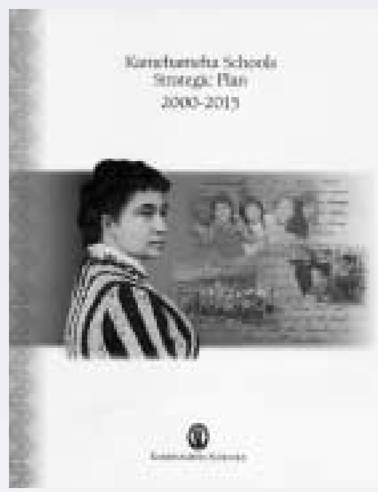
The permanent Trustees are serving staggered terms which began January 1, 2001. Compensation is limited to a maximum of $97,500 per year with the board chair bound to a $120,000 per year maximum.

STRATEGIC PLANNING

The most dynamic aspect of this year has been our year-long Strategic Planning effort.

With a mandate to develop a comprehensive, integrated educational and financial strategic plan that reflected stakeholder input, Kamehameha Schools, in October 1999, launched an information gathering and analysis of the educational needs of the Hawaiian community.

Grounded thematically in the Hawaiian proverb *ʻAʻohe hana nui ke alu ʻia – No task is too big when done together by all,* Interim Trustees, faculty and staff set out to rekindle relationships by making the strategic planning process as inclusive as possible. Participation from all of Kamehameha Schools' stakeholder groups – students, their families, faculty, staff, alumni, the Hawaiian community and the community-at-large – was eagerly sought and graciously given. For this process to occur meaningfully, a three-phase timeline was designed as illustrated in the following diagram.



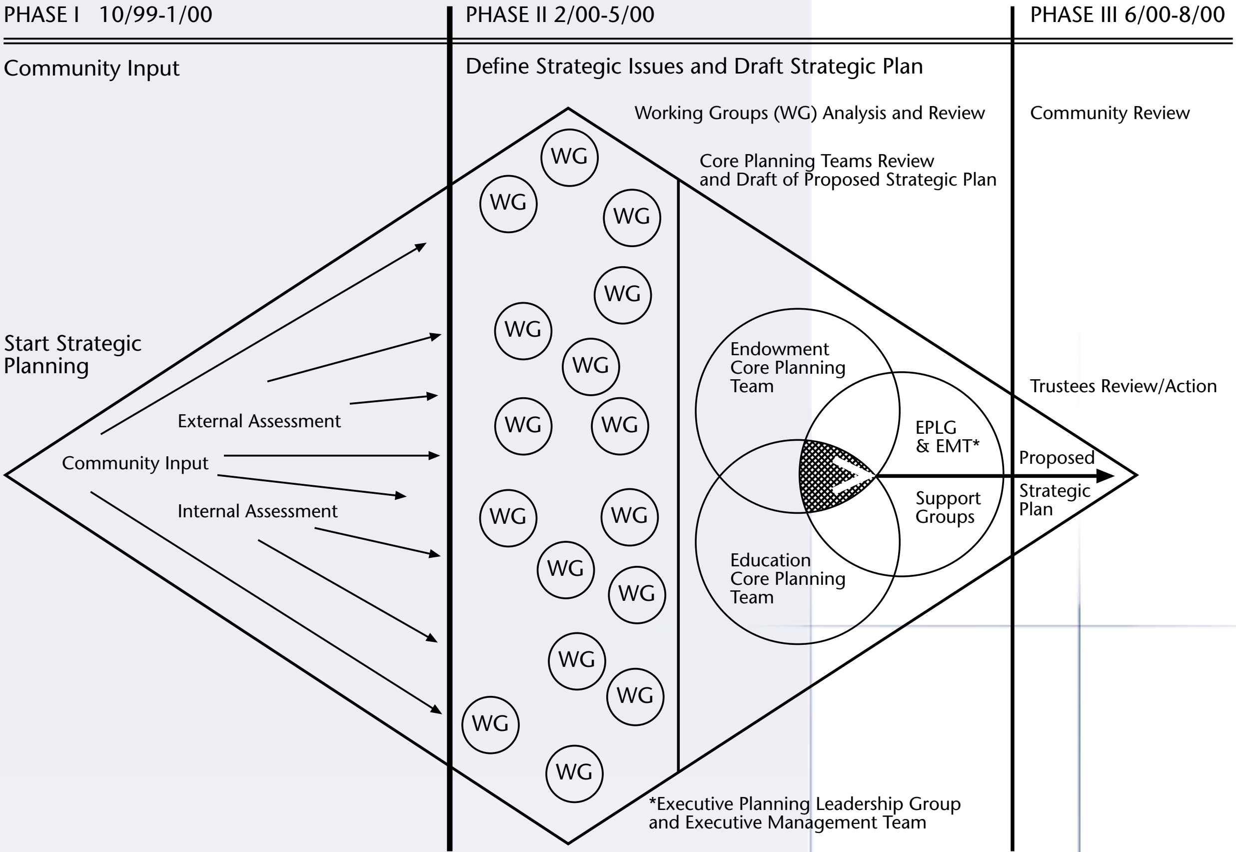
DETAILS OF THE STRATEGIC PLANNING PROCESS

PHASE I

Gather community input

- Three thousand-plus comments were offered by more than 1,200 stakeholders during Phase I. From these we gained a clear understanding of the needs of the Native Hawaiian population and an idea of Kamehameha Schools' potential contributions. This input was reviewed in depth and organized into 16 major strategic issues.

PROCESSING COMMUNITY INPUT



PHASE II

Define strategic issues and develop a Draft Strategic Plan

- Nearly 400 volunteers from throughout the state, participating in 16 Working Groups, studied the collected data and framed key issues, options and potential strategic directions for Kamehameha Schools.
- A statewide telephone survey – sampling more than 2,000 Hawaiian adults – provided additional perspectives while confirming that the 16 major themes were consistent with their priorities.
- Finally, all planning groups – including the Executive Management Team and the Board of Trustees – deliberated the Values, Vision, Mission, Guiding Principles and Goals the data had revealed. A Draft Strategic Plan – outlining seven specific goals – issued from their deliberations.

Goal 1: Kamehameha Schools will provide and facilitate a wide range of integrated, quality educational programs and services to serve more people of Hawaiian ancestry.

Goal 2: Kamehameha Schools will work with families and communities in their efforts to meet the educational needs of people of Hawaiian ancestry.

Goal 3: Kamehameha Schools will cultivate, nurture, perpetuate, and practice *'Ike Hawai'i* (which includes Hawaiian culture, values, history, language, oral traditions, literature, and *wahi pana* – significant cultural or historical places – etc.).

Goal 4: Kamehameha Schools will foster the development of leaders who focus on service to others.

Goal 5: Kamehameha Schools will optimize the value and use of current financial and non-financial resources and actively seek and develop new resources.

Goal 6: Kamehameha Schools will *mālama i ka 'āina:* practice ethical, prudent and culturally appropriate stewardship of lands and resources.

Goal 7: Kamehameha Schools will continue to develop as a dynamic, nurturing, learning community.

PHASE III

Present the Draft Strategic Plan to the community

- The Draft Strategic Plan was shared at more than 30 statewide and mainland meetings and publicized widely to elicit community feedback that further refined the plan.
- Five initial educational program priorities were identified for Kamehameha Schools
  - Quality K-12 education
  - Early education
  - Literacy
  - Hawaiian culture and language
  - Vocational education
- Four initial endowment issues emerged as critical for Kamehameha Schools
  - Stewardship
  - Balancing educational and cultural values with economic return
  - Protecting its land legacy
  - Resource development

PHASE IV

Final Strategic Plan

The Trustees adopted Kamehameha Schools' final Strategic Plan in September 2000. In a small ceremony before the crypt housing the remains of Ke Ali'i Bernice Pauahi and Charles Reed Bishop at Mauna'ala, on September 28, 2000, the document was formally signed.

Trustees, the Executive Management Team and members of the Education and Endowment Core Planning Teams affixed their signatures to the document, vowing to make "every reasonable effort to support the plan's implementation for the benefit of Pauahi's children, the people of Hawaiian ancestry."

Kamehameha Schools Strategic Plan 2000-2015 will serve as both foundation and guide as Kamehameha Schools addresses the educational needs of the Hawaiian community well into this new century.[2]

GROWTH AND EXPANSION

One of the important goals of our Strategic Plan – to "provide and facilitate a wide range of integrated, quality educational programs and services to serve more people of Hawaiian ancestry" – was in place by summer 1999. At that time, Kamehameha Schools was fully engaged in its largest construction program in decades. Major projects undertaken included:

- **Kūlana ʻŌiwi, Molokaʻi – *completed July 1999***
  In partnership with aliʻi trusts and other Hawaiian service providers, KS contributed to construction costs for a facility that houses a new KS Molokaʻi preschool site and the first permanent multi-purpose service center for Native Hawaiians in the state.

- **Kalaniʻōpuʻu Swimming Complex, Oʻahu Campus – *completed August 1999***
  Newly renovated, the pool is now Olympic-sized, heated, and meets standards for both international and state aquatic events.

- **Maui Campus, Maui – *completed August 1999***
  With the $15,000,000 Phase I construction completed – including classroom and administration buildings, caretaker residence/service center and entry gate – the Maui Campus opened to grades K-6 in August 1999, marking the first, permanent presence of Kamehameha Schools beyond Oʻahu's shores. Phase II construction – including cafetorium, band/music room, and gymnasium – was completed in April 2000. In July 2000, Kamehameha Schools adopted a plan to expand the Maui Campus – in phases – to eventually serve grades K-12.

[2] *Kamehameha Schools Strategic Plan 2000-2015* is available on Kamehameha Schools' website at http://www.ksbe.edu. For a paper copy, call toll-free to (800) 842-4682, ext. 6348, or write to Kamehameha Schools, Communications Division, 567 S. King Street, Suite 301, Honolulu, Hawaiʻi 96813.

- **Waimānalo Preschool, Oʻahu –** ***anticipated completion June 2001***
  Marking another partnership milestone, Kamehameha Schools is uniting with the Queen Liliʻuokalani Children's Center and the Department of Hawaiian Homelands to develop adjacent parcels to house a multi-purpose service center for Native Hawaiians. Kamehameha's $2.6 million Waimānalo Preschool facility, which will be part of the center, is scheduled for completion in June 2001. It will accommodate 72 three- and four-year-old Hawaiian youngsters in four classrooms.

- **Hawaiʻi Campus, Hawaiʻi-Phase I –** ***anticipated completion August 2001***
  Once Phase I construction is completed in August 2001, the 300-acre Hawaiʻi Campus will become Kamehameha Schools' third permanent campus site. Originally planned to house grades K-8, it was determined in 2000 that Kamehameha Schools' Hawaiʻi Island student body would best be accommodated by expanding the Hawaiʻi Campus' original design to serve grades K-12. This additional phased-in construction anticipates completion by 2005.

- **Athletic Complex, Oʻahu –** ***anticipated completion September 2001***
  Approved in January 2000, this $15 million project includes Kamehameha Schools' first-ever regulation football field, 400 meter track with all-weather surface, a natural turf field, bleacher seating for 3,000 spectators, a promenade with concession stand, restrooms, ticket office and a scorer's booth.

Much has been accomplished. Much remains to be done. Yet, in this year marked by incredible change and systemic transitioning, the hard work on behalf of Kamehameha Schools by a loving community has bequeathed a legacy of its own: an invigorated leadership, an empowered staff and stakeholders, an expanding educational system, and a return to core values.

At the dawn of the 21st century, Kamehameha Schools stands renewed and prepared for the challenges ahead – proud of its heritage, confident in its future.

Hamilton I. McCubbin, Ph.D.
CHIEF EXECUTIVE OFFICER
Kamehameha Schools

Ho‘ona‘auao

TO EDUCATE

“As the water of Kane refreshes the land, so will this gift from our Princess restore life to our people.”

— An “older” Hawaiian
Opening Day Ceremonies,
Kamehameha School for Boys
November 4, 1887

Ho‘ona‘auao

TO EDUCATE

Driving Kamehameha Schools’ 1999-2000 academic and fiscal year, our educational mission became central to and inseparable from the strategic planning process. The Strategic Plan identified education as this institution’s perpetual singular purpose, identity and unifier. The Plan also launched proactive development of Kamehameha Schools into a statewide, multi-campus, multi-program educational system.

BUILDING A SYSTEM

Fundamental to achieving a vital educational system will be the completion of our neighbor island campuses. The three campuses will serve as the foundation from which to expand the reach and effectiveness of Kamehameha Schools’ mission of increasing the well-being of Hawaiian people through education.

KAMEHAMEHA SCHOOLS-MAUI

Joining our flagship Kamehameha Schools-O‘ahu Campus in August 1999 was the 100-acre, Phase I of Kamehameha Schools-Maui Campus at Pukalani. The new school formally opened its doors to K-6 students on August 30, 1999.

Phase II construction was completed in April 2000. In June 2000, 80 additional acres were purchased to accommodate Maui’s planned expansion to a K-12 campus by 2005.

KAMEHAMEHA SCHOOLS-HAWAI‘I

With its June 2000 groundbreaking at Kea‘au, Kamehameha Schools-Hawai‘i became the newest K-12 campus. By August 2001, the $30 million Phase I construction of the 300-acre Kamehameha Schools-Hawai‘i Campus will be completed. This initial phase will encompass approximately 15 acres and house grades 6, 7 and 8 in the first year of operation.

In fall 2002, grades K-5 will relocate from the temporary Hilo Campus at Keaukaha to the new campus at Kea‘au.

By 2005, with additional construction phases, the Hawai‘i Campus will serve students in grades K-12.

TECHNOLOGY

The most formidable task of the 1999-2000 year was the 2000 (Y2K) certification of critical education and business applications that included, among other functions, administration, admissions, financial aid, accounts receivable, financial reporting systems, library systems and disaster recovery preparedness. KS cleared Y2K hurdles with flying colors and little more than minor glitches at the rollover.

This was also a year of growth in numbers of users and facilities supported by KS' Information Systems Division (ISD) and the Education Information Systems (EIS) department. Kamehameha's Maui Campus was outfitted with the latest in educational technology, and technology planning began for the new Kea'au Campus. A pilot technology program — *Breakthrough to Literacy* — was implemented at several preschools and technology support for KS' new K-3 Reading Program was initiated.

Electrical improvements at Kapālama Campus's 9-12 grade campus finally allowed installation of teacher workstations in each classroom and a full student workstation rollout was completed in summer 2000. An institution-wide digital document management system was implemented with the installation of new digital copiers throughout Kamehameha Schools' facilities statewide. Web applications were designed with user input to automate several tedious manual processes including an online Technology Service Request and a Facilities Use Request system.

At present, Kamehameha Schools is accelerating the upgrade of data, voice and video networks statewide to enhance both internal and external communications. One important outgrowth of this emphasis on technology will be strengthening Kamehameha's Distance Learning Program to enhance curriculum across our system and help to reach more Native Hawaiians.

ʻIKE HAWAIʻI

Kamehameha Schools has long been in the forefront of cultivating and perpetuating Hawaiian cultural values, traditions and practices and is looked to as a major resource in Hawaiian culture.

So, when the concept of *ʻIke Hawaiʻi* was raised by KS staff and stakeholders alike within the Strategic Planning process, Kamehameha's commitment to cultural integration took on renewed emphasis. (*ʻIke* means to know, feel, recognize, comprehend and to have insight; and *Hawaiʻi* in this context means the knowledge of Hawaiians, including ancestral values, practices, traditions, concepts, language and history.)

The Hawaiian Culture and Language Strategic Planning Working Group stated in their final report that ʻIke Hawaiʻi was conceived to describe the foundation, the way of thinking, believing and nurturing all aspects of Hawaiian culture. They felt that this concept could serve as a strong foundation upon which all culturally significant activities at Kamehameha Schools should be based.

The importance of ʻIke Hawaiʻi to Kamehameha Schools is evident in the experiences and activities of our ʻohana throughout the year. In 1999-2000, programs actively incorporating ʻIke Hawaiʻi concepts included Founder's Day honoring Ke Aliʻi Bernice Pauahi Bishop, seasonal concerts (Christmas and Spring), Hoʻolauleʻa, Kamehameha Day participation, Alumni Week, Commencement Exercises, and Summer Programs such as Kūlia I Ka Pono and Explorations. In addition, Kamehameha students participated in the Rapa Nui arrival of the voyaging canoe Hōkūleʻa.

Many of Kamehameha's community activities reflected the importance of ʻIke Hawaiʻi: Kamehameha Schools' representation on various island burial councils, development of appropriate Maunaʻala protocol and student service learning projects; partnerships with Bishop Museum, Kaʻūpūlehu Foundation, charter schools, the Office of Hawaiian Affairs and other Hawaiian agencies; and finally, the reactivation of the much-heralded Hawaiian Culture Center Project which will expand our staff and students' knowledge of their heritage.

OUTREACH

Emphasis on reading skills and literacy in early education are among the major outreach efforts initiated by Kamehameha in the 1999-2000 year.

Beginning in fall 2000, Kamehameha Schools — in partnership with the state Department of Education (DOE) — launched a Kindergarten to Grade Three (K-3) Reading Program. This program will focus on enhancing the reading skills of K-3 children in public schools with the largest numbers of Hawaiian students. The three components of KS' K-3 Reading Program are instructional support, tutoring support, and parent education.

A network of preschools, early education programs, vocational and career development partnerships, Hawaiian cultural education projects and a host of outreach programs and alliances are currently operational or in the planning stages. These programs form the cornerstones of our expanding educational system.

By providing programs or partnering with others, Kamehameha Schools will increasingly leverage its resources, thereby extending the Legacy of Ke Aliʻi Bernice Pauahi Bishop to ever more Native Hawaiians through a vast array of educational program opportunities.

KAMEHAMEHA SECONDARY SCHOOL - OʻAHU

The Kamehameha Schools Class of 2000 added 442 new graduates to the 18,062 alumni who earned diplomas between 1891 and 1999.

ENROLLMENT

KAMEHAMEHA SECONDARY SCHOOL
Official enrollment for the 1999-2000 school year as of September 1, 1999

	ENROLLMENT
Grade 7	324
Grade 8	319
Grade 9	462
Grade 10	459
Grade 11	458
Grade 12	452
Division Totals	**2,474**

Source: SASI Secondary School Database 9/1/99

Sixty-eight members of the Class of 2000 received Academic Honors Diplomas by earning an overall GPA of 3.5 or higher, completing at least 12 honors credits, and enrolling in an Advanced Placement, fourth-year language or university course in their senior year.

More than 98 percent of the Class of 2000 expressed their intent to enroll in institutions of higher learning in the fall of 2000. Eighty-two percent planned to attend four-year colleges or universities in Hawai'i and on the mainland.

Among these new graduates, four were National Merit Finalists; two were National Merit Semi-Finalists; and 12 were National Merit Commended Scholars. Two seniors won the prestigious Gates Millennium Scholarship and five were Sterling Scholarship Finalists.

SECONDARY SCHOOL FINANCIAL AID

Kamehameha Schools provided $3,158,165 in financial aid to 1,616 student recipients serving more than 65 percent of Kamehameha's Secondary School population.

SECONDARY SCHOOL ADMISSIONS

Admissions figures applicable to the 1999-2000 school year as of May, 1999

BY GRADE LEVEL	APPLICATIONS	INVITED
Grade 7	1,451	181
Grade 9	938	144
Grade 10	179	20
Grade 11	123	16
Totals	**2,691**	**361**

BY DISTRICT	GRADE 7	GRADE 9	GRADE 10	GRADE 11	TOTAL INVITED
O'ahu					
Honolulu	31	18	1	3	53
Windward	35	22	4	6	67
Leeward	40	21	5	1	67
Central	22	14	3	2	41
Hawai'i	26	37	4	3	70
Maui	13	12	1	0	26
Kaua'i/Ni'ihau	9	14	1	1	25
Moloka'i	3	4	1	0	8
Lāna'i	0	2	0	0	2
Out of State	2	0	0	0	2
Totals	**181**	**144**	**20**	**16**	**361**

FACULTY AND STAFF

With a focus on building and strengthening communications within the secondary school structure, Kamehameha Secondary School administrators, faculty and staff were fully involved in new initiatives in governance and inclusive decision-making practices.

Several task forces – including the Instructional Technology Task Force, the Middle School Task Force, and the Quality Education Task Force – were convened to work toward improved communications both internally and externally.

Adding to our communications capability was the instructional classroom technology rollout for grades 9-12 implemented in summer 2000. A joint effort of Kamehameha Schools' Educational Information Systems office and secondary school staff, the new technology will spur innovative learning experiences in the classroom.

Consistent with the Strategic Plan's goals of establishing proficient measurement tools, administrators and department heads initiated a new system to evaluate overall division effectiveness. All teachers and staff were asked to provide feedback that will be used to evaluate and improve job performance.

KAMEHAMEHA ELEMENTARY SCHOOLS

ELEMENTARY ENROLLMENT — ALL CAMPUSES

KAMEHAMEHA ELEMENTARY SCHOOLS

Official enrollment for the 1999-2000 school year as of September 1, 1999

	ENROLLMENT
Oʻahu Campus	752
Hawaiʻi Campus	152
Maui Campus	152
Division Total	**1,056**

Source: Principals' Reports for the 1999-2000 school year

ELEMENTARY LEVEL FINANCIAL AID

Kamehameha Schools provided $696,699 in financial aid to 661 student recipients serving more than 62 percent of Kamehameha's Elementary School population system-wide.

O'AHU CAMPUS

Kamehameha Elementary School's (KES) Student Council – 36 students from grades 4-6 – worked to develop student leadership, coordinate school events, and promote community service activities among fellow students.

Among community service activities performed by KES students was the continuation of KES' successful Jump Rope Demonstration Team. Made up of 40 students from grades 3-6, they performed at schools throughout the year to promote the annual Jump Rope for Heart fundraiser for the American Heart Association. KES participants, 718 strong, came in first in the nation again, raising more than $46,000 for the cause.

As part of Kamehameha Schools' Strategic Plan goal to "work with families and communities in their efforts to meet the educational needs of people of Hawaiian ancestry," two family-oriented educational programs were expanded. KES' popular Family Science Night extended over two evenings this year attracting more than 400 family members. Kindergarten workshops in math and language arts brought out nearly all KES families.

O'AHU CAMPUS ENROLLMENT

KES-O'AHU

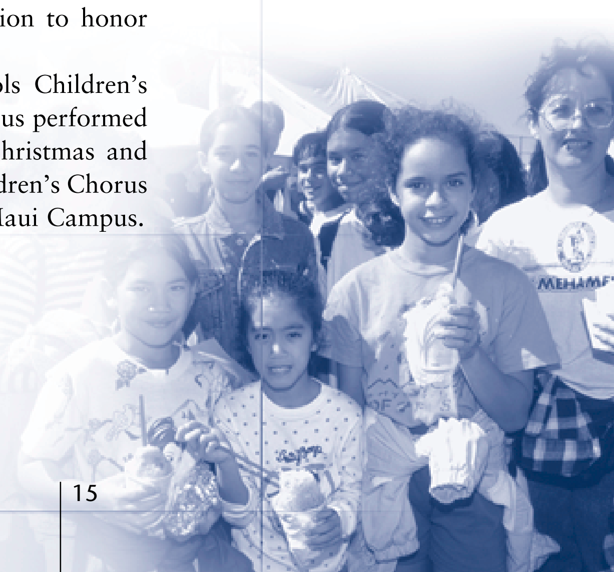
Official enrollment for the 1999-2000 school year as of September 1, 1999

	NUMBER OF CLASSROOMS	CLASS SIZE	TOTAL
Kindergarten	4	20	80
Grade 1	4	20	80
Grade 2	4	20	80
Grade 3	4	20	80
Grade 4	6	24	144
Grade 5	6	24	144
Grade 6	6	24	144
Total			**752**

Source: Principal's Report for the 1999-2000 school year

Twenty-four KES sixth graders were awarded the 2000 *President's Award for Educational Excellence* – presented by the U.S. Department of Education to honor students for their academic effort and success.

Year-long KES student activities included the Kamehameha Schools Children's Chorus, made up of approximately 100 students in grades 4-6. The chorus performed throughout the year, including appearances at the ATP Ho'olaule'a, Christmas and spring concerts, and visits to Kapi'olani and Maluhia Hospitals. The Children's Chorus also traveled to Maui to perform for students, staff and families of the Maui Campus.



O'AHU CAMPUS ADMISSIONS

Admissions figures for student admissions applicable to the 1999-2000 school year as of May 1999

KINDERGARTEN ADMISSIONS	APPLICATIONS	INVITED
Honolulu District	214	15
Windward District	239	18
Leeward District	292	25
Central	154	10
Orphan/Indigent	219	12
Total	**1,118**	**80**

Source: Director of Admissions Report for the 1999-2000 school year

GRADE 4 ADMISSIONS	APPLICATIONS	INVITED
Honolulu District	179	11
Windward District	231	16
Leeward District	273	19
Central	141	9
Orphan/Indigent	152	11
Total	**976**	**66**

Source: Director of Admissions Report for the 1999-2000 school year

HAWAI'I CAMPUS

Total enrollment reached 152 students. In preparation for the inclusion of grade seven in the 2000-2001 school year, a modular building was placed on the temporary campus site, while administrators began planning the middle school curriculum and scheduling.

In November 1999, 300 acres in Kea'au were purchased as the permanent site for Kamehameha Schools-Hawai'i. Groundbreaking for the new campus was held in June 2000. The first six classrooms will be available in fall 2001. Taking the lead from Kamehameha Schools' Strategic Plan, inclusive decision-making was incorporated in the creation of a Kamehameha Schools-Hawai'i advisory board and ad hoc committees. Comprised of community members, faculty, staff, parents and students, these committees participated in the planning and design of Phase I of Kamehameha Schools' permanent Hawai'i Campus.

Consistent with the Strategic Plan's fourth goal — "to foster the development of leaders who focus on service to others" — a first-ever student council was organized. Students were elected at each grade level through the democratic process and given leadership training throughout the year. These student-leaders organized activities each month and planned and led all school-wide assemblies.

Science received greater impetus this year with the addition of a special science teacher who coordinated activities with classroom teachers. Students were energized and participated fully in experiments and hands-on activities that reinforced the learning of new concepts.

Musical instruments continued to be added in looking to a future Hawai'i Campus music program. This year, the students performed many choral pieces for special occasions especially the Founder's Day program and the permanent Kea'au Campus groundbreaking ceremony.

HAWAI'I CAMPUS ENROLLMENT

KS-HAWAI'I

Official enrollment for the 1999-2000 school year as of September 1, 1999

	NUMBER OF CLASSROOMS	CLASS SIZE	TOTAL
Kindergarten	1	20	20
Grade 1	1	20	20
Grade 2	1	21	21
Grade 3	1	20	20
Grade 4	1	24	24
Grade 5	1	24	24
Grade 6	1	23	23
Total			**152**

Source: Principal's Report for the 1999-2000 school year

HAWAI'I CAMPUS ADMISSIONS

Admissions figures for student admissions applicable to the 1999-2000 school year as of May 1999

KINDERGARTEN ADMISSIONS	APPLICATIONS	INVITED
East Hawai'i	61	16
Orphan/Indigent	36	4
Total	**99**	**20**

GRADE 4 ADMISSIONS	WAITLISTED	INVITED
East Hawai'i	25	3
Total		**3**

Source: Director of Admissions Report for the 1999-2000 school year

MAUI CAMPUS

With the completion of a permanent campus on Maui, 152 students began classes at the 100-acre Pukulani site on August 23, 1999. Formal dedication ceremonies were held on August 30.

By year's end, Phase II construction of the dining hall and gymnasium was concluded. Kamehameha Schools-Maui's reach expanded with the matriculation of 24 sixth graders and the development of a seventh grade middle school curriculum for the 2000-2001 school year.

Besides Founder's Day and May Day programs, Kamehameha Schools-Maui's entire student body participated in fundraising for the Maui United Way, Jump Rope for Heart and a food drive.

MAUI CAMPUS ENROLLMENT

KS-MAUI

Official enrollment for the 1999-2000 school year as of September 1, 1999

	NUMBER OF CLASSROOMS	CLASS SIZE	TOTAL
Kindergarten	1	20	20
Grade 1	1	20	20
Grade 2	1	20	20
Grade 3	1	20	20
Grade 4	1	24	24
Grade 5	1	24	24
Grade 6	1	24	24
Total			**152**

Source: Principal's Report for the 1999-2000 school year

MAUI CAMPUS ADMISSIONS

Admissions figures for student admissions applicable to the 1999-2000 school year as of May 1999

KINDERGARTEN ADMISSIONS	APPLICATIONS	INVITED
Maui	87	18
Orphan/Indigent	21	2
Total	**108**	**20**

GRADE 4 ADMISSIONS	WAITLISTED	INVITED
Maui	28	5
Total		**5**

Source: Director of Admissions Report for the 1999-2000 school year

KAMEHAMEHA PRESCHOOLS

Kamehameha Schools Preschool Division opened the 1999-2000 school year with 49 classrooms and the capacity to serve 980. By June 2000, with the addition of eight new classrooms – many of which serviced Kamehameha Schools' new program for three-year-olds – that number had risen to 57 classrooms serving more than 1,000 children. A total of 957 three- and four-year-old children were admitted for the school year. When official enrollment was taken on September 1, 1999, 944 students were in attendance. During the school year, additional children were added as new classrooms opened. With attrition, withdrawals and declined invitations, enrollment stood at 1,043 on the last day of school.

PRESCHOOLS ENROLLMENT – SYSTEM WIDE

Official enrollment for the 1999-2000 school year as of September 1, 1999

	SITES	CLASSROOMS	ENROLLMENT
East Hawai'i Campus	7	9	166
Honolulu	2	6	119
Kaua'i	2	4	77
Ko'olauloa	3	4	80
Ko'olaupoko	2	2	40
Maui	3	4	75
Moloka'i	1	1	20
Wai'anae	5	12	233
West Hawai'i	4	7	134
Division Totals	**29***	**49***	**944***
KS Preschools Summer Session			390
Program Total			**1,332**

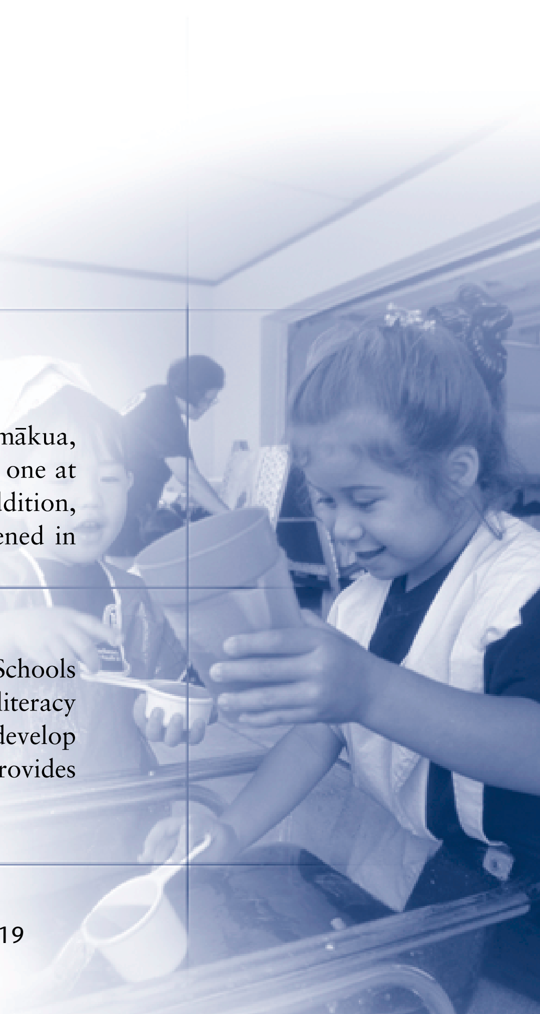
*Last day of school – 31 sites, 57 classrooms, with a total enrollment of 1,043
Source: KS Preschools Principal's Report for the 1999-2000 school year

NEW THREE-YEAR-OLD PROGRAM

In November 1999, the first classroom for three-year-olds opened at Hāmākua, Hawai'i. Six new classes were added early in 2000: three at Kailua-Kona and one at Kohala in West Hawai'i; two more were added at Kaumakani, Kaua'i. In addition, one combined classroom of three- and four-year-olds at Hale'iwa, O'ahu opened in May 2000.

EMPHASIS ON LITERACY

With the Strategic Plan's emphasis on literacy and early education, Kamehameha Schools Preschool Division piloted the use of *Breakthrough to Literacy,* an interactive literacy curriculum for pre-kindergarten through first grade. The program helps children develop necessary prerequisites to become competent and comfortable readers and provides teachers with a window into the individual learning styles of their students.



In three pilot *Breakthrough* East Hawai'i classrooms alone, children showed gains in vocabulary tests greater than the overall average for the preschool division; and teacher training made an observable positive effect on language and literacy classroom instruction.

PRESCHOOL ADMISSIONS

Admissions figures for student admissions applicable to the 1999-2000 school year as of May 1999

	APPLICATIONS	INVITED
Four-year old Program	1,317	957
Three-year old Program	115	112
Total	**1,432**	**1,069**

Source: KS Preschools Principal's Report for the 1999-2000 school year

PARTNERING RESOURCES

Partnering to increase resources, the Kamehameha Schools Preschool Division – in conjunction with the Queen Lili'uokalani Children's Center and the Waimānalo Homestead Association – broke ground in February for a new facility at Waimānalo with an estimated completion date of June 2001.

On Moloka'i, Kamehameha Schools' new preschool classroom at the multi-purpose service center Kūlana 'Ōiwi was completed. The complex houses Kamehameha Schools' Kalama'ula Preschool, as well as the Queen Emma Foundation's Nā Pu'uwai Clinic which provides hearing screening for Kamehameha Schools preschoolers and workshops on nutrition.

PRESCHOOL FINANCIAL AID

Kamehameha Schools provided $261,678 in need-based financial aid to 469 student recipients, serving more than 49 percent of Kamehameha Schools' preschools population.

HIGHLIGHTS

Two more Kamehameha Schools preschools received accreditation by the National Association for the Education of Young Children (NAEYC). This brings the total number of KS accredited preschool sites to 23, representing more than one-third of all accredited preschool programs in the State of Hawai'i.

EXTENSION EDUCATION

As part of Kamehameha's reorganization, an Extension Education Division has been formed within the Education System to incorporate those programs that reach out to serve external audiences such as Summer Programs, Grants, and our K-3 Reading Program.

Encouraged by the Schools' commitment to provide more opportunities to the community, Extension Education investigated feasible ideas to address this goal. New proposals and budgets were prepared that will allow for the return to partnerships with the state Department of Education (DOE) as well as with our own Endowment Group. Together with the Endowment Group, Extension Education is actively exploring utilization of Kamehameha Schools' lands for educational programs.

SUMMER PROGRAMS

During summer 2000, more than 5,400 students applied for one or more Kamehameha Schools summer programs and more than 5,100 were served on the Kapālama Campus. During that same time frame, Kamehameha Schools provided $1,238,528 in financial aid to 6,845 students participating in a summer Kamehameha preschool or campus-based program, or in a Kamehameha-sponsored DOE summer program.

SUMMER PROGRAMS

	APPLICATIONS	PERCENT
ADMISSIONS	5,400	95%
ENROLLMENT		
KS Students	1,650	32%
Non-KS Hawaiians	3,383	66%
Others	98	2%
Total	**5,131**	

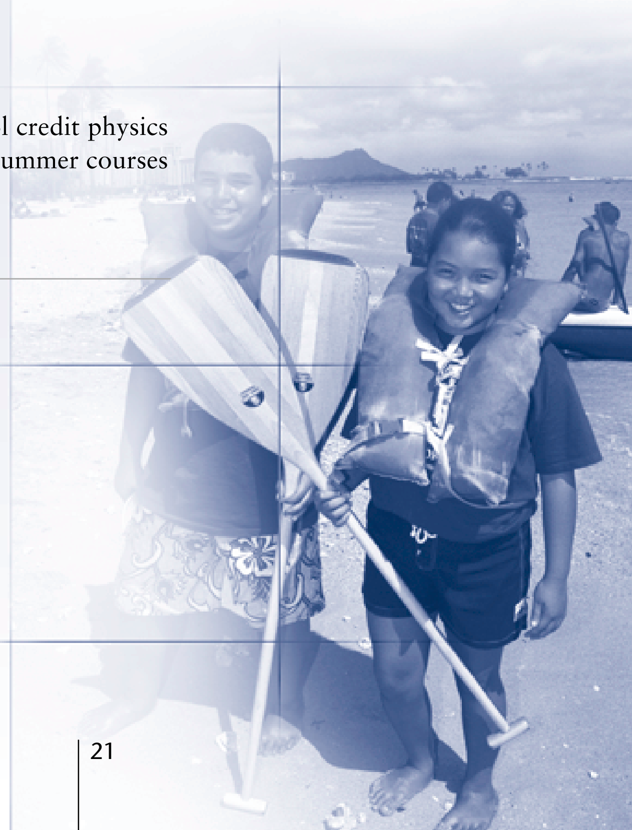
Source: Principal's Report for the 1999-2000 school year

Summer School offered several new courses including a high school credit physics course and Hawaiian immersion for students in grades K-1. Two new summer courses aimed at new and emerging readers and writers were also offered.

DAY PROGRAMS

	GRADES	NO. SERVED
Campus Summer School	Grades K-12	2,807
Performing Arts Academy	Grades 6-12	106
Summer Science Institute	Grades 9-12	24
Total		**2,937**

Source: Principal's Report for the 1999-2000 school year



In the Summer Science Institute, KS chemistry students studied and reported on topics as diverse as "A Cultural and Chemical Study of the ʻApe *(Alocasia macrorhiza)*," "Chemical and Hawaiian Medicinal Value of the Noni *(Morinda citrifolia)*," and "A Biological, Chemical and Cultural Analysis of the Naupaka Kuahiwi *(Scaevola gaudichaudiana)*."

SUMMER BOARDING PROGRAMS

	GRADES	NO. SERVED
Hoʻomakaʻikaʻi: Explorations	post Grade 5	1,823
Computer Camp	post Grades 6-7	209
Kūlia I Ka Pono Leadership Camp	post Grades 7-8	113
KS Institute for International Studies	post Grades 10-11	30
Total		**2,175**

Source: Principal's Report for the 1999-2000 school year

Hoʻomakaʻikaʻi: Explorations introduced a new theme – *E Ola Pono* – along with new curriculum and songs. Among this year's highlights was Explorations staff going into two separate communities for a *hoʻolauleʻa* with parents and families who could not attend Explorations' traditional closing program. This summer, for the first time, hoʻolauleʻa were held on weekends so more families might attend. The Molokaʻi hoʻolauleʻa marked the first time in a decade that a hoʻolauleʻa had been held there; and this time, it was at Kūlana ʻŌiwi Hālau, site of our Kamehameha Schools Molokaʻi Preschool. The Kauaʻi ho'olaule'a was held at the Kauaʻi War Memorial Convention Hall.

In existence for 16 years, Kamehameha Schools' summer Computer Camp is aimed at non-Kamehameha Schools Hawaiian students completing grades 6 and 7 who possess beginning or intermediate computer skills. This camp integrates high tech with high touch and incorporates Hawaiian cultural practices and values whenever possible.

Kūlia I Ka Pono Leadership Camp is a development program for non-Kamehameha Schools Hawaiian students completing grades 7 and 8. Activities included field trips to Heʻeia Fish Pond, Aliʻiolani Hale, a *loʻi kalo* at Fukumitsu Farm, and canoe paddling at Ala Moana Park.

Kamehameha Schools' Institute for International Studies brought 16 Hawaiian students, who had completed grades 10 or 11, together with 14 foreign students for a three-week cross-cultural residential learning experience.

KS/DOE PARTNERSHIP SUMMER PROGRAMS

	NO. SERVED
Grades K-12 (statewide)	800

Source: Principal's Report for the 1999-2000 school year

Marking the return of Kamehameha Schools' summer partnership with the State Department of Education, Kamehameha provided funding for 20 staff (teachers, specialists, *kūpuna* and aides), instructional materials, limited transportation, office supplies, snacks and teacher training for summer programs held at selected DOE sites. Textbooks on the life of Ke Ali'i Bernice Pauahi Bishop were provided in English and Hawaiian as supporting curriculum for the programs.

Serving 800 students, the partnership operated in schools that included Kealakehe and Hōlualoa on Hawai'i Island, Kapa'a on Kaua'i, 'Ānuenue, Pū'ōhala, Nānākuli, Blanch Pope, Waiau, and Hau'ula on O'ahu.

SUMMER PROGRAMS — MAUI CAMPUS

		NO. SERVED
World History-High School Credit Course *(for KSS' Maui students who board at Kapālama)*		19
Violin-Arts Education for Children Partnership	Ages 5-12	24

Source: Principal's Report for the 1999-2000 school year

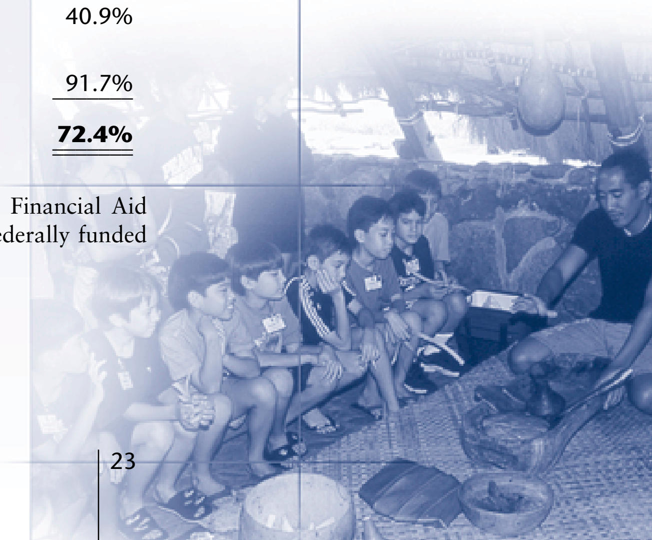
KAMEHAMEHA SCHOOLS FINANCIAL AID

KAMEHAMEHA SCHOOLS-FUNDED FINANCIAL AID*

	AMOUNT	APPLICATIONS	RECIPIENTS	PERCENT AWARDED
PRESCHOOL-GRADE 12				
Preschool	$261,678	550	469	85.3%
Elementary (All Campuses)	$696,699	850	661	77.8%
KS Secondary School	$3,158,165	2,100	1,616	77.0%
SUMMER PROGRAMS				
KS Campus & Preschool Programs	$700,235	3,710	3,327	89.7%
KS/DOE Summer Program	$538,293	4,074	3,518	86.4%
POST-HIGH SCHOOL				
KS Graduates	$8,237,575	2,100	1,277	60.8%
Non-KS Graduates	$6,281,480	4,100	1,675	40.9%
KS/Alu Like Vocational Programs	$574,680	600	550	91.7%
Total KS-Funded Aid	**$20,448,805**	**18,084**	**13,093**	**72.4%**

*KS-Funded Financial Aid as of July 1, 1999-June 30, 2000. Excludes Financial Aid Department operating expenses ($881,404) and costs reimbursed by a federally funded program ($119,804)

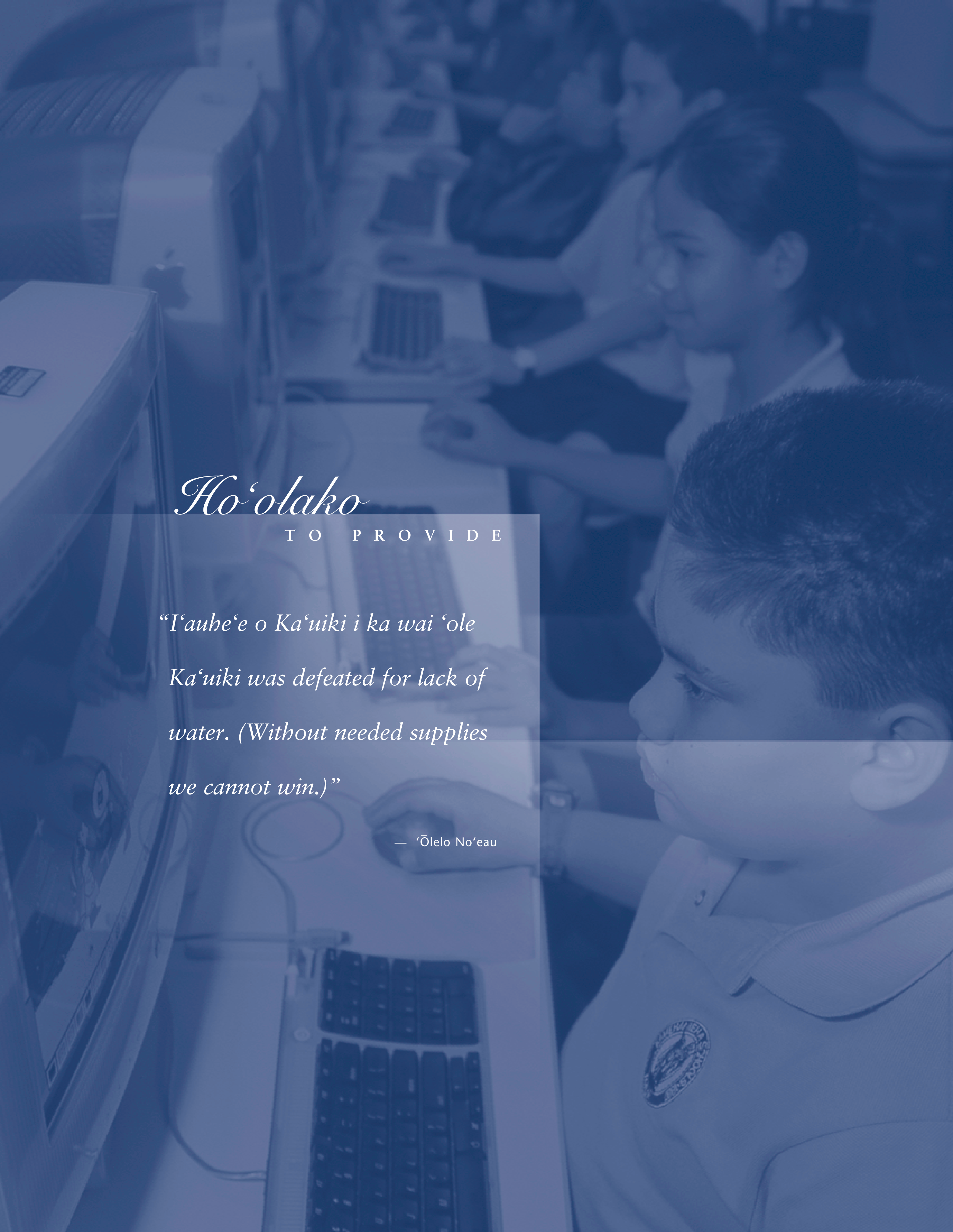
Source: Kamehameha Schools Financial Aid Department



In addition to direct financial aid funding, Kamehameha Schools also administers several federal, community and private financial aid programs and scholarships that benefit Native Hawaiians.

	AMOUNT	RECIPIENTS	OTHERS ***
FEDERALLY FUNDED PROGRAMS			
Kamehameha Talent Search*	$304,805	821	
USDA Lunch (K-12 grade students)	$119,804	310	
NH Higher Education Program	$735,456	90	
NH Health Scholarship Program	$490,679	9	
NH Safe & Drug Free Schools**	$882,000	9,653	3,746
COMMUNITY FUNDED CLEARINGHOUSE			
ATP Kōkua Fund (exceptional needs)	$245	4	
OHA Education Foundation	$365,866	158	
OHA General Fund	$35,000	50	
Hwn. Homes Comm Scholarship	$174,234	192	
Kamehameha Activities Association	$182,273	205	
ADDITIONAL KS ADMINISTERED SCHOLARSHIPS			
Hawaiian Civic Club of Honolulu	$26,050	52	
Ida Pope Memorial Trust	$59,250	62	
M. Takabuki/Goldman Sachs Fellowships	$36,000	2	
Prince Kūhiō Hawaiian Civic Club	$16,500	18	
Vicki Wilder Trust	$18,750	18	
Total KS-Administered Financial Aid	**$3,446,912**	**11,644**	**3,746**

* inclusive dates 9/1/99-8/31/00
** inclusive dates 2/29/00-2/28/01
*** figure includes 848 teachers, 561 parents, 1,682 service providers, and 655 others



Ho'olaku

TO PROVIDE

"I'auhe'e o Ka'uiki i ka wai 'ole

Ka'uiki was defeated for lack of water. (Without needed supplies we cannot win.)"

— 'Ōlelo No'eau

Hoʻolako

TO PROVIDE

ENDOWMENT OVERVIEW

The fiscal year ended June 2000 saw many positive changes to the Kamehameha Schools (KS) endowment. In particular, KS completed its most recent Investment Policy review that sets a path for supporting current and future educational spending.

The impetus for reviewing KS' Investment Policy was related to the comprehensive strategic planning process. In particular, KS sought to satisfy one of its stipulations calling for the strategic planning project to involve "…the development of an educational plan in conjunction with an investment plan…" "The investment plan should be fashioned to meet projected educational needs." Further "the investment plan should take into account diversification (including thoughtful goal-oriented asset allocation), risk (including income volatility)…"

Critical to developing the Investment Policy, therefore, was the development of KS' current asset allocation. The asset allocation decision is one of the key drivers of successful investment performance. The fundamental asset allocation decision — the asset classes to include in the portfolio and their normal weights — is one of the most important decisions in the entire investment process. While active shifting of the asset weights, the selection of specific securities and the choice of the investment manager matter, the relative performance of various portfolios is generally governed by their asset allocation structures.

Kamehameha Schools' new investment policy breaks endowment assets into two component parts: core assets, which include all Hawaiian real estate, and non-core assets, which include all other investments, primarily marketable securities. The objectives of the core assets are to: (1) produce a sustainable net income stream of at least 4% that increases at least at the rate of inflation over time and (2) earn an average annual real total return of at least 5% per year. The objectives of the non-core assets are to (1) earn a 5% or higher average annual real rate of return, (2) provide adequate liquidity to meet the school's spending requirements, and (3) to provide diversification in case of a decline in Core Asset's income.

The new targeted asset allocation and actual percentage as of June 30, 2000 for KS' non-core assets appear in the table on page 27.

KAMEHAMEHA SCHOOLS' NON-CORE PORTFOLIO

ASSET CLASS	TARGETED PERCENTAGE	JUNE 30, 2000
U.S. Equity	40.0%	53.3%
Non-U.S. Equity	15.0%	3.3%
Fixed Income	30.0%	23.1%
Alternative Investments:		
Venture & Private Equity	5.0%	7.5%
Absolute Return	5.0%	0.9%
Energy & Other	2.5%	1.4%
Real Estate (Mainland)	2.5%	10.3%
	100.0%	100.0%

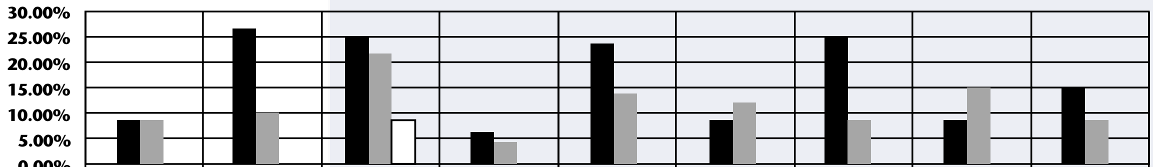
KS' asset allocation reflects a bias toward equities, broadly diversified among U.S. and international markets, large and small capitalization companies, with inflation (energy and other) and deflation (fixed income) hedges in place to hold value in economic environments hostile toward good equity performance. In addition, investments in alternative assets, such as private equity, venture capital and absolute return, are included to boost the diversification of the portfolio.

The new asset allocation marks a dramatic change from previous incarnations of KS' asset mix, which has been dominated by investments in Hawai'i real estate. Yet the liquid nature of many of KS' holdings, including restricted shares of Goldman Sachs stock, Hawai'i and Mainland Real Estate, Private Equity and Venture Capital, constrains KS from moving immediately to policy targets and instead calls for an orderly disposition of assets to avoid selling at "fire sale prices" and a gradual migration toward a normalized portfolio. These liquidity constraints will cause unintended biases to arise in the portfolio in the short run, which will be eliminated in due time as assets can be sold off and the proceeds migrated to under-allocated areas. A migration plan is currently in place, and it is estimated that over the next five years, the portfolio will reach its policy targets.

After the new investment policy and asset allocation were approved, Kamehameha moved to implement the policy. A master custodian was hired in November, 1999 to hold the securities of all Trust assets and to provide unified accounting and performance reporting. Next, core investment managers, who will manage the majority of the monies in each asset class, were hired and accounts established through funding from excess cash and proceeds from the sale of available marketable securities. These accounts will be added to, to bring them closer to their targets, as Goldman Sachs stock sells or as additional liquidity becomes available. The backbone of the portfolio is now in place to accommodate any future asset sales.

INVESTMENT PERFORMANCE

For the year ended June 30, 2000, the endowment achieved a 14.69% return, beating its benchmark of 8.90%. These returns were driven primarily through the outstanding performance of Goldman Sachs stock. While the Goldman Sachs stock has enhanced performance, KS' large position in a single stock exposes the portfolio to greater volatility and a future of more variable returns. Outside of Goldman Sachs, solid performance in Venture & Private Equity, another over-weighted asset class, also contributed positively to overall investment results. On a net basis, asset allocation decisions, not all of which were discretionary due to constraints imposed by limited liquidity in some asset categories, did not add value.



	Hawaii Real Estate	U.S. Equity	Non-U.S. Equity	Fixed Income	Venture & Private Equity	Absolute Return	Energy & Other	Real Estate (Mainland)	Total Endowment
Actual	9.03%	26.38%	24.65%	6.02%	23.40%	8.25%	24.76%	6.79%	14.69%
Benchmark 1	8.90%	9.59%	21.18%	4.56%	14.07%	12.01%	8.90%	14.78%	8.90%
Benchmark 2			9.48%						

Despite the outstanding short run performance of Goldman Sachs and Private Equity, moving forward, KS plans to reduce these allocations down to the targeted levels. Trimming down these positions and reallocating the proceeds to other asset classes as prescribed by the strategic asset allocation, will create a more efficient portfolio, with more favorable risk/return characteristics and more consistent performance going forward.

Helu Waiwai

INVENTORY

"I give, devise and bequeath all of the rest, residue and remainder of my estate real and personal, wherever situated unto the trustees below named, their heirs and assigns forever…to erect and maintain in the Hawaiian Islands two schools…to be known as…the Kamehameha Schools."

— Ke Ali'i Bernice Pauahi Bishop
Excerpt from The Will and Codicils of Bernice Pauahi Bishop
October 31, 1883

Helu Waiwai

INVENTORY

DISCUSSION OF FINANCIAL RESULTS

During the 1999-2000 fiscal year, Kamehameha Schools established critical financial policies and processes that will better position the organization to implement its Strategic Plan. These initiatives — coupled with solid investment performance — have strengthened Kamehameha's financial position and its ability to further extend the reach of Bernice Pauahi Bishop's legacy.

Major financial initiatives for 1999-2000 fiscal year included:

COMMITMENT OF RESOURCES FOR EDUCATIONAL PROGRAMS

In August 1999, the Interim Trustees adopted a Spending Policy mandating the Trust's annual distributions from the endowment in support of Kamehameha's educational purpose. This policy targets annual distributions at 4% of the average market value of the endowment plus the net income generated from agriculture and conservation lands.

The Spending Policy also provides for actual trust distributions to vary annually in a range of 2.5% to 6.0% of the value of the endowment, depending on its market value at the time. Since this is a newly adopted policy, Kamehameha anticipates that it will take time to increase trust distributions to the 4% targeted level. Total trust spending for the year ended June 30, 2000 — approximately $133 million — represented nearly 2.8% of the five-year average market value of the endowment.

Resources during the year were primarily allocated to Kamehameha's campus-based programs at Kapālama, Maui and East Hawai'i ($27 million), financial aid and post-high school scholarships ($21 million) and early education programs ($8 million). Capital and major repair projects, a portion of which relates to the Maui and East Hawai'i campuses, accounted for approximately $25 million of the resources spent on education during the year. Remaining funds were allocated to a variety of programs and functions that support Kamehameha's overall educational system.

See the "Ho'ona'auao — To Educate" section on page 10 for further details on the educational programs and numbers served in the fiscal year.

BENCHMARKED INVESTMENT PERFORMANCE

During the year, the Interim Trustees also adopted a new Investment Policy that establishes long- and intermediate-term investment objectives, asset allocation targets and performance measurement guidelines for the endowment. The overall long-term investment objective of the endowment is to earn an average annual real return (net of inflation) of 5%. With the implementation of this new policy and the migration toward the asset allocation targets, Kamehameha's investment return was approximately 15% for the year — exceeding established benchmarks.

In accordance with industry standards, Kamehameha is migrating toward implementing the *Association for Investment Management and Research (AIMR)* standards of investment reporting. This process is expected to take several years to fully implement primarily because Kamehameha's vast real estate holdings — under these standards — will require independent appraisal at least every three years. The process of appraising Kamehameha's Hawai'i real estate holdings, begun this year, anticipates compliance with AIMR standards by the end of fiscal 2003.

See "Ho'olako — To Provide" section on page 26 for further details of investment performance for the year.

LIQUIDITY AND CAPITAL RESOURCES

Kamehameha believes its ability to generate cash — both internally from its investments and operations and externally from debt issues — is adequate to maintain sufficient liquidity to fund operating and capital projects, cover debt, and meet other cash requirements in the foreseeable future.

To strengthen Kamehameha Schools' ability to achieve appropriate levels of liquidity and other related objectives, this institution adopted a debt policy during the year. This policy establishes guidelines that limit the amount of debt Kamehameha may carry to 10 — 20% of the fair market value of the endowment. The debt policy also defines requirements and parameters for the utilization of debt financing and other appropriate considerations. As of June 30, 2000, Kamehameha's debt and debt related guarantees represented only approximately 4.5% of the fair market value of the endowment.

Along with the adoption of the debt policy came the requirement to address debt arrangements not currently in compliance with the policy. Management is working diligently to restructure and possibly eliminate arrangements that do not meet the objectives of the new policy.

PROGRESS TOWARDS ESTABLISHING BASELINE FINANCIAL INFORMATION

The change in Kamehameha Schools' governance structure and policy led to a new management team committed to establishing "baseline" financial information to be used in decision making and in the evaluation of program and investment performance. This process — involving analysis of financial statements and methods used to account for the assets and activities of Kamehameha Schools — resulted in several prior-period financial statement adjustments totaling approximately $211 million. The evaluation determined that certain assets were impaired by approximately $49 million and adjusted the financial statements to reflect these assets at their fair value as of June 30, 2000. These adjustments are more fully discussed in Notes 5, 6 and 16 to the Consolidated Financial Statements.

With these corrections made, management now has a starting point of baseline financial information to further evaluate the performance of the schools' educational programs and investment activities. Management is now engaged in this process.

An institution-wide cost structure evaluation is currently underway that, when completed, will benchmark costs with other institutions. Once benchmarked, this cost structure will be overlaid with the goals established in the Strategic Plan to determine how Kamehameha's historical allocation of resources aligns with the new goals. In addition, management is engaged in evaluating the cost per student for each program so that future resources may be allocated in accordance with the priorities and desired outcomes of the Strategic Plan. On the endowment side, management is reporting investment performance against defined benchmarks and migrating to full compliance with AIMR investment reporting standards.

These are exciting times for Kamehameha as the institution looks to expanding educational opportunities for Native Hawaiians in a prudent manner with defined performance outcomes and objectives, and Management now has the information necessary to move in this direction.

FINANCIAL RESULTS

Kamehameha posted solid financial results for the year ended June 30, 2000. The following is a review of the financial position, statement of activities and cash flows for the 1999-2000 fiscal year:

- **FINANCIAL POSITION** During the 1999-2000 fiscal year, net assets increased by approximately 27% to nearly $3.3 billion. The majority of this increase was attributable to gains from the investment portfolio primarily relating to Kamehameha's investment in Goldman Sachs. Gains and investment income from this investment amounted to approximately $613 million.

  Notes payable amounted to $253 million at June 30, 2000, including approximately $95 million in commercial paper. Kamehameha Schools' commercial paper has received the highest credit ratings from Standard & Poor's and Moody's Investors Service's as of January 2001.

- **STATEMENT OF ACTIVITIES** The Statement of Activities, which details the revenues and expenses during the year, reported an increase in net assets of approximately $715 million and prior period adjustments of approximately $211 million. As previously mentioned, the increase in net assets is primarily attributable to positive investment performance during the year. The Schedule of Total Return (Schedule 2) reported an investment return of approximately 15%, which exceeded the established benchmark returns for the year.

  This statement also reported total direct Educational Programs Expenses of approximately $99 million. Direct expenses, capital expenditures, support function costs and other education-related costs constitute Kamehameha Schools' total spending for educational purposes as approximately $133 million, as reported on the Schedule of Trust Distributions and Spending (Schedule 1). This represents a trust spending rate of approximately 2.8% of the five-year average market value of the endowment.

- **CASH FLOWS** Operating activities provided positive net cash flows of approximately $38 million for the year ended June 30, 2000. Kamehameha's investment activities resulted in a net cash outflow of approximately $53 million primarily for purchases of investments, property and equipment, which was partly offset by proceeds from the sale of investments and property. From a financing standpoint, there was net cash outflow of approximately $4 million primarily the result of net paydowns of notes payable.

  By any measure, Kamehameha's financial position was greatly enhanced during the 1999-2000 fiscal year. This strong financial position supports Kamehameha's desire to expand the reach of Ke Ali'i Bernice Pauahi Bishop's legacy as stated in the Strategic Plan. Kamehameha will continue to build on its financial foundation to meet current needs and, at the same time, protect and increase its resources in order to enhance its service to future generations of people of Hawaiian ancestry through education.

FINANCIALS

Consolidated Financial Statements and Supplemental Schedules
Year ended June 30, 2000

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Independent Auditors' Report

The Trustees
Kamehameha Schools

We have audited the accompanying consolidated balance sheet of Kamehameha Schools and subsidiaries as of June 30, 2000, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of Kamehameha Schools' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the consolidated financial statements of Bishop Holdings Corporation, a wholly owned subsidiary, which statements reflect total assets constituting 8% and total revenues constituting 8% of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Kamehameha Schools, is based solely on the reports of the other auditors. The consolidated financial statements of Kamehameha Schools and subsidiaries as of June 30, 1999, were audited by other auditors whose reports thereon dated December 17, 1999, expressed an unqualified opinion on those statements, before the restatement described in note 16 to the consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kamehameha Schools and subsidiaries as of June 30, 2000, and the change in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and with respect to amounts related to Bishop Holdings Corporation, a wholly owned subsidiary, the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We also audited the adjustments described in note 16 that were applied to restate the 1999 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

KPMG LLP

January 24, 2001

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

Consolidated Balance Sheet

June 30, 2000

(in thousands)

ASSETS

Cash and cash equivalents	$ 473,608
Marketable debt and equity securities (note 2)	1,789,711
Privately placed debt and equity securities (note 3)	767,680
Receivables (note 4)	69,583
Property and equipment (notes 5 and 7)	570,342
Real estate held for development and sale (note 6)	56,033
Deferred charges and other	32,311
Deferred income taxes (note 8)	3,012
Total assets	$3,762,280

LIABILITIES AND NET ASSETS

Notes payable (note 7)	$ 252,844
Accounts payable and accrued expenses	37,131
Income taxes payable (note 8)	48,196
Accrued pension liability (note 9)	29,529
Accrued postretirement benefits (note 9)	18,767
Deferred compensation payable (note 10)	13,965
Deferred income and other	15,003
Total liabilities	415,435
Net assets – unrestricted (note 16)	3,346,845
Commitments and contingencies (notes 7, 8, 9, 10, 13 and 15)	
Total liabilities and net assets	$3,762,280

See accompanying notes to consolidated financial statements.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

Consolidated Statement of Activities

Year ended June 30, 2000

(in thousands)

Revenues, gains and other support:		
Tuition and fees		$ 7,863
Less financial aid		(5,475)
Net tuition and fees		2,388
Net realized and unrealized gains on investments (note 3)		651,621
Investment income (note 3)		134,661
Rental		136,683
Federal grants and contracts		2,743
Net loss on property sales (note 11)		(581)
Other, net (note 12)		8,790
Total revenues, gains and other support		936,305
Expenses:		
Educational programs	$ 99,289	
Management and general (note 8):		
Rental	55,552	
Other	66,657	
Total expenses		221,498
Change in net assets		714,807
Net assets at beginning of year (note 16):		
As previously reported	2,842,917	
Prior period adjustments, net	(210,879)	
As restated		2,632,038
Net assets at end of year		$3,346,845

See accompanying notes to consolidated financial statements.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

Consolidated Statement of Cash Flows
Year ended June 30, 2000
(in thousands)

Cash flows from operating activities:		
Change in net assets		$714,807
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and depletion		34,132
Net realized and unrealized gains on investments		(651,621)
Earnings in investee companies		(50,804)
Earned finance charges not received		(774)
Gains on property sales		(45,395)
Impairment loss on property and equipment and real estate held for sale		48,831
Amortization of discount on notes payable		451
Change in operating assets and liabilities:		
Increase in receivables		(32,381)
Increase in deferred charges and other		(5,888)
Increase in deferred income taxes		(947)
Decrease in real estate held for development and sale		710
Increase in accounts payable, accrued expenses and other liabilities		1,569
Increase in income taxes payable		25,447
Net cash provided by operating activities		38,137
Cash flows from investing activities:		
Proceeds from property sales	$ 48,348	
Proceeds from sale of investments	2,253,874	
Purchases of investments	(2,294,564)	
Purchases of property and equipment	(60,813)	
Net cash used in investment activities		(53,155)
Cash flows from financing activities:		
Proceeds from borrowings	520,969	
Repayment of borrowings	(525,370)	
Net cash used in financing activities		(4,401)
Net decrease in cash and cash equivalents		(19,419)
Cash and cash equivalents at beginning of year		493,027
Cash and cash equivalents at end of year		$473,608
Supplemental disclosure of cash flow information:		
Income taxes paid		$23,585
Interest paid		$20,537

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies and Practices

(a) 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 Will). The Schools are governed by a Board of Trustees (the Trustees) and subject to jurisdiction of the First Circuit Court of the State of Hawaii (the Court). The primary assets of the Schools are land and properties located in the State of Hawaii and debt and equity investments.

The Schools provide a variety of educational services for students of Hawaiian ancestry including early education (preschool), campus-based programs and other extension and summer school programs. Early education programs are conducted in various facilities throughout the State of Hawaii. The campus-based programs include campuses on the islands of Oahu, Maui and Hawaii. The Oahu Campus is a kindergarten through grade 12 program. The Maui and Hawaii campuses are in their development stages and, as of June 30, 2000, served students from kindergarten through grade six. These two campuses will expand over the next five years to include grades 7 through 12. The Schools are also engaged in summer programs, educational partnerships and other programs that are outreach related intended to provide educational opportunities to a greater population of Hawaiian people. In addition, the Schools provide a significant amount of scholarships for post-secondary education.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Schools, its controlled support organization, Kamehameha Activities Association (KAA) and KAA's wholly owned subsidiary, Bishop Holdings Corporation (BHC). BHC's consolidated financial statements include the accounts of BHC; Pauahi Management Corporation (PMC) and its wholly owned subsidiaries, KDP, Limited, KBH, Inc., VCI, Inc., Horton Grove Limited Liability Company, Shelter Bay Limited Liability Company, Lake Manassas Limited Liability Company, Gwinnett Associates Limited Liability Company, Treyburn Limited Liability Company, RTJ Limited Liability Company, and KUKUI, Inc. and its wholly owned subsidiaries, KUKUI Operating Company and Paradise Petroleum, Inc. dba Ali'i Petroleum; P&C Insurance Company, Inc.; and Kamehameha Investment Corporation and its wholly owned subsidiaries, Keauhou Community Services, Inc., Paki, Inc. and Keauhou Kona Resort Company. All significant intercompany transactions and accounts have been eliminated in consolidation.

KAA is a charitable organization whose exclusive purpose as a supporting organization is to provide funds to the Schools for its educational programs and to advance the mission, vision and goals of the Schools.

BHC is a taxable holding corporation with subsidiaries involved in property investment and management. The subsidiaries develop and sell real estate, maintain investments in equity instruments, manage commercial properties on behalf of the Schools, operate oil and gas properties, and own and operate a hotel. In addition, a subsidiary is a captive insurance company that provides property and liability coverage for the Schools and its affiliates.

(c) ***Basis of Financial Statement Presentation***
The Schools' 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. Net assets, revenues, gains and other support and expenses are classified based on the existence or absence of donor-imposed restrictions. All net assets of the Schools and changes therein are classified and reported as unrestricted net assets.

(d) ***Cash Equivalents***
Cash equivalents consist of a liquid asset account offered by an investment bank and commercial paper with initial terms of less than three months. For purposes of the consolidated statement of cash flows, the Schools consider all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The net cash balances maintained in excess of available depository insurance limits amounted to approximately $472,068,000 at June 30, 2000.

(e) ***Investments***
Marketable Debt and Equity Securities – The Schools and KAA
Equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized gains and losses included in the consolidated statement of activities. Fair value is based on quoted market prices and, if applicable, discounted for restrictions on the sale of shares.

Marketable Debt and Equity Securities – BHC
Debt and equity securities are classified in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which BHC has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of net assets. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

At June 30, 2000, debt and equity securities were classified as available-for-sale and were reported at amounts which approximate fair value.

Privately Placed Debt and Equity Securities
Investments in which the Schools own 20% to 50% of the equity interest (5% to 50% for partnership investments) are accounted for primarily on the equity method. Certain limited partnership investments for which the Schools have in excess of 50% interest but do not have control are also accounted for on the equity method. Other investments in which the Schools have no significant influence are accounted for at cost.

A decline in the fair value of any available-for-sale, held-to-maturity, privately placed debt or equity securities below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

(f) Derivative Financial Instruments
BHC enters into various commodity price hedging contracts with respect to its oil and gas production. While the use of these hedging agreements limits the downside risk of adverse price movements, they may also limit future revenue from favorable price movements. The use of hedging transactions also involves the risk that the counterparties will be unable to meet the financial terms of such transactions. The derivative financial instruments held by BHC are principally held for purposes other than trading. Such contracts are accounted for as hedges in accordance with Statement of Financial Accounting Standards ("SFAS") No. 80, *Accounting for Future Contracts*. Gains and losses on these contracts are recognized in revenue in the period in which the underlying production is delivered. These instruments are measured for correlation at both the inception of the contract and on an ongoing basis. If these instruments cease to meet the criteria for deferral accounting, any subsequent gains and losses are recognized in revenue. Neither the hedging contracts nor the unrealized gains or losses on the contracts are recognized in the consolidated financial statements.

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. In June 2000, the FASB issued SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment to SFAS 133*. SFAS Nos. 133 and 138 are effective for fiscal years beginning after June 30, 2000, and establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities, and require such derivative instruments be recorded on the balance sheet date at their respective fair values. BHC plans to adopt this Statement in fiscal 2001.

(g) Receivables
Notes receivable consist primarily of receivables from the sale of residential leasehold lots to lessees under the single-family and multi-family residential land sales program, mortgage agreements from the sale of real estate to

developers and interest earned. The residential leasehold interests were sold under various collateralized financing arrangements with five to fifteen year terms and monthly payments of both principal and interest or interest only. Annual interest rates range from 5% to 11.5% with a weighted average interest rate of approximately 7% at June 30, 2000. The sale of leasehold lots under the financing arrangements are accounted for using the cost recovery method whereby no profit is recognized until cash payments are received.

(h) ***Property and Equipment***

Property and equipment are stated at cost. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets.

BHC uses the full cost method of accounting for oil and gas properties. Under this method of accounting, all costs incurred in the acquisition, exploration and development of oil and gas properties are capitalized. Such capitalized costs and estimated future development and dismantlement costs are amortized on a unit-of-production method based on proved reserves. Net capitalized costs of oil and gas properties are limited to the lower of unamortized costs or the cost center ceiling, defined as the sum of the present value (10% discount rate) of estimated future net revenues from proved reserves, based on year-end oil and gas prices; plus the cost of properties not being amortized, if any; plus the lower of cost or estimated fair value of unevaluated properties, if any; less related income tax effects.

In September 1998, BHC sold substantially all of its interest in its coal bed methane wells as it relates to gas produced from the existing well bores. The terms of the sale were designed to allow the purchaser to be considered an owner of an economic interest in the gas produced for purposes of tax benefits that may be available under the Internal Revenue Code. BHC received a down payment of $1,650,000 which reduced the basis in the property, receives tax credit payments from the purchaser based on the amount of natural gas sold, and receives a net profit interest carved out of the working interest equal to the cash flows from the properties until certain events, as defined in the agreements, occur. Such events should allow BHC to receive all of the cash flows from the existing wells until January 1, 2003, at which time BHC has an option to reacquire the properties at the then fair market value. In fiscal 2000, BHC received tax credit payments of $8,299,000 and a net profit interest of $7,578,000, which are reported as other, net in the consolidated statement of activities.

Unevaluated properties and associated costs not currently amortized and included in oil and gas properties amounted to $2,490,000 at June 30, 2000. The properties represented by these costs were undergoing exploration or development activities, or are properties on which such activities are expected to commence in the future. BHC believes that these unevaluated properties will be substantially evaluated and therefore subject to amortization in 12 to 24 months.

BHC's oil and gas properties coal seam methane gas wells are located primarily in Colorado, New Mexico and Alabama.

(i) ***Real Estate Held for Development and Sale***

BHC's real estate assets held for development and sale are stated at cost or fair value less costs to sell. Cost includes land acquisition and holding costs, site development, construction and other project related costs. If, in future periods, there are changes in the estimates or assumptions, the changes could result in an adjustment to the carrying amount of the real estate.

Sales of real estate are recorded and income recognized when the buyer's payments and underlying commitment are sufficient to provide economic substance to recognize the sale. Costs are charged to cost of sales on the basis of the relative sales value of the units sold to the total sales value of all units in the project.

(j) ***Vacation***

Professional teaching employees are employed under one-year contracts for school years ending in mid-August. School years comprise a "teaching period" from mid-August to mid-June and a "professional improvement period" for the balance of the year.

Vacations for these employees are provided during the professional improvement period. Substantially all the Schools' employees, except for professional teaching employees, earn vacation benefits and are entitled to receive payments for unused vacation benefits based upon their regular salary at the time of their termination of employment.

(k) ***Employee Benefits and Postretirement Plans***

The Schools have a defined benefit pension plan covering substantially all of its employees, including employees of BHC. The benefits are based on years of service and the employee's compensation. The cost of this program is being funded currently.

The Schools also sponsor a defined benefit health care plan for substantially all retirees and employees. The Schools measure the costs of its obligation based on its best estimate. The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

The Schools and BHC have employee savings and profit sharing plans under Section 403(b) and Section 401(k), respectively, of the Internal Revenue Code. The plans cover substantially all the Schools' and BHC employees after satisfying service requirements. Under these plans, participating employees may defer up to 20% and 15% of their pretax earnings, respectively, for Section 403(b) and Section 401(k). There were no employer contributions for fiscal 2000.

(l) ***Deferred Income***

Deferred income consists primarily of prepaid lease rents, which are deferred and recognized as income ratably over the fixed term of the leases to which they relate.

(m) ***Income Taxes***

In a ruling dated February 9, 1939, and as reaffirmed in 1969, 1986 and 2000, the Internal Revenue Service (IRS) determined that the Schools were exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, as an organization organized and operated for educational purposes within the meaning of Section 170(b)(1)(A)(ii) of the Internal Revenue Code. KAA is also exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. To the extent that the Schools and KAA receive unrelated business income, such earnings are subject to unrelated business income tax.

Income taxes for BHC and KAA are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss 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 effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(n) ***Use of Estimates***

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(o) ***Impairment of Long Lived Assets and Long Lived Assets to Be Disposed Of***

SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of*, requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(p) ***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.

(2) **Marketable Debt and Equity Securities**

Marketable debt and equity securities at June 30, 2000 consisted of the following (in thousands):

	FAIR VALUE
Common and preferred stock:	
Investment banking firm	$1,101,038
Other	125,501
Corporate debt securities	185,741
Short-term corporate obligations	130,861
Government securities	133,458
Mutual funds	87,265
Other	25,847
	$1,789,711

Short-term corporate obligations, corporate debt securities and common and preferred stock investments are with corporations and mutual funds involved in various industries located throughout the United States. The only investment representing more than 10% of total marketable securities is the investment banking firm discussed in note 3.

(3) **Privately Placed Debt and Equity Securities**

The following schedule summarizes the carrying amount and fair value of the components of privately placed debt and equity securities at June 30, 2000 (in thousands):

	CARRYING AMOUNT	FAIR VALUE
Equity investments	$530,773	587,515
Investment banking firm, at cost	174,725	777,031
Direct financing lease	34,446	34,446
Loans and subordinated debentures	27,736	28,073
	$767,680	1,427,065

*(a) **Equity Investments***

Equity investments (accounted for on both the equity and cost method) include interests in partnerships, corporations and real estate investment trusts. These companies are involved in a diversified mix of real estate, retail and financial activities in various geographical locations. The objectives of these companies include but are not limited to the following – own luxury apartments, retail shopping center and office buildings; develop senior living communities; acquire distressed real estate assets for either foreclosure or restructuring; invest in equity securities in various industries, including insurance, financial services and healthcare; invest in and manage currently under-managed companies in need of sophisticated financial assistance; invest in equity securities in connection with leveraged acquisition; invest in medium and long-term investments in distressed fixed income securities, primarily in Asia; and invest in equity, equity-related and debt securities acquired through privately negotiated transactions.

Combined and condensed unaudited financial information (most recent available) for the investee companies that are accounted for on the equity method is as follows (in thousands):

Assets	$6,681,524
Liabilities	4,660,305
Equity	$2,021,219
Revenues	$1,526,651
Expenses	1,288,345
Net income	$ 238,306

The Schools' equity in income of investments amounted to $50,804,000 for the year ended June 30, 2000, and is reflected in investment income in the consolidated statement of activities.

(b) ***Investment Banking Firm***

The Schools own as of June 30, 2000 approximately 22,000,000 shares in a major New York investment banking firm (the Firm). The Schools' shares may be sold over a period of three years commencing in May 2000. Shares available for sale within a one-year period of the balance sheet date are considered marketable and reflected in marketable securities and carried at fair value. The remaining portion of the shares are reflected in privately placed investments and reflected at cost. The fair value of the Firm has been estimated using quoted market prices discounted for the time restrictions on sale.

In August 2000, the Schools sold approximately eleven million shares of its common stock in the investment banking firm at $97 per share as part of a secondary offering. The Schools continue to hold approximately eleven million shares.

The Firm is a U.S. registered broker dealer that is involved in securities underwriting and distribution; trading of corporate debt and equity securities, U.S. government and agency securities, non-U.S. sovereign debt and mortgage and municipal securities; execution of swaps and other derivative financial instruments; mergers and acquisitions; financial advisory services for restructurings, private placements and lease and project financing; real estate brokerage and finance; stock brokerage and research; asset management; and the trading of currencies. The Firm provides its services worldwide to a substantial and diversified client base, which includes corporations, financial institutions, governments and individual investors. Investment banking has inherent risks associated with such items as market, interest rate, currency, and credit risk.

(c) ***Loans and Subordinated Debentures***

Loans provide for principal and interest payments over periods up to 21 years with interest at approximately 6.5% to 15% per annum. Subordinated debentures provide for interest payments of 6.5% to 13% per annum and mature over periods up to 8 years. Certain debt investments are collateralized by real property.

(d) ***Direct Financing Lease***

BHC holds a forty-year lease for a golf course facility located in Virginia. The lease is accounted for as a direct financing lease. At June 30, 2000, the total minimum lease payments to be received and unearned finance charges were $80,717,000 and $46,271,000, respectively. Future minimum annual lease payments amount to $750,000 in 2001, $1,100,000 from 2002 to 2005 and $75,567,000 thereafter. In addition to fixed minimum rentals, the lease agreement provides for percentage rent based on adjusted gross revenue of the golf course. The golf club has the option to purchase the golf club facilities either at the conclusion of the lease term or any time during the term of the lease based on amounts specified in the lease agreement.

(e) ***Investment Income***

Investment income for the year ended June 30, 2000, by investment type, is as follows (in thousands):

Cash equivalents	$ 37,053
Marketable securities, other	18,635
Equity investments	55,583
Investment banking firm	10,861
Loans and subordinated debentures	6,720
Mortgage notes	3,172
Other	2,637
	$134,661

(f) ***Net Realized and Unrealized Gains on Investments***

Net gains on long-term investments for the year ended June 30, 2000, by investment type, are as follows (in thousands):

Marketable securities, other	$ 7,601
Equity investments	39,191
Investment banking firm	602,390
Other	2,439
	$651,621

Net realized gains amounted to $172,308,000 for the year ended June 30, 2000.

(4) **Receivables**

Receivables at June 30, 2000, consisted of the following (in thousands):

Note agreements	$ 82,478
Less deferred profit on note agreements	(69,744)
	12,734
Income taxes	31,566
Tenant and tuition	13,415
Interest	10,925
Trade	9,659
Other	1,979
	80,278
Less allowance for doubtful accounts	(10,695)
	$ 69,583

(5) **Property and Equipment**

Property and equipment at June 30, 2000 consisted of the following (in thousands):

Educational property and equipment:	
Land	$ 9,656
Buildings and improvements	133,349
Office and automotive equipment	25,136
Less accumulated depreciation	(65,192)
	102,949
All other property and equipment:	
Land and land improvements	129,663
Buildings and improvements	318,260
Office and automotive equipment	40,691
Oil and gas properties	77,378
Less accumulated depreciation, amortization and depletion	(173,095)
	392,897
Construction in progress	74,496
	$570,342

The provision for depreciation and depletion amounted to approximately $34,132,000 for the year ended June 30, 2000.

In addition, the Schools determined that the book values of certain buildings and improvements were impaired. As such, the property was adjusted to fair value, which resulted in an impairment loss of approximately $22,618,000.

(6) **Real Estate Held for Development and Sale**

BHC is involved in the development and sale of several real estate projects throughout the United States. During the year, BHC received two offers to bulk purchase one of its projects. Management is evaluating the offers and expects to accept one of the offers. The purchase price for the project is dependent, in part, on whether certain pending individual parcel sales are consummated and which of the two offers is accepted. As a result of the expected sale and in accordance with SFAS No. 121, BHC reduced its basis in the project by approximately $5,213,000.

In addition, BHC determined that its investment in another of its projects was impaired. As such, BHC adjusted its investment in this project to fair value, which resulted in an impairment loss of approximately $21,000,000.

(7) **Notes Payable**

At June 30, 2000, notes payable consisted of the following (right column in thousands):

Senior promissory notes payable at the rate of 6.89% per annum with annual principal payments of $11,860,000 beginning June 22, 2004 with the final payment on June 22, 2013. The note agreement contains certain restrictions on assumption of additional debt and requires maintenance of a certain interest coverage ratio, among other restrictions.	$118,575
Notes payable under a $200,000,000 commercial paper program, due on various dates from August 29 to October 10, 2000 with interest at the rate of 6.35% to 6.77%. The due dates on these notes have been subsequently amended to be due on various dates through February 12, 2001. In connection with this program, the Schools maintain a back-up liquidity facility with a consortium of banks. This facility requires the maintenance of a minimum liquidity balance, based on a proportion of commercial paper outstanding.	95,257
Note payable to banks under a $37,000,000 revolving credit agreement which matures on September 30, 2002. Interest rate (7.31% on $31,200,000 and 7.19% on $1,500,000 on June 30, 2000) options include the bank's prime rate, a certificate of deposit rate plus 37.5 basis points, or floating LIBOR rate plus 25 basis points. The note matures on September 30, 2002.	32,700
Notes payable under $13,000,000 credit term loan; interest (7.21% at June 30, 2000) payable quarterly or more frequently depending on the interest rate options based on the bank's prime rate, a certificate of deposit rate plus 77.5 basis points, or eurodollar rate plus 43 basis points. A portion of real estate sales proceeds is used to repay principal, with the balance due July 2, 2001.	$5,704

Note payable under a $6,500,000 revolving credit agreement with interest (9.5%) due monthly and principal due March 2, 2002; collateralized by a development agreement	573
Other	35
	$252,844

BHC has a $50,000,000 bank revolving line of credit with interest at 1.5% over the LIBOR rate. The line credit facility expires on March 1, 2002. There were no drawings on the line at June 30, 2000.

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

Year ending June 30,	
2001	$ 95,257
2002	6,312
2003	32,700
2004	11,860
2005	11,860
Thereafter	94,855
	$252,844

Interest expense for the year ended June 30, 2000 is as follows (in thousands):

The Schools	$ 14,930
BHC	3,131
	$ 18,061

(8) Income Taxes

Total income tax benefit amounted to $4,421,000 for the year ended June 30, 2000 and is included in management and general expenses in the consolidated statement of activities. The components of income tax benefit include current and deferred income tax benefit of $3,374,000 and $1,047,000, respectively.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities for the years ended June 30, 2000 are presented below (in thousands):

Deferred tax assets:	
Difference in basis of investment	$ 13,202
Net operating loss carryforward	5,606
Income deferred for financial reporting	4,924
Accrued interest	2,730
Other	2,402
Valuation allowance	(24,749)
	4,115
Deferred tax liabilities	(1,103)
	$ 3,012

The valuation allowance for deferred tax assets as of July 1, 1999 was $25,509,000. The net change in the total valuation allowance for the year ended June 30, 2000 was a decrease of $760,000. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not 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 BHC will realize the benefits of these deductible differences, net of the existing valuation allowances at June 30, 2000. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Internal Revenue Service Audit

In 1995, the Internal Revenue Service (IRS) began an audit of the Schools and Pauahi Holding Company (PHC), the Schools' former wholly owned taxable subsidiary for the years ended June 30, 1992, 1993 and 1994. It was later expanded to include the years ended June 30, 1995 to 1998. In March 1999, the IRS began an audit of KAA for the years ended June 30, 1997 and 1998. This audit was later expanded to include the year ended June 30, 1999. The status of these audits are as follows:

The Schools: In January 1999, the IRS had proposed revocation of the Schools' tax exempt status. Through settlement negotiations and the execution of a closing agreement in February 2000, which included removal of the five former Trustees, a settlement payment (including interest) of $13,992,000 and other conditions that require special filings to be made to the IRS annually through February 2005, the Schools was able to preserve its tax exempt status.

PHC: PHC executed a closing agreement with the IRS in December 2000 to settle tax matters through June 30, 1998. The agreement resulted in a settlement payment (including interest) of approximately $29,000,000 which has been accrued for in the consolidated financial statements.

KAA: The primary focus of this audit is on the nontaxable treatment of a reorganization that occurred between KAA and other related entities in July 1998. KAA has provided information supporting its position and believes that the reorganization was not taxable. At this time, management of KAA is unable to determine the ultimate outcome of this matter. Accordingly, no provision for liabilities, if any, that may result from this audit has been made in the accompanying consolidated financial statements. An adverse outcome to KAA could materially impact the financial position of the Schools.

(9) Pension and Other Postretirement Benefits

The Schools have a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation. The Schools make annual contributions to the plan equal to the maximum amount that can be deducted for income tax purposes.

In addition to the Schools' defined benefit pension plan, the Schools sponsor a defined benefit health care plan that provides postretirement medical benefits to full-time employees who meet minimum age and service requirements. The Schools have the right to modify the terms of these benefits. The funded status of the plans as of June 30, 2000 follows (in thousands):

	PENSION	POST RETIREMENT
Benefit obligation	$125,897	10,318
Fair value of plan assets	130,386	—
Funded status	$ 4,489	10,318
Accrued benefit cost recognized in the consolidated balance sheet	$ (29,529)	(18,767)

The amount of contributions, benefits paid and net periodic benefit cost for the year ended June 30, 2000 are as follows (in thousands):

	PENSION	POST RETIREMENT
Benefit cost	$ 4,717	177
Employer contribution	—	464
Benefits paid	3,064	464

The assumptions used in the measurement of the Schools' benefit obligation for the year ended June 30, 2000 are as follows (in thousands):

	PENSION	POST RETIREMENT
Discount rate	7.00%	7.00%
Expected return on plan assets	8.00%	N/A
Rate of compensation increase	5.30%	N/A
Annual rate of increase in per capita cost of covered health care benefits, assumed level	N/A	4.5%

(10) Deferred Compensation Plan

On January 1, 1976, the Schools adopted a deferred compensation plan that allowed employees and others who perform services for the Schools under contract to defer compensation earned. Individual accounts are maintained for each participant and earnings are computed on the basis of alternative investment programs available.

(11) **Net Loss on Property Sales**

Net loss on property sales for the year ended June 30, 2000 consisted of the following (in thousands):

Property sales	$ 65,664
Less cost of property sales	(17,414)
Net property sales	48,250
Impairment loss on property and equipment and real estate held for development and sale (notes 5 and 6)	(48,831)
	$ (581)

(12) **Other Revenues, Net**

Other revenues, net for the year ended June 30, 2000 consisted of the following (in thousands):

Oil and gas operations	$30,523	
Less cost of oil and gas operations	(20,469)	
Net oil and gas operations		$ 10,054
Hotel operations	3,025	
Less cost of hotel operations	(3,839)	
Net hotel operations		(814)
Other		(450)
		$ 8,790

(13) **Derivative Financial Instruments**

BHC uses swap contracts to reduce the effect of fluctuations in natural gas prices. These instruments are effective in minimizing such risks by creating essentially equal and offsetting market exposure. The derivative financial instruments held by BHC are principally held for purposes other than trading.

For the year ended 2000, approximately 21% of BHC's equivalent production was subject to hedge positions. At June 30, 2000, BHC had entered into the following commodity price hedging contracts with respect to natural gas production for the period with one company (right column in thousands).

PERIOD	VOLUME IN MMBTUS PER DAY	SWAP CONTRACT PRICE PER MMBTU	FAIR VALUE (1)
November 1999 – October 2000	5,000	$2.61	(977)
March 2000 – February 2001	5,000	2.48	(2,062)
April 2000 – March 2001	3,000	2.63	(1,139)

(1) Fair value is calculated using prices derived from NYMEX futures existing at June 30, 2000.

With respect to any particular swap transactions, the counterparty is required to make a payment to BHC in the event that the settlement price for any settlement period is less than the swap price for such transaction, and BHC is required to make payment to the counterparty in the event that the settlement price for any settlement period is greater than the swap price for such transaction.

(14) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Schools' financial instruments at June 30, 2000. Note 13 presents the estimated fair values of derivative financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	CARRYING AMOUNT	FAIR VALUE
Cash and cash equivalents	$ 473,608	473,608
Marketable debt and equity securities	1,789,711	1,789,711
Privately placed debt and equity investments	767,680	1,427,065
Receivables	69,583	106,858
Notes payable	252,844	217,039
Accounts payable and accrued expenses	37,131	37,131

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents and accounts payable and accrued expenses: The carrying amounts approximate fair value because of the short maturity of these instruments.

Marketable debt and equity securities: The fair value of marketable debt and equity securities are based on quoted market prices, and if applicable, discounted for time restrictions.

Privately placed debt and equity investments: 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. Financial instruments with determinable cash flows were valued on the basis of their future principal and earnings distributions discounted at prevailing interest rates for similar investments. In addition, shares with quoted market prices with restrictions on the sale of shares were valued at market prices and discounted for time restrictions.

Receivables: The fair value of note agreements and mortgage notes are valued at the present value of expected future cash flows discounted at an interest rate commensurate with the risk associated with the respective receivables. The carrying value of interest and other receivables approximates fair value because of the short maturity of these instruments.

Notes payable: The fair value of notes payable are estimated using the current rates at which similar loans would be made by lenders to borrowers with similar credit ratings and similar remaining maturities. The carrying value of commercial paper approximates the fair value because of the short maturity of these instruments.

(15) **Commitments and Contingencies**

(a) Rental Income

The majority of land and buildings are generally leased under long-term lease arrangements. At June 30, 2000, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Year ending June 30,	
2001	$ 85,050
2002	78,796
2003	75,625
2004	70,984
2005	64,731
Thereafter	773,546
	$1,148,732

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $17,283,000 for the year ended June 30, 2000.

(b) Capital Commitments

At June 30, 2000, the Schools are committed under agreements with certain partnerships and corporations to invest an additional $152 million.

The Schools have also provided unsecured repurchase or guarantee agreements for certain liabilities related to certain investments aggregating $93 million at June 30, 2000.

The trustees of the Schools approved a plan to develop additional school facilities in the state of Hawaii. At June 2000, the cost of these facilities are estimated to be approximately $439.1 million and will be incurred over the next nine years. At June 30, 2000, open contracts, including contracts related to the development of these school facilities, amounted to approximately $18.9 million.

(c) Litigation

The Schools, in the normal course of conducting its business, is a defendant or party in a number of civil actions involving real estate and investment management and ownership. Management of the Schools is of the opinion that substantially all of these actions are either adequately covered by liability insurance or agreements with lessees or developers of the Schools' real estate and should not have a material adverse effect on the Schools' consolidated financial position.

(d) ***Environmental Issues***

BHC is in the process of decontaminating the soil and groundwater located at a previously owned property in Ohio. The expected costs of decontamination have been accrued in the consolidated financial statements as of June 30, 2000.

BHC is engaged in the oil and gas production business and may become subject to certain liabilities as they relate to environmental clean-up of well sites or other environmental restoration procedures as they relate to oil and gas operations. In BHC's acquisition of existing wells, BHC may not be aware of what environmental safeguards were taken at the time the wells were drilled or during such time the wells were operated. Should it be determined that a liability exists with respect to any environmental clean-up or restoration, the liability to cure such violation could fall upon BHC. At the present time, management is not aware of any such liabilities.

(e) ***Trustee Matters***

In September 1999, the Court approved monthly compensation of $15,000 to each of the Interim Trustees for their services from the date of their appointment on May 7, 1999. In January 2000, the Court approved a Compensation Committee's recommendation regarding trustee compensation. Effective February 1, 2000, Trustees received an annual retainer of $30,000 payable monthly and will receive a meeting fee of $1,500 per meeting, except for the Chairperson who will receive $2,000 per meeting. The meeting fee is subject to a maximum of 45 meetings during a twelve-month period. Total trustee compensation paid during the year ended June 30, 2000 amounted to $764,500.

In November 2000, the Court appointed five permanent Trustees who will serve varying terms from one to five years. Two of the five permanent Trustees served as Interim Trustees while three are newly appointed. The appointments were effective on January 1, 2001.

(f) ***Attorney General***

The Attorney General of the State of Hawaii filed a petition in 1998 to remove and surcharge the Former Trustees. Various allegations were asserted and the parties entered into a global settlement with the Attorney General in September 2000. The global settlement was approved by the Court in October 2000 and resulted in the Schools receiving insurance proceeds of approximately $14 million.

(16) Prior Period Adjustments

The Schools' consolidated net assets as of June 30, 1999 have been restated to reflect the following:

1. The reversal of gains on sale of residential leasehold interests recognized in prior periods of approximately $71,616,000 and the corresponding reduction in receivables. The Schools sell residential leasehold interests under various collateralized financing arrangements. The terms of the mortgages are such that these sales do not qualify for full profit recognition under generally accepted accounting principles and thus are accounted for under the cost recovery method. Using this method, gains on the sale are recorded when the cash received is greater than the basis of the leasehold interests sold.

2. The reversal of gains recognized in prior years of approximately $22,800,000 related to nonmonetary assets received in land condemnation actions.

3. The reduction in privately placed debt and equity investments of approximately $8,562,000 to record the Schools' share of prior period losses of certain investments. Under the equity method of accounting, the Schools' share of the underlying investees' losses should be reflected in the Schools' consolidated financial statements as of June 30, 1999.

4. To record additional rental income and rent receivables of approximately $17,293,000 as of June 30, 1999 relating to long-term lease arrangements that provide for scheduled rent increases. Under generally accepted accounting principles, rental income should be recorded on the straight-line basis over the term of the respective lease arrangements.

5. To adjust land assets to its original basis in order to comply with generally accepted accounting principles. This resulted in a reduction of property and equipment of $125,194,000. The Schools previously recorded the assets at 1965 tax assessed values pursuant to a Court order.

The effect of recording these prior period adjustments was to decrease previously reported net assets at June 30, 1999 by $210,879,000.

KAMEHAMEHA SCHOOLS

Schedule of Trust Distributions and Spending
Year ended June 30, 2000
(in thousands)

Trust distributions	
Trust distributions	$ 132,753
Trust spending, net	
Campus-based programs:	
Oahu	23,854
Maui	2,079
Hawaii	1,090
Outreach-based programs:	
Financial aid and scholarships	21,450
Early education	7,941
Summer programs	1,790
Kindergarten to grade 3 reading program	67
Other program expenditures	23,886
Support group expenses	33,723
Base spending	115,880
Less: Tuition, fees and other education income	(7,863)
Less: Net income from agriculture and conservation lands	(154)
Base distributions	107,863
Major repairs	1,737
Capital projects	23,153
Total trust spending	132,753
Trust distributions in excess of trust spending	$ —
Trust spending rate	
Total trust spending	$132,753
Average market value of Endowment	4,812,799
Trust spending rate	2.76%

See accompanying independent auditors' report and notes to the schedule of trust distributions and spending.

Notes to Schedule of Trust Distributions and Spending

June 30, 2000

(1) **Background and Purpose**

In August 1999, the Schools adopted a spending policy that governs annual trust distributions from the endowment to support its educational purpose. The spending policy targets annual trust distributions at 4% of the average market value of the endowment plus the net income (loss) generated from the Schools' agriculture and conservation lands. The spending policy also provides for actual trust distributions to vary annually in a range of 2.5% to 6%. Since this is a newly adopted policy, management of the Schools anticipates that it will take time to increase trust distributions to the targeted 4% level.

The purpose of this schedule is to present the total distributions made from the endowment to fund educational programs (trust spending) by major program and activity. It also presents the trust spending rate for the fiscal year.

(2) **Trust Distributions**

Trust distributions represent the amount withdrawn from the endowment during the fiscal year to fund the Schools' educational programs and activities.

(3) **Trust Spending and Trust Spending Rate**

Trust spending represents the amounts spent during the fiscal year on educational programs by major program and activity. The campus-based and outreach-based program costs represent direct costs of providing these programs. Other program expenditures represent the direct costs related to certain educational services (admissions, religious services, Hawaiian studies, medical services, etc.) that benefit the various campus-based and outreach-based programs. Other support group expenses represent the portion of the finance, administration and legal services cost that are in support of the Schools' educational programs and purpose. Major repairs and capital projects cost relate to activities that are directly related to education.

For purposes of this schedule, trust spending on educational programs includes major repairs and capital projects, as well as an allocation of indirect costs. These costs are not included in educational program expenses on the consolidated statement of activities. Other support group expenses represent finance, administration and legal costs allocated to educational programs and activities. These costs are allocated by first determining the amount that is directly related to education. The remaining costs are allocated between education and the Schools' endowment activities based on various methods depending on the type of cost including headcount, square footage, and proportion in relation to the total and other estimates based on management's best judgment.

The trust spending rate is determined by dividing the total trust spending by the average market value of the endowment.

(4) **Endowment and Average Market Value of the Endowment**

The endowment consists of all consolidated investment assets of the Schools except agriculture and conservation lands and reserve funds (the Endowment) as defined in the Schools' investment policy. At June 30, 2000, there were no reserve funds established by the Schools.

The average market value of the Endowment is initially based on the average of the five prior fiscal June 30 year-end market values and over time will be based on the average of the prior 20-quarter market values. Accordingly, the trust spending rate for the year ended June 30, 2000 is based on the estimated average market values for the fiscal years ended June 30, 1995 through June 30, 1999. The market values for these fiscal years were based primarily on tax assessed values for the Hawaii real estate assets and the fair value of the other Endowment assets as reported in the audited financial statements for these fiscal years, net of any associated debt and prior period adjustments discussed in note 16 to the consolidated financial statements.

KAMEHAMEHA SCHOOLS

Schedule of Total Return

As of and for the year ended June 30, 2000

ASSET CLASS AND BENCHMARKS	MARKET VALUE AT JUNE 30, 2000 (IN THOUSANDS)	TOTAL RETURN % – YEAR ENDED JUNE 30, 2000
Hawaii Real Estate	$1,881,977	9.03
CPI+5%		8.90
U.S. Equity	2,010,796	26.38
Russell 3000		9.59
Non-U.S. Equity	127,346	24.65
MSCI EAFE Index		21.18
MSCI Emerging Markets Free Index		9.48
Fixed Income	871,237	6.02
Lehman Brothers Aggregate		4.56
Alternative Investments:		
Venture & Private Equity	283,166	23.40
CPI+10%		14.07
Absolute Return	33,992	8.25
CPI+8%		12.01
Energy	52,964	24.76
CPI+5%		8.90
Real Estate (Mainland)	391,284	6.79
NCREIF Total Property Index		14.78
Total Portfolio	$5,652,762	14.69
CPI+5%		8.90
Cambridge Associates Large Endowment Fund Median		9.74
Policy Portfolio		9.66

See accompanying independent auditors' report and notes to the schedule of total return.

Notes to Schedule of Total Return
June 30, 2000

(1) **Background and Purpose**

In August 1999, the Schools adopted an investment policy that establishes long- and intermediate-term investment objectives, asset allocation targets, and performance measurement guidelines for the Endowment. The overall long-term investment objective of the Endowment is to earn an average annual net real return of 5%.

The purpose of this schedule is to report the Schools' total return results for the Endowment (by asset class) as compared to benchmark indices approved in the investment policy. The Schools' Endowment asset classes include:

(a) Hawaii Real Estate

The Hawaii real estate assets can be divided into traditional land holdings, improved commercial properties, real estate held for development and sale and purchase money mortgages. The traditional land holdings are typically leased to third parties under long-term ground leases while the commercial properties are actively managed by PMC to generate space rents. Commercial properties as of June 30, 2000 are comprised of 4 shopping centers, 8 office buildings and 3 warehouse facilities.

(b) U.S. Equity

U.S. equity are comprised of marketable stocks of U.S. companies.

(c) Non-U.S. Equity

Non-U.S. equity are comprised of marketable stocks of companies outside the U.S. These primarily include stocks of companies overseas in both developed and emerging markets.

(d) Fixed Income

Fixed income are comprised of investments in debt securities issued by a corporation, government or government agency. This asset class also includes, to a lesser degree, money market instruments which include U.S. Treasury bills, bank certificates of deposit, repurchase agreements, commercial paper and banker's acceptances.

(e) Venture and Private Equity

Venture and private equity investments can be defined as high risk, high potential return investments in non-marketable securities such as equity or equity-linked investments in non-public companies, or in companies or parts of companies that are being taken private. These companies range from start-up enterprises to middle-market firms to public firms needing private financing for specific projects. The Schools' venture capital portfolio currently consist primarily of pooled fund investments in limited partnerships.

(f) ***Absolute Return***

Absolute return investments consist of the Schools' ownership interest in the Goldman Sachs Asia Opportunities Fund and Goldman Sachs Performance Partners Investments Fund. These funds' investment strategies are designed to exploit arbitrage opportunities and pricing inefficiency among related securities while insulating results from broad stock or bond market investments.

(g) ***Energy***

Energy is comprised of coal seam methane gas well operations located primarily in Colorado, New Mexico and Alabama.

(h) ***Real Estate (Mainland)***

Real estate assets consist of pooled and direct investments in residential, office, retail, timberland and a variety of other property types.

(2) **Market values**

Market value of an asset is the amount at which the asset could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate the market value of each asset class:

(a) ***Hawaii Real Estate***

Traditional land holdings are valued by an in-house appraiser by estimating and discounting future net cash flows. The valuation procedures are performed periodically, a majority of them within the last three years. Values are reviewed on a quarterly basis and may be revised under certain circumstances, for example, revisions to estimated cash flow, third party appraisals, or sales of similar properties.

Commercial properties may be divided into two categories, leased and non-leased. For leased properties, value is based on estimating and discounting future net cash flows for ten years. For non-leased properties, the value is based on a direct sales comparison.

The market value of real estate held for development and sale approximates the tax assessed value.

The market value of purchase money mortgages is the present value of expected future cash flows discounted at an interest rate commensurate with the risk associated with the respective receivables.

The fair value is reduced by the carrying value of any debt associated with such properties.

(b) U.S. Equity

The market value of marketable equity securities are based on quoted market prices, and if applicable, discounted for time restrictions.

(c) Non-U.S. Equity

The market value of marketable equity securities are based on quoted market prices, and if applicable, discounted for time restrictions.

(d) Fixed Income

The market value of marketable debt securities are based on quoted market prices.

(e) Venture and Private Equity

Different techniques and many factors were considered in deriving the market value of these investments. Several investments have been valued based on the underlying asset value. In addition, shares with quoted market prices with restrictions on the sale of shares were valued at market prices and discounted for time restrictions. In one case, there is an agreement to sell an investment, therefore, the market value is the anticipated selling price, net of selling costs.

(f) Absolute Return

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

(g) Energy

The market value of these assets was deemed to approximate the carrying value. The carrying value is the basis of the assets reduced by the liabilities of KUKUI Operating Company.

(h) Real Estate (Mainland)

Several pooled investments with determinable cash flows were valued on the basis of their future principal and earnings distributions discounted at prevailing interest rates for similar investments. Others were valued using the net operating income multiplied by a capitalization rate.

Different techniques were considered in deriving the market value of direct investments. Fair value was based on independent appraisals dated at various points in time since 1993, in-house valuations, carrying value of a direct financing lease and carrying value as impairment was recorded during year.

The market value is reduced by the carrying value of any debt associated with such properties.

(3) **Total Return**

Total return is calculated using the Modified BAI Method, a time-weighted rate of return.

(4) **Benchmark Indices**

The following represents the benchmark indices by asset class as approved in the investment policy:

ASSET CLASS	DESCRIPTION
Hawaii Real Estate	Consumer Price Index plus 5%
U.S. Equity	Russell 3000
Non-U.S. Equity	MSCI EAFE Index MSCI Emerging Markets Free Index
Fixed Income	Lehman Brothers Aggregate
Alternative Investments:	
Venture and Private Equity	Consumer Price Index plus 10%
Absolute Return	Consumer Price Index plus 8%
Energy	Consumer Price Index plus 5%
Real Estate (Mainland)	National Council of Real Estate Investment Fiduciaries (NCREIF) Total Property Index
Total Endowment	Consumer Price Index plus 5%
	Cambridge Associates Large Endowment Fund Median
	Policy Portfolio

The Policy Portfolio benchmark is a weighted benchmark based upon the asset class targets set forth in the Schools approved investment policy.

Kamehameha Schools student admissions policy is to give preference to Hawaiians and part-Hawaiians to the extent permitted by law. The Internal Revenue Service has ruled that this policy is non-discriminatory.

KAMEHAMEHA SCHOOLS

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