KAMEHAMEHA SCHOOLS ANNUAL REPORT JULY 1, 2000 - JUNE 30, 2001

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I ULU NO KA LĀLĀ I KE KUMU. FROM OUR FOUNDATION WE ARE STRONG.

Chief Executive Officer's message

There was no particular sound while it was under construction, and as it neared completion there was no applause. In fact, there was no ceremony of any sort to mark the historic achievement.

THE FOUNDATION IS LAID. THE FOUNDATION IS STRONG.

But, by the end of the fiscal and academic year 2000-2001, Kamehameha Schools (KS) had completed a top to bottom transformation of our institutional focus, management structure, and ways of doing business. Thanks to the men and women of Kamehameha and our extended *'ohana* — parents, alumni, and interested members of the community who volunteered their time, effort and expertise over an entire year — the foundation of Kamehameha's future as an educational system was firmly set in place.

Clockwise from top:

-Preschool artists

-Trustee and CEO investiture procession

-Hamilton I. McCubbin, Ph.D.

-Interim trustees honored

LEADERSHIP TRANSITION

In December 2000, students, parents and staff bid fond aloha to interim trustees Robert K.U. Kihune, Constance H. Lau, Ronald D. Libkuman, Francis A. Keala and Rev. David P. Coon.

In ceremonies throughout the Kamehameha Schools system, the interim trustees were honored and remembered for their considerable achievements. In their short tenure, they reaffirmed education as the primary purpose of this institution; preserved Kamehameha's tax exempt status; established a Chief Executive Officer (CEO)-based management structure; launched an objective trustee selection process with term and compensation limitations; extended the reach of both Hawai'i and Maui campuses to full kindergarten to grade 12 (K-12) facilities, and initiated a comprehensive strategic planning process.

To protect Kamehameha's tax-exempt status, the interim trustees negotiated and signed the Internal Revenue Service (IRS)/Kamehameha Schools Closing Agreement in February 2000. The agreement upheld the trustees' fiduciary and policy-making role while delegating day-to-day operations to a CEO-based management structure.[1]

In January 2001, the investiture of permanent trustees Robert K.U. Kihune, Constance H. Lau, J. Douglas Ing, Diane J. Plotts, Nainoa Thompson and myself completed the first in a series of structural changes reflecting Kamehameha's new governance structure.

Completion of *Kamehameha Schools Strategic Plan 2000-2015* was our turning point.[2] The Plan set the stage for structural and operational change throughout our KS system. Upon its adoption and September 28, 2000 signing, the Strategic Plan became the *kuleana*, or responsibility, of Kamehameha Schools' leadership, faculty and staff to implement and make operational.

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

2 The complete text of the *Kamehameha Schools Strategic Plan 2000-2015* is available on Kamehameha Schools' Web site at http://www.ksbe.edu.

REORGANIZATION

In August 2000, the Board of Trustees authorized a structural reorganization of Kamehameha Schools that began with our institutional governance. For the first time in the Schools' history, responsibility for the day-to-day management of Kamehameha's education and endowment operations was placed in the hands of a Chief Executive Officer.

When I assumed my duties as CEO of Kamehameha, I began to build a team of chief executives to represent each of Kamehameha's operational groups — Education, Administration, Finance, Investment, and Legal. In July 2001, we added a chief education officer (CEdO), mandated to oversee systemwide staff and operations support essential to the expansion of educational programs and services as our Strategic Plan entered its implementation phase.

Another first at Kamehameha was the creation of search committees to seek out and select the best leadership for the organization. Comprised of a cross section of Kamehameha staff, each search committee screened candidates, conducted interviews, and made leadership hire recommendations. In each case, those recommendations were accepted and implemented with the concurrence of the chief executives and trustees.

By the end of the fiscal year, June 2001, staff-led search committees had chosen new leaders including the CEdO, Maui and Hawai'i headmasters, dean of extension education, chief administrative officer, director of alumni development and the director of Kamehameha Schools Press.

Clockwise from top:

-Chief executives: Wendell F. Brooks Jr., Investment; Colleen I. Wong, Legal; Dudley Hare Jr., Ed. D., Education; and, Eric K. Yeaman, Finance

-New logo for Ke Ali'i Pauahi Foundation

-Kamehameha Schools Association of Maui was the first major donor to Ke Ali'i Pauahi Foundation

A REVITALIZED KAMEHAMEHA

As CEO, I worked closely with our leadership and staff to maximize our institutional inclusiveness, accountability, and efficiency through a series of strategic initiatives, now firmly in place, that included:

- Adopting inclusive advisory decision making as institutional policy;
- Maintaining emphasis on two-way communication with stakeholders;
- Establishing financial reporting procedures consistent with generally accepted accounting principles;
- Rededicating this institution to the cultivation, perpetuation and practice of *'Ike Hawai'i* — Hawaiian culture, values, history, language, oral traditions, literature and care for significant cultural and historical places;
- Optimizing our Endowment Group's uses of legacy lands for educational and cultural programs;
- Restoring process integrity by placing both Admissions and Financial Aid offices under direct CEO supervision, and re-instituting KS' internal audit function;
- Securing functional efficiencies by consolidating redundant activities;
- Centralizing operations where appropriate — i.e., finance, legal and administrative functions — and decentralizing operations where appropriate, such as Neighbor Island campuses, Early Childhood Education sites and Extension Education; and,
- Streamlining Kamehameha's internal policies and procedures for consistency, standardization, clear lines of authority, accountability, and thorough reporting to the trustees, for we at Kamehameha will be accountable for what we do.

A NEW PARADIGM FOR GIVING

Another important element of KS' 2000-2001 reorganization was the founding and launching of Ke Ali'i Pauahi Foundation (KAPF). Created as a tax-exempt support organization to Kamehameha Schools, its purpose is to extend the legacy of Ke Ali'i Pauahi by generating new and diverse sources of income to provide for the increasing educational needs of people of Hawaiian ancestry.

In fall 2001, Kamehameha Schools Financial Aid and Post-High Counseling divisions were moved into the KAPF organization. Specifically, KAPF promotes proactive fund-raising, and administers Kamehameha Schools' pre-kindergarten through post-high financial aid and scholarships. It also provides post-high counseling services and offers unique opportunities for continuing Pauahi's legacy through meaningful contributions to the Foundation's endowment.

In a remarkable show of selfless giving and support, Kamehameha Schools Association of Maui, a group of dedicated parents of boarding students, presented the first major donation — $100,000 — to KAPF. In its first four months, KAPF garnered commitments totaling more than $4 million to further educational opportunities for Hawaiians.

STRATEGIC PLAN MOVES TOWARD IMPLEMENTATION

Transforming Kamehameha Schools from its historic single-campus focus to more fully reflect the reality of our multi-campus, statewide educational system got underway during the year.

With the KS Strategic Plan firmly in place, two newly formed divisions–Strategic Planning Enhancement Group (SPEG) and Policy Analysis and System Evaluation (PASE)–conducted a review of existing programs and proposed initiatives using analytical processes and scientific data. Their work fine-tuned strategies and provided data that trustees, chief executives and other KS leaders needed to make informed decisions regarding the allocation or leveraging of resources for the most effective educational initiatives to meet our stated goal of extending the educational reach of Kamehameha Schools.

Under SPEG's auspices, Proposal Development Teams (PDT) — made up of volunteers both within and outside Kamehameha — steadfastly and willingly gave their time and expertise to examine proposals that held promise for our mission and strategic directions.

Among PDT topics of exploration were literacy, career options, charter schools, distance learning, special needs, educational collaborations with the Bernice Pauahi Bishop Museum and the State Department of Education (DOE), Resource Centers and the Hawaiian Culture Center Project.

Concurrently, my office arranged a series of lively "Brainstorming" sessions where KS faculty, staff and alumni exchanged ideas and helped prioritize strategic objectives.

All this information, combined with KS and DOE program data gathered by PASE, was reviewed at a June 2001 retreat that included all five trustees and other leaders from throughout our institution.

-Strategic implementation discussions included a cross-section of KS staff

At the two-day retreat, we reached consensus on Kamehameha Schools critical audience targets, priority outcomes, processes and a timeline to guide the development of the second phase of our Five-year Strategic Implementation Plan (SIP II). Working together we reached agreement on two- and five-year priorities that must include the following criteria:

- Meets the needs of Hawaiian people
- Meets stakeholder expectations
- Aligns with the Strategic Plan
- Aligns with KS' capabilities to deliver and/or partner, and for which
- Success is measurable

That pivotal retreat paved the way for the following implementation goals and commitments that will come to life in Kamehameha Schools Five-year Strategic Implementation Plan:

- Maintain the excellence of current programs;
- Extend reach in early childhood education (0 to four-year-olds) to target one-third of the eligible population – approximately 10,000 students;
- Extend reach in kindergarten-12th grade education through new collaborations with the DOE to target 1,000 new students;
- Extend career awareness opportunities to target 1,350 options;
- Expand lifelong educational options through Extension Education targeting 4,200 students;
- Develop eco-cultural collaborations targeting 8,200 participants;
- Establish or expand learning centers on the islands;
- Establish a database to extend our reach and support families;
- Develop and reallocate resources to support expanded educational reach; and,
- Collaborate with others to support the development of Hawaiian culture centers.

Our mandate is clear: Kamehameha Schools is committed to improving the well-being of people of Hawaiian ancestry by extending the reach of our educational programs and services. Broadly defined, Kamehameha Schools views individual well-being as the healthy development of mind, body and spirit with a sense of responsibility to the world.

SIP II is the next increment of this process. The work we completed this past year is the foundation that will enable its success.

THE FOUNDATION IS LAID.
THE FOUNDATION IS STRONG.

Today, top-to-bottom, we are an institution transformed in focus, structure and ways of doing business.

Today, our strategic focus has shifted, bearing witness to the extent of Kamehameha's push to serve more and more students of Hawaiian ancestry.

We are proactively seeking collaborations and partnerships to leverage our resources to extend our reach.

We are developing multiple educational programs using our legacy lands that will impact thousands of students annually.

We seek to double our Early Childhood Education enrollment and reach a system-wide K-12 enrollment of more than 5,000 students by 2005.

To maintain this momentum, we must continue to work together. We must continue to find common ground for consensus building. And, we must commit ourselves to continue to advance toward our perpetual mission: to carry on the Legacy of Ke Ali'i Bernice Pauahi Bishop.

Hamilton I. McCubbin, Ph.D.
Chief Executive Officer
KAMEHAMEHA SCHOOLS

EDUCATION

education

Overview

Building an educational system to embody the goals set forth in *Kamehameha Schools' Strategic Plan 2000 -2015* guided our endeavors in the opening year of the 21st century at Kamehameha Schools.

BUILDING AN EXPANDING SYSTEM

Kamehameha's system-wide enrollment – in kindergarten through grade 12 (K-12) campuses – reached 3,534 students for the 2000 -2001 year. Enrollment in KS' Early Childhood Education program rose to an all-time high of 1,057, making the total 4,591 full-time student population the largest ever at Kamehameha.

From top:

-Computer literacy begins in preschool

-KS Hawai'i campus construction

-Elementary students at KS Maui campus

TOTAL ENROLLMENT BY PROGRAM – 2000-2001

Official enrollment for the 2000-2001 school year as of September 1, 2000

PROGRAM	NUMBER	
	PROGRAM	CAMPUS
O'AHU CAMPUS		3,184
ELEMENTARY (K-6)*	752	
MIDDLE SCHOOL (7-8)	636	
SECONDARY SCHOOL (9-12)	1,796	
HAWAI'I CAMPUS		174
ELEMENTARY (K-5)	126	
MIDDLE SCHOOL (6-7)	48	
MAUI CAMPUS		176
ELEMENTARY (K-5)	128	
MIDDLE SCHOOL (6-7)	48	
PRESCHOOL ENROLLMENT		1,057
O'AHU PRESCHOOLS	471	
HAWAI'I PRESCHOOLS	386	
KAUA'I PRESCHOOLS	106	
MAUI PRESCHOOLS	74	
MOLOKA'I PRESCHOOL	20	
TOTAL PROGRAM ENROLLMENT		**4,591**

Source: School Administrative Student Information (SASI) Database

**Hawai'i and Maui Campuses have formally adopted a middle school structure that will ultimately encompass grades 6-8. KS-O'ahu Campus has not transfered grade 6 to the middle school at this time.*

K-12 enrollment figures for KS O'ahu Campus are expected to remain stable at approximately 3,100 students. Enrollment at Kamehameha's Hawai'i and Maui Campuses should reach more than 1,000 students at each facility within the next five years. Kamehameha anticipates 5,000 K-12 students enrolled system-wide by 2005.

BUILDING EDUCATIONAL LEADERSHIP

Kamehameha Schools' reorganization created a Chief Education Officer (CEdO) and two headmaster positions for the Hawai'i and Maui campuses. A nationally recognized consulting service for independent schools facilitated Kamehameha's search from an initial field of more than 300 candidates.

CEdO and headmaster screening committees, comprised of a cross section of KS employees, narrowed the selection to four CEdO and five headmaster finalists.

Finalists met with representatives of KS stakeholder groups including Nā Kumu O Kamehameha, the Association of Teachers and Parents, both Hawai'i and Maui Parent Teacher 'Ohana, as well as alumni and interested community organizations. Community feedback was invited and received. After final interviews with the screening committees, selection recommendations were forwarded to — and accepted by — the CEO.

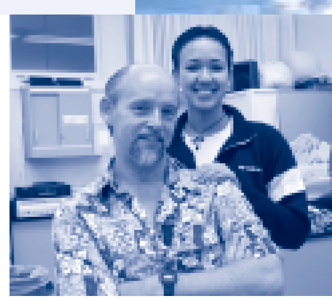
In March 2001, CEO McCubbin announced that Dudley Hare Jr., Ed.D., Stan Fortuna Jr., Ed.D., and D. Rodney Chamberlain, Ed.D., had accepted positions as CEdO, and headmaster of the Hawai'i and Maui campuses respectively. They officially assumed their duties on July 1, 2001. The new CEdO and headmasters join Michael J. Chun, Ph.D., president and headmaster of KS O'ahu, in providing the leadership and oversight necessary in this unprecedented period of system building, rapid campus growth and change.

THE WIND BENEATH THEIR WINGS

Kamehameha faculty and staff are to be commended and credited for their contributions to our students' laudable achievements during the 2000-2001 academic year. Noteworthy among events that added to Kamehameha's tradition of teaching excellence were:

The Western Association of Schools and Colleges (WASC) extended Kamehameha Secondary School's (KSS) accreditation three years to June 30, 2004.

In March 2001, Kamehameha Secondary School Principal Anthony J. Ramos was named "State Principal of the Year" by the Hawai'i membership of the Met Life/National Association of Secondary School Principals. The first private school principal in Hawai'i ever so honored, Ramos credits his selection to an excellent, collaborative and supportive faculty and staff.



Clockwise from top:

-PBS special "Songs of Aloha" featured Kamehameha Schools Concert Glee Club

-KSS Principal, Anthony J. Ramos

-Dr. Lawrence Mordan and Kiani Arkus '03

In an example of technological integration into KS curriculum, teachers in Kamehameha's Visual Arts Department introduced new courses in digital photography and computer arts. Students responded quickly and creatively, receiving finalist and semi-finalist awards in computer graphics, graphic design and photography in the Scholastic Art Exhibition and Photography Awards and additional photography honors in the 2001 Congressional Art Competition.

Named "Best Teacher in Senior Research" by the State of Hawai'i Science and Engineering Fair, Lawrence Mordan, Ph.D., was quick to acknowledge the team effort of KSS science teachers Nathan Nishimura, Gail Ishimoto, Joel Truesdell and Peter Grach whose students dominated high school competitions statewide in the 2000-2001 academic year.

KS O'ahu Campus Learning Centers staff initiated collaborations with Kamehameha's Maui and Hawai'i campus library staff to develop systemwide cataloging and circulation procedures. Also, as recommended by KS' Task Force on Literacy, standards of information literacy will be integrated into campus library programs systemwide in the next several years.

Kamehameha's role in preserving and perpetuating culture and arts was evident to the national television audience that viewed the Public Broadcasting System (PBS) special entitled *Hawai'i: Songs of Aloha.* KS Performing Arts Department Head Randie Fong was named artistic director for the PBS special that aired in December 2000. Kamehameha Schools Concert Glee Club led the finale of the program in which more than 90 percent of the performers were KS graduates.

For the third year in a row, Hawaiian language students in Grades 9-12 brought home the Overall Trophy from the Statewide Hawaiian Language Speech Competition. Mentored by Kumu 'Ōlelo Hawai'i Kalei 'A'arona-Lorenzo, Kealoha Christ, Kāwika Eyre, Hailama Farden, Sarah Keahi, Ke'ala Kwan, Kalehua Lima, Mele Pang and Keola Wong, KS students took first place in nine of the competition's 11 categories.

Julian Ako, special assistant to Dr. Michael Chun during the 2000-2001 academic year, won the 2001 Nā Hōkū Hanohano "Haku Mele" Award for his composition "Mapu Mau Ke 'Ala" from the album *Take Me Home* by 'Ale'a. As an adjudicated category determined by Hawaiian language experts, "Haku Mele" is considered among the highest honors given by the Hawai'i Academy of Recording Arts.

KAMEHAMEHA SECONDARY SCHOOL O'AHU CAMPUS

The Class of 2001 added 436 new graduates to Kamehameha Schools 18,504 alumni who earned diplomas between 1891 and 2000. Sixty graduates received Academic Honors Diplomas by earning an overall grade point average of 3.5 or higher, completing a minimum of 12 honors credits and enrolling in an Advanced Placement, fourth-year language or university course during their senior year.

ENROLLMENT

Kamehameha Secondary School

Official enrollment for the 2000 -2001 school year as of September 1, 2000

GRADE 7	320
GRADE 8	316
GRADE 9	450
GRADE 10	450
GRADE 11	449
GRADE 12	447
DIVISION TOTAL	2,432

Source: SASI Database

ACADEMIC HONORS

Three members of the Class of 2001 were Sterling Scholar finalists and eight were awarded Hawai'i Rotary Youth Foundation scholarships – a new Kamehameha record. Two students received Regents Scholarships to the University of Hawai'i. Also from the Class of 2001, Natalie Young earned a prestigious Robert C. Byrd Scholarship – one of only two awarded in the State of Hawai'i in 2001 – and also won a cash scholarship as Hawai'i's 2001 Junior Miss.

Clockwise from top:

-The class of 2001 fielded the most National Merit Scholars in KS history

-Natalie Young '01, awarded the Robert C. Byrd Scholarship

-Kawika Mortensen '01, Marissa Kellett '01, Kaliko Hurley '01, Kiani Arkus '03, Nicole Shishido '01 and Aaron Cates '01 at the Intel™ International Science and Engineering Fair

The National Merit Scholarship Corporation recognized 36 members of the Class of 2001.[3] Thirty-two students were named National Merit Commended Scholars and four were National Merit Semi-Finalists. Of the four semi-finalists, three went on to become National Merit Finalists. In total, the class fielded the most nationally recognized Merit Scholars ever by a single class in the history of Kamehameha Schools.

In a pre-graduation survey, 97 percent of the class stated their intent to pursue post-high education. Eighty-one percent of seniors planned to attend four-year colleges or universities in Hawai'i or on the U.S. mainland.[4]

STUDENT ACHIEVEMENT

Kamehameha Secondary School (KSS) students brought recognition for themselves, honor to their teachers, and distinction to Kamehameha Schools in a year filled with outstanding achievements that included an impressive series of individual and team successes on statewide, national and international stages.

Kamehameha's honors science program students placed first at the Pacific Symposium for Science and Sustainability in February 2001. Then, from a competitive field of 25 schools, Kamehameha swept first, second and third places in the senior research division at the Hawai'i Association of Independent Schools' Science and Engineering Fair. KS Unit 7/8 science students received four "Best of Category" honors in the junior research division. KS students went on to sweep first, second and third places in the State of Hawai'i Science and Engineering Fair.

Six of the 14 high school students representing Hawai'i at the Intel™ International Science and Engineering Fair were Kamehameha students. They captured four "Grand Awards" and one $20,000 private sector scholarship.

In physics, KSS students earned first place in the Hawai'i Physics Olympics and a perfect score at the nationals.

Sophomore Kiani Arkus became the first student from Hawai'i — and the first person of Hawaiian ancestry — to place first in the National Junior Science and Humanities Symposium in Orlando, Florida. Kiani was later selected to represent the nation as part of an eight-member U.S. delegation to the London International Youth Science Forum.

Kamehameha Schools Junior ROTC program was awarded the rating of Honor Unit with Distinction — the highest rating given to ROTC programs by the U.S. Army.

Kamehameha Schools' Warrior Marching Band and Color Guard won their ninth consecutive state marching band championship at the annual Mililani High School competition.

3 Sources: Academic Honors and National Merit Scholar statistics from the Office of the Principal, 2000-2001 Secondary School Report and the National Merit Scholarship Corporation Report respectively.

4 Kamehameha Schools Senior Survey May 2001.

Kamehameha fielded 122 athletic teams — with 1,930 student participants — in its 2000-2001 program. Kamehameha captured 21 Interscholastic League of Honolulu titles — nine varsity, nine junior varsity, three intermediate — and one state title.

A short story by ʻAʻala Lyman '02 was among five national finalists in the *USA Weekend* 2001 Student Fiction Contest.

For the second year in a row, Honors English students took highest honors in the WordMasters Challenge including two perfect individual scores. Grade 11, 12 and Advanced Placement English students also finished fourth in the national competition from among 232 participating high schools.

Nā Hīmeni o ka ʻEkalesia, Hymns of the Church, the 79th Anniversary Song Contest, was broadcast live throughout the state to more than 100,000 viewers. A simultaneous live KS/Sprint Hawaiʻi Webcast prompted more than 98,000 hits on Kamehameha Schools' Web site from viewers worldwide.

STAFF ACHIEVEMENT

Counselor Kathi Shelby authored *Life After Kamehameha, Making the Transition for Students & Parents,* a guidance curriculum resource which was given to every senior parent.

Pana Oʻahu: Sacred Stones, Sacred Land, a study of 60 sacred Oʻahu sites by KSS English teacher and photographer Jan Becket with partner Joseph Springer was honored with the Hawaiʻi Book Publishers Association's Samuel Mānaikalani Kamakau Award for "Best Hawaiʻi Book of the Year." KS Hawaiian history teachers Kēhaunani Cachola-Abad and Kawika Makanani also contributed to the book.

Clockwise from top:

-79th Anniversary Song Contest

-College counselor Herb Wilson, received an Excellence in Counseling Award from the University of Miami

-Kūnuiākea Athletic Complex construction

Walter Kahumoku III, Ph.D., of KS Speech Department was named "2001 Communicator of the Year" by the Hawai'i Speech League. Video Production teacher Patricia Gillespie received first place honors in the National Council on Family Relations Media Film Festival and "Best Documentary Short" in the New York International Independent Film Festival for her documentary film, *It Happened in Greenford*.

CAMPUS CONSTRUCTION

Renovation of Keawe Locker Room was finished and the Kūnuiākea Athletic Complex neared completion by the end of the 2000 -2001 academic year. Located below Mawaena field, the $13-million Kūnuiākea complex consists of a 400-meter all-weather track, a natural turf field for football and soccer, and bleacher seating for 3,000.

Derived from a name given to Kamehameha in conjunction with his custodial obligations to the war image Kūkā'ilimoku, also known as Kūnuiākea, a committee of KS cultural experts named the complex Kūnuiākea — "Stand amidst grand expanse."

KAMEHAMEHA ELEMENTARY SCHOOL O'AHU CAMPUS

Kamehameha Elementary School (KES) continued the governance shift toward more inclusive decision making as increased authority was delegated to grade levels. Faculty and staff worked proactively to improve services to students and to maximize parental involvement in their child's curriculum. Among the most popular parent-child programs were the Family Night of Stars, Family Science Night, Family Math Night and a Family Language Arts Workshop.

ENROLLMENT

Kamehameha Elementary School

Official enrollment for the 2000-2001 school year as of September 1, 2000

	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
DIVISION TOTAL			752

Source: SASI Database

ACADEMIC HONORS

Twenty-nine KES sixth graders were honored recipients of the prestigious 2001 President's Award for Educational Excellence. High academic standards, motivation and demonstrable leadership qualities are the criteria these students met in order to be eligible for the award, presented annually by the U.S. Department of Education.

STUDENT ACHIEVEMENT

Comprised of 36 students from grades 4-6, KES Student Council promoted student leadership, coordinated school events and encouraged community service projects such as the Jump Rope for Heart campaign.

Twenty-four works by KS O'ahu K-6 students were selected by the Honolulu Mayor's Office of Culture and the Arts to represent Hawai'i and the United States in a 10-site exhibition in Japan. KES student art work focused on environmental and conservation themes and joined the artistic creations of children from 13 Pacific Rim countries. KES art teachers Kathy Chock (K-3) and Deatri Nakea (4-6) mentored the program, and six of the KES pieces were displayed at the Mayors' Asia Pacific Environmental Summit.

December 2000 brought release of the compact disk *Nā Keiki O Kamehameha,* a compilation of songs sung by Kamehameha Schools Children's Chorus (KSCC). Several well-known local musicians appeared as guest vocalists with the chorus. The CD received a Nā Hōkū Hanohano Award nomination and served as a fundraiser for the Chorus' June 2001 trip to Japan.

Prior to their trip — and again later in Japan — KSCC students performed for the families of the *Ehime Maru* tragedy. They sang the haunting "We Send this Aloha, To You," a tribute composed by Chorus Director Lynell Bright.

Clockwise from top:

-Teacher Jay Tschillard
and Jump Rope for Heart participants

-Kamehameha Schools Children's Chorus at Tokyo Disneyland

-KES' new Kamāmalu Playground complex

STAFF ACHIEVEMENT

KES again participated in the national Jump Rope for Heart campaign coordinated for the past 20 years by KES physical education teacher Jay Tschillard. KES raised $46,000 for the American Heart Association – the second highest amount among elementary schools nationwide. Tschillard was recognized nationally for his efforts as co-recipient of the 2000 Outstanding Coordinator Award of the national Jump Rope for Heart campaign.

CAMPUS CONSTRUCTION

Two major construction projects altered the landscape of KES in 2000-2001. The first, a $400,000 renovation of the kindergarten playground, included state of the art equipment and safety features. The second, a much-needed $850,000 conversion of the Elementary School's Kamāmalu parking lot, created a beautiful playground complete with basketball and volleyball courts, an outdoor stage and grass gathering space.

HAWAI'I CAMPUS AT KEA'AU

KAMEHAMEHA SCHOOLS HAWAI'I CAMPUS

Construction of Kamehameha Schools newest, permanent K-12 campus at Kea'au dominated much of KS Hawai'i's administrative and faculty focus during the 2000-2001 academic year. In anticipation of the new campus' fall 2001 opening, a middle school curriculum was completed and a collaborative assessment of instructional practices, strategies and student learning was undertaken.

Overseeing the multi-layered tasks essential to moving the Hawai'i Campus from Keaukaha to Kea'au was Principal and Acting Headmaster Barbara Robertson. There was at least as much anticipation within the community, whose support has been vital to Kamehameha Schools' commitment to expanding the reach of its program and services for people of Hawaiian ancestry on Hawai'i Island.

Opened with 80 K-3 students in the fall of 1996, KS' temporary Hawai'i campus at Keaukaha enrolled 174 K-7 students in the 2000-2001 academic year. Trustees' approval to expand educational programs and services at the new campus envisions a Hawai'i Campus K-12 student population approaching 1,000 by 2005.

ENROLLMENT

KS Hawai‘i Campus Elementary School

Official enrollment for the 2000 -2001 school year as of September 1, 2000

	NUMBER OF CLASSROOMS	CLASS SIZE	TOTAL
KINDERGARTEN	1	20	20
GRADE 1	1	20	20
GRADE 2	1	19	19
GRADE 3	1	19	19
GRADE 4	1	24	24
GRADE 5	1	24	24
DIVISION TOTAL			**126**

Source: SASI Database

KS Hawai‘i Campus Middle School

Official enrollment for the 2000 -2001 school year as of September 1, 2000

	NUMBER OF CLASSROOMS	CLASS SIZE	TOTAL
GRADE 6	1	24	24
GRADE 7	1	24	24
DIVISION TOTAL			**48**

Source: SASI Database

From top:

-Lei Day and Ho‘olaule‘a at KS Hawai‘i

-Classroom construction at Kea‘au

-KS Hawai‘i students and teachers forge strong relationships

STUDENT ACHIEVEMENT

Building leaders of Hawaiian ancestry was fundamental to the work undertaken by KS Hawai‘i’s Student Council. Beginning the year with a leadership retreat for K-7 council members, student leaders held monthly planning sessions, addressed student concerns, presented suggestions to administration, conducted assemblies and organized the campus’ first middle school dance.

KS Hawai‘i students also demonstrated leadership by participating in the Jump Rope for Heart Campaign, Food Bank Drive, Pennies for the Palace fundraiser, Humane Society Service Project, May Day Program, Ho‘olaule‘a, and Makahiki games, as part of a school-wide incentive to practice both Hawaiian and Christian values of service.

STAFF ACHIEVEMENT

Vice Principal Eva Bogue joined the administrative staff and spearheaded the education plan, formulating curriculum for the middle school at the Kea'au site, and organizing teachers to work in peer groups to assess classroom practices and strategies as part of continuing staff development.

New partnerships in discovery came to KS Hawai'i as nearly 80 students and their families participated in a Family Science Night. Teachers Kyle Ka'a'a, Lisa Hall and Wendel Kam collaborated with the Hawai'i Space Grant College of the University of Hawai'i at Mānoa to coordinate a hands-on science experience.

CAMPUS SUMMER PROGRAM

Learning about Kamehameha Schools' academic programs, daily practices, songs, chants, values and behavioral expectations were the highlights of the KS Hawai'i summer orientation program for incoming students.

Teachers also used the summer program opportunity to evaluate students, their strengths and needs, to help determine strategies, groupings, tutorials and enrichment programs within grade levels. An afternoon program encouraged students to participate in enrichment activities including technology, leadership, recreation and Hawaiian history and culture. Among the participants, 224 were Kamehameha students and 12 were non-KS Hawaiian students.

CAMPUS CONSTRUCTION

On June 2, 2000 amid chants and the songs of KS Hawai'i children, Kamehameha Schools broke ground on the 300-acre Kea'au campus site, just south of Hilo, Hawai'i. The estimated $30 million Phase I construction – largely completed during the 2000 - 2001 year – included two classroom buildings, mechanical, electrical and guard house facilities as well as an athletic field, campus roadway and parking lot.

One 22,000 square-foot classroom building houses six standard classrooms, two specialty science rooms, a teacher planning center and multi-purpose spaces.

A second 18,000 square-foot classroom building features an art and ceramics lab, teen health center, facilities for Hawaiian cultural and language studies, industrial arts drafting lab, computer lab, teacher planning center and support spaces.

LOOKING AHEAD

In March 2001, Kamehameha Schools CEO announced the appointment of Stan Fortuna, Jr., Ed.D., as headmaster of Kamehameha Schools' Hawai'i Campus. Dr. Fortuna, holds both doctoral and master's degrees from Western Michigan University and an MBA from the University of Chicago. He also received an NEH fellowship from Harvard University. Dr. Fortuna brings 30 years of experience in education to the position, including 16 years as school superintendent in three Michigan districts. Dr. Fortuna assumed his duties July 1, 2001.

MAUI CAMPUS AT 'A'APUEO

KAMEHAMEHA SCHOOLS MAUI CAMPUS

Kamehameha Schools Maui Campus served 176 students in grades K-7 during the 2000 -2001 academic year. Principal and Acting Headmaster Cordy MacLaughlin oversaw construction of Maui campus' newest four-classroom building as the Maui program moved ever closer to filling out its middle school student population.

KS Maui Campus completed its curriculum design and implementation for middle school expansion. Additionally, a secondary school curriculum was prepared based on KS O'ahu Campus' graduation requirements, University of Hawai'i-Mānoa entrance requirements and the concept of career academies.

As an initial response to stakeholder input gained during the year-long (1999-2000) strategic planning process, Kamehameha Schools committed to expanding the Maui campus from its original K-8 plan to include a high school component.

A Maui campus community advisory board, made up of parents, staff and community members, met throughout the year to focus on a vision for Maui's K-12 program.

Clockwise from top:

-New trustees visit Maui campus as part of their orientation

-Trustee Robert Kihune reads to Maui elementary students

-Art class at KS Maui

ENROLLMENT

KS Maui Campus Elementary School

Official enrollment for the 2000 -2001 school year as of September 1, 2000

	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
TOTAL			128

Source: SASI Database

KS Maui Campus Middle School

Official enrollment for the 2000 -2001 school year as of September 1, 2000

	NUMBER OF CLASSROOMS	CLASS SIZE	TOTAL
GRADE 6	1	24	24
GRADE 7	1	24	24
TOTAL			48

Source: SASI Database

In May 2001, a traditional "Oli Aloha" performed by Hawaiian Language Specialist Ivalee Kamalu welcomed the board of trustees and CEO Hamilton McCubbin as part of the new trustee orientation. Seated among students from grades 6 and 7, they enjoyed an Aloha Assembly followed by classroom visits. Later that evening, Dr. McCubbin hosted a reception for alumni, parents and staff to introduce the new board members, and renew Kamehameha's commitment to expanding its reach on Maui.

STUDENT ACHIEVEMENT

Maui's middle school girls volleyball team placed first in two separate volleyball tournaments held throughout the year. Three seventh graders also received honorable mention in the middle school division of the Maui Science Fair.

Middle school students participated in service-learning campus-based projects including tutoring and reading to small groups, filing papers and working at the Learning Center. Serving the greater community, students and faculty participated in the Jump Rope for Heart Campaign, the Maui United Way, an island food drive, and made helpful visits to Upcountry kūpuna.

In March 2001, nearly 700 people packed into Nāmāhana Cafetorium for three presentations of KS Maui's fifth grade play, Rodgers & Hammerstein's *Oklahoma!* With 100 percent parent participation, the students built sets, designed flyers and posters, sewed costumes and used their own recess time to rehearse.

CAMPUS CONSTRUCTION

To accommodate the growing spatial requirements of a K-12 campus, Kamehameha Schools purchased an 80-acre parcel adjacent to the schools' existing100-acre campus site at ʻAʻapueo, mauka of Pukalani. The additional acreage creates opportunities for future planning and development of the Maui campus.

LOOKING AHEAD

In March 2001, D. Rodney Chamberlain, Ed.D., accepted the position as headmaster of Kamehameha Schools Maui Campus, effective July 1, 2001.

Dr. Chamberlain is a career educator who spent 22 years at the Milton Hershey School in Pennsylvania where he held the post of dean of scholastic affairs until 1997. Most recently, Dr. Chamberlain was Head of School for University Lake School in Wisconsin noted for its innovative student-teacher technology programs. Dr. Chamberlain holds a master's degree and doctorate in curriculum and supervision from Pennsylvania State University.

Clockwise from left:

-Maui students will grow with the new campus

-Ideal classroom environment at KS Maui

-KS Maui's state-of-the-art computer lab

-Maui fifth graders present *Oklahoma!*

Kamehameha Schools Preschool Division formally changed its name to the Early Childhood Education Division (ECE) to reflect an expanded age range of children participating in ECE Programs — a major focus within *Kamehameha Schools' Strategic Plan 2000-2015*.

The 2000-2001 school year began with 56 classrooms serving 1,057 three- and four-year-old children, and 57 classrooms were operational by year's end. During the year, the trustees approved two new four-classroom sites: one each on Hawai'i and Maui. KS' Early Childhood Education Division also implemented a modified ten-month, year-round instruction schedule.

ENROLLMENT

Preschool Enrollment—Systemwide

Official enrollment for the 2000-2001 school year as of September 1, 2000

REGIONS	SITES	CLASSROOMS		ENROLLMENT		
		3-YEAR-OLDS	4-YEAR-OLDS	3-YEAR-OLDS	4-YEAR-OLDS	TOTAL
O'AHU						
HONOLULU	2	0	6	0	120	120
KO'OLAULOA	5	0	5	0	91	91
KO'OLAUPOKO	1	0	2	0	40	40
WAI'ANAE	4	0	11	0	220	220
HAWAI'I						
EAST HAWAI'I	7	1	9	15	174	189
WEST HAWAI'I	5	4	7	62	135	197
KAUA'I	2	2	4	32	74	106
MAUI	3	0	4	0	74	74
MOLOKA'I	1	0	1	0	20	20
PROGRAM TOTAL	30	7	49	109	948	1,057

Source: KS Preschools Principal's Report for the 2000-2001 school year

In keeping with Kamehameha Schools' strategic emphasis, literacy, parental involvement and staff development continued as major themes within KS' Early Childhood Education Division. Individual staff, in-service workshops, and parent workshops focused on literacy training and strategies.

Among literacy strategies, ECE expanded its *Breakthrough to Literacy* (BTL) project, increasing participation from four to nine classrooms during the 2000-2001 academic year. *Breakthrough to Literacy* is an interactive computer literacy curriculum that helps children develop skills necessary to become competent and comfortable readers. Preliminary findings indicate that children participating in the BTL program showed greater gains than those who did not participate.

Kamehameha Schools' ECE program emphasizes family involvement in the education of their children. ECE teachers and staff regularly conduct parent orientation sessions and workshops as well as individual parent conferences. Popular parent workshops include the Keiki Book Bag project, nutrition, brain development, child development and other parenting topics that underscore the family's critical role in the quality and effectiveness of their child's learning experience.

STAFF ACHIEVMENT

The National Association for the Education of Young Children (NAEYC) has accredited 20 Kamehameha Schools preschool sites – 52 classrooms – statewide. Kamehameha's ECE classrooms account for more than one-third of all individually accredited NAEYC preschool programs in Hawai'i.

The Hawai'i Association for the Education of Young Children, Big Island Chapter (HAEYC), presented awards of excellence to three Kamehameha Schools' Early Childhood Education Division professionals. Regional Manager Barbara Souza was honored with the annual "One Person Can Make A Difference" award in recognition of her dedication to the field of early childhood education in West Hawai'i. "Excellence in the Classroom" honors were awarded to teacher Colleen Fratinardo of KS' Waikoloa Preschool for her efforts to optimize student learning. Teaching Assistant Winnie Tamaye of KS' Kona Preschool, received "Volunteer of the Year" for her work fostering the growth of the Big Island Chapter of HAEYC.

Top to bottom:

-Trustees visit Central Maui Preschool

-Waimea Preschool groundbreaking

-Waimānalo Preschool neared completion in June 2001

CLASSROOM CONSTRUCTION

The $2.6 million Waimānalo Preschool site dedicated in July 2000 and neared completion in the 2000-2001 academic year.

Continuing Kamehameha's Early Childhood Education program expansion with the Department of Hawaiian Home Lands (DHHL), Kamehameha Schools broke ground on two new, four-classroom preschool facilities.

In April, groundbreaking ceremonies were held at Waimea, Hawai'i. In May, traditional Hawaiian *'ō'ō* — agricultural digging tool — turned the earth at Paukūkalo, Maui, to set another Kamehameha preschool construction project in motion. Once completed, both Waimea and Paukūkalo facilities will house four classrooms: two for four-year-olds and two for three-year-olds. These classrooms will bring the number of DHHL-partnered Kamehameha Schools preschools to 14.

EXTENSION EDUCATION

In August 2000, KS' Extension Education Division was directed to reach more Hawaiians through outreach programs, community collaborations and the formation of educational partnerships. The program has successfully expanded outreach through existing programs as well as initiating renewed and first-time collaborations.

Included under the Extension Education umbrella in 2000-2001 were specialized programs such as Distance Learning, Grants, the Hawaiian Studies Institute, K-3 Reading Program, Post-High Counseling, and — by far the largest — Summer Programs.

SUMMER PROGRAMS

Summer Programs reached an all-time enrollment high of 7,928. Campus-based summer enrollment totaled 5,003, 2,607 students participated in KS/Hawai'i State Department of Education (DOE) programs, and 318 in special partnership programs.[5]

Non-KS Hawaiian students made up the bulk — 3,370 — of KS O'ahu summer programs enrollment, followed by 1,530 KS students and 103 others enrolled in campus-based summer programs.

Day programs included 2,701 Summer School students in grades K-12, Performing Arts Academy with 103 students in grades 6-12, and the Summer Science Institute with 27 KS secondary school students.

Ho'omāka'ika'i: Explorations is an enormously popular boarding program — especially among neighbor island and out-of-state Hawaiian children. This campus-based cultural immersion experience for post-fifth grade non-KS Hawaiian students served 1,817 students this past year. Ho'omāka'ika'i: Explorations offers instruction in Hawaiian language, music, dance, history, crafts, Hawaiian plants and field trips to important cultural sites.

Other summer boarding programs included Computer Camp serving 193 post-sixth and seventh grade non-KS Hawaiian students; Kūlia I Ka Pono leadership camp reaching 116 post-seventh and eighth grade non-KS Hawaiian students; and Kamehameha Schools Institute for International Studies, reaching 14 Hawaiian and 15 foreign students.

Top to bottom:

-KS/DOE summer program students chant at Mauna 'Ala

-Distance Learning reaches the community through public access television

[5] Summer programs data from Summer Programs Principal's Annual Report 2000-2001.

ENROLLMENT
Summer Programs O'ahu Campus

	O'AHU	HAWAI'I	MAUI	L/M*	KAUA'I	OOS**	TOTAL
SUMMER SCHOOL	2,630	30	6	6	13	16	2,701
HO'OMĀKA'IKA'I: EXPLORATIONS	967	297	143	48	129	233	1,817
COMPUTER CAMP	74	49	14	9	34	13	193
KŪLIA I KA PONO	40	37	13	3	14	9	116
PERFORMING ARTS ACADEMY	102	0	0	1	0	0	103
SUMMER SCIENCE INSTITUTE	27	0	0	0	0	0	27
INTERNATIONAL STUDIES	6	4	0	1	2	16	29
DISTANCE LEARNING	1	8	2	2	4	0	17
TOTAL	3,847	425	178	70	196	287	5,003

Source: Principal of Summer Programs' Annual Report 2000-2001
**Lāna'i/Moloka'i; **Out of State*

In a significant return to KS/DOE collaboration, KS extended program support to 22 DOE sites on all major Hawaiian islands.

ENROLLMENT
KS/DOE Collaborative Summer Programs

	O'AHU	HAWAI'I	MAUI	L/M*	KAUA'I	OOS**	TOTAL
ĀNUENUE-2 (+9 OTHER SITES)	518	0	25	0	0	0	543
HŌLUALOA	0	143	0	0	0	0	143
KAHAKAI	0	195	0	0	0	0	195
KALĀHEO	0	0	0	0	229	3	232
KAPA'A	0	0	0	0	163	0	163
KOHALA	0	177	0	0	0	0	177
KONAWAENA	0	147	0	0	0	0	147
LĀ'IE	97	0	0	0	0	0	97
LĀNA'I	0	0	0	88	0	0	88
LEIHŌKŪ	180	0	0	0	0	0	180
MOLOKA'I	0	0	0	114	0	0	114
NĀNĀIKAPONO	172	0	0	0	0	0	172
WAIMEA	0	356	0	0	0	0	356
TOTAL	967	1,018	25	202	392	3	2,607

Source: Principal of Summer Programs' Annual Report 2000-2001
**Lāna'i/Moloka'i; **Out of State*

Kamehameha Schools not only helped fund the cost of teachers, specialists, kūpuna, and aides at DOE sites, but also provided instructional materials, limited transportation, office supplies, snacks and teacher training. Kamehameha's Hawaiian Studies Institute developed, disseminated and provided curriculum and Hawaiian values training for 150 DOE teachers and site coordinators participating in a program centering on a study of Kamehameha I.

Unique Collaborations

	O'AHU	HAWAI'I	MAUI	L/M*	KAUA'I	OOS**	TOTAL
CULINARY ARTS ACADEMY	5	0	0	0	0	0	5
HA'AHEO O HĀNA I NĀ KEIKI	0	0	144	0	0	0	144
MAUI EXCITE CAMP (MEDB)	0	0	25	0	0	0	25
MAUI VIOLIN WORKSHOP	0	0	30	0	0	0	30
PROJECT KUPALAU-NĀ PUA NO'EAU	20	25	0	56	13	0	114
TOTAL	25	25	199	56	13	0	318

Source: Principal of Summer Programs' Annual Report 2000 -2001
**Lāna'i/Moloka'i; **Out of State*

Unique study opportunities included exciting new collaborations such as the Culinary Arts Academy — a new joint program with Kapi'olani Community College. KS also worked with the Maui Economic Development Board and the US Air Force in a pilot "Women in Technology" project fostering science and math careers for 25 Hawaiian middle school girls from public and private schools on Maui.

Through its new Ho'omau I ka Ho'īlina program, Summer Programs launched its first lecture series aimed at perpetuating Hawaiian culture and language for mainland alumni and their families. The initial series was presented in Bellevue, Washington in November 2000 and in Fairfax, Virginia in May 2001.

K-3 READING PROGRAM

A collaborative program with the DOE, KS Kindergarten to Grade 3 (K-3) Reading Program served Nānākuli (K-1) and Nānāikapono (K-3) Elementary Schools on the Wai'anae Coast of O'ahu. Nearly 500 high-interest books were provided to each classroom library, staff training to DOE teachers, parent workshops, and tutoring sessions for highest-risk students.

GRANTS

Kamehameha Schools assisted in administering federal grants, programs and scholarships including the Kamehameha Talent Search, Native Hawaiian Safe & Drug Free Schools, Native Hawaiian Health Scholarship, and Native Hawaiian Higher Education Program.

FINANCIAL AID & ADMISSIONS

Kamehameha Schools increased its contribution to financial aid and scholarships in the 2000 -2001 academic and fiscal year by $437,000.

By year's end, KS' Financial Aid Department — and the Post-High Counseling Department — were administratively transferred into Ke Ali'i Pauahi Foundation. From this platform, Financial Aid will continue to administer KS' pre-kindergarten through post-high financial aid and scholarships that benefit students of Hawaiian ancestry.

Kamehameha Schools-Funded Financial Aid

	AMOUNT	APPLICATIONS	RECIPIENTS	PERCENT AWARDED
PRESCHOOL-GRADE 12				
PRESCHOOL	$262,910	593	489	82.5%
ELEMENTARY	699,982	730	635	87.0%
KS SECONDARY SCHOOL	3,173,046	1,755	1,530	87.2%
SUMMER PROGRAMS				
KS CAMPUS PROGRAM	$712,120	3,115	2,522	81.0%
KS/DOE SUMMER PROGRAM	494,515	3,285	3,172	96.6%
POST-HIGH SCHOOL				
KS GRADUATES	$8,185,594	1,972	1,288	65.3%
NON-KS GRADUATES	6,216,524	4,557	1,751	38.4%
KS/ALU LIKE VOCATIONAL PROGRAMS	1,033,649	713	670	94.0%
OTHER PROGRAMS				
HO'OMAKA HOU	$107,471	97	91	93.8%
TOTAL KS-FUNDED AID	**$20,885,811**	**16,817**	**12,148**	**72.2%**

Source: Kamehameha Schools Financial Aid Department

In addition to KS-funded financial aid and scholarship programs, to help expand services to Hawaiian students, Kamehameha's Financial Aid Department assists other agencies and private funding sources with the administration of scholarships, grants and programs that benefit Hawaiians.

ADMISSIONS OVERVIEW[6]

During the 2000 -2001 academic year, planning was underway to meet the challenges of greater admissions opportunities generated by expanding Maui campus programs and the fall 2001 opening of Kamehameha Schools Hawai'i Campus.[7]

With Kamehameha's systemwide emphasis on stakeholder communications, KS Admissions Division created its own Web page and offered comprehensive admissions information online. Direct e-mail links to admissions staff are operational. Online applications may be printed out and faxed directly to the Admissions office.[8]

K-12 System-wide Admissions – Regular Session

CAMPUS/PROGRAMS	APPLICATIONS	INVITED	PERCENT ADMITTED
O'AHU CAMPUS			
KINDERGARTEN	1,079	80	7.4
GRADE 4	884	64	7.2
KSS (9-12)	2,449	314	12.8
HAWAI'I CAMPUS			
KINDERGARTEN	80	20	25
GRADE 4*	—	4	—
MAUI CAMPUS			
KINDERGARTEN	141	20	14.2
GRADE 4*	—	5	—
TOTAL	4,633	507	10.9

Source: Director of Admissions Report for the 2000-2001 school year.
**Hawai'i and Maui Campus Grade 4 invitees were drawn from waitlisted applicants.*

Early Childhood Education (ECE) System-wide Admissions – Regular Session

CAMPUS/PROGRAMS	APPLICATIONS	INVITED	PERCENT ADMITTED
ECE PRESCHOOLS	1,385	1,088	78.6

6 Kamehameha Schools' policy is to give preference to Hawaiians and part-Hawaiians to the extent permitted by law and the rules governing tax-exempt organizations.

7 Kamehameha Schools' admission testing, interviewing, and placement data is compiled one year prior to a student's entry into a KS program. Data detailed here were collected during the 1999-2000 academic year, reflecting students entering Kamehameha programs for the first time in this reporting period, that is, in the 2000-2001 academic year.

8 Kamehameha Schools' Admissions Department Web site is http://www.ksbe.edu/admissions.

ENDOWMENT & FINANCIALS

CONSOLIDATED FINANCIAL STATEMENTS & SUPPLEMENTAL SCHEDULES

ENDOWMENT OVERVIEW

Kamehameha Schools Endowment Group focuses on the long-term stabilized financial performance of assets. This goal seeks to optimize value, make efficient and prudent use of resources and undertake responsible land stewardship.

During the fiscal year ended June 2001, the Endowment Group again implemented many positive changes that continued to efficiently and prudently utilize its resources in support of KS' mission to educate children and youth of Hawaiian ancestry.

As part of this strategy, the Endowment Group has substantially reorganized from along geographic or regional lines into functional responsibility groups. This change streamlines the Endowment Group to allow each functional area to specialize and develop its asset management skills. This strategic restructuring is designed to assist in meeting and maintaining the strategic goal that calls for optimal use of current resources and the development of new resources (financial and non-financial).

Further, as part of a continuing strategy to achieve and maintain stabilized financial performance of assets, the Endowment Group implemented an investment structure for marketable securities premised on "best practices" utilizing a Core/Satellite approach. In determining best practices, the Endowment Group worked with two nationally renowned industry consultants and conducted due diligence on various investment models.

Once the Core/Satellite model was selected, the Endowment Group conducted intensive due diligence on various investment managers. After contracting the Core managers last fiscal year, this fiscal year KS engaged Satellite investment managers with different investment expertise and styles. The Satellite managers provided the final element in implementing the Core/Satellite model. The Satellite managers will potentially add more value (albeit at slightly higher risk) to KS' marketable securities portfolio in support of KS' mission.

ASSET ALLOCATION

Kamehameha Schools Investment Policy, adopted in August 1999, breaks down Endowment assets into two component parts: Core Assets, which include Hawai'i 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 percent that increases at least at the rate of inflation over time and (2) earn an average annual real total return of at least 5 percent per year. The objectives of the Non-Core assets are to: (1) earn a 5 percent or higher net average annual real rate of return, (2) provide adequate liquidity to meet the Schools' spending requirements, and (3) provide diversification for the endowment.

The asset allocation decision continues to be one of the main 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 choice of the investment manager matter, the relative performance of various portfolios is generally governed by their asset allocation structures.

Since implementing its new strategic asset allocation targets for Non-Core assets in August 1999, KS has made significant progress in moving toward its policy targets. The progress is shown in the chart below:

Kamehameha Schools Non-Core Portfolio[9]

ASSET CLASS	ALLOCATION 6/30/00	ALLOCATION 6/30/01	TARGETED PERCENTAGE
U.S. EQUITY	53.3%	33.6%	40.0%
NON-U.S. EQUITY	3.3%	11.5%	15.0%
FIXED INCOME	23.1%	31.7%	30.0%
ALTERNATIVE INVESTMENTS:			
VENTURE AND PRIVATE EQUITY	7.5%	7.0%	5.0%
ABSOLUTE RETURN	0.9%	0.9%	5.0%
ENERGY & OTHER	1.4%	2.3%	2.5%
REAL ESTATE (MAINLAND)	10.3%	13.0%[10]	2.5%

9 Amounts may not equal 100% due to rounding.

10 Resulted from updated valuation.

The expiration of the restrictive covenant on part of the Goldman Sachs stock allowed KS (on a consolidated basis) to significantly reduce its US Equity allocation to 33.6 percent from 53.3 percent. KS was then able to diversify and build-up its allocation in Non-U.S. Equity and Fixed Income to 11.5 percent and 31.7 percent, respectively.

KS' asset allocation continues to reflect 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, which at times may be 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 strategies and Kamehameha stands committed to migrating toward its policy targets in a prudent and orderly fashion.

INVESTMENT PERFORMANCE

For the year ended June 30, 2001, the Endowment achieved a 4.8 percent return, significantly outperforming two of its three benchmarks. It outperformed the Policy Portfolio benchmark (a policy weighted average of all benchmarks for each individual asset class) by 5.6 percent and the Cambridge Associates Large Endowment Fund Median by 7.2 percent. However, it trailed the Investment Policy's long-term (i.e., rolling 10 to 20 year periods) benchmark of the Consumer Price Index (CPI) plus 5 percent by 3.6 percent. This CPI plus 5 percent benchmark represents a long-term absolute positive inflation-adjusted return standard, thus, comparison to this return threshold should be over a long time horizon (i.e., rolling 10 to 20 year periods).

In fiscal year 2001, the overall return was driven primarily by the outstanding performance of the Non-Core Asset portfolio, which achieved a 7.7 percent return, significantly out performing its Policy Portfolio benchmark by 12.4 percent. Offsetting this return was KS' Core Asset (Hawai'i Real Estate) portfolio, which achieved a negative return of 1.8 percent for the year.

Since the August 1999 inception of Kamehameha Schools' Investment Policy, the Endowment Group has out performed all three of its benchmarks. The annualized total return for two years ended June 30, 2001, was 9.6 percent compared to the benchmark performance of 4.1 percent (Policy Portfolio), 3.5 percent (Cambridge Associates Large Endowment Fund Median) and 8.6 percent (CPI plus 5 percent).

Overall, the Endowment's performance continues to sustain itself in a tough capital market environment. Kamehameha Schools will continue to pursue its investment objectives in order to achieve better than benchmark performance over the long term in order to support the greater reach of its educational programs and services to Hawaiians.

During the 2000 -2001 fiscal year, Kamehameha Schools continued its efforts in establishing and executing certain critical financial policies and processes in support of the implementation of its Strategic Plan. These initiatives have strengthened Kamehameha Schools' financial position and ability to further extend the reach of Ke Ali'i Bernice Pauahi Bishop's legacy.

The major financial highlights for the year included:

INCREASED FUNDING OF EDUCATIONAL PROGRAMS

In accordance with Kamehameha Schools' Spending Policy, annual trust distributions from the endowment to support educational programs are targeted at 4 percent of the five-year average market value of the endowment. Since the adoption of this policy in August 1999, Kamehameha Schools has sought to prudently increase its funding of educational programs to achieve the target set forth in this policy. To demonstrate this, in fiscal year 2000 -2001, trust spending totaled approximately $206 million — a $73 million increase over the prior year — representing 4.1 percent of the five-year average market value of the endowment. In comparison, trust spending for the previous year ended June 30, 2000 totaled $133 million or 2.8 percent of the five-year average market value of the endowment.

Trust distributions during the year ended June 30, 2001 were primarily allocated to the campus-based programs on O'ahu, Maui and Hawai'i, and totaled $78.2 million. Another $42.1 million was spent on financial aid and post-high school scholarships and extension and early childhood education programs. Capital and major repair projects for new programs and expansion of existing programs accounted for $53.9 million of the resources spent on education during the year. Also, an operating reserve fund of $35.4 million, which was approved by the Probate Court in May 2001, was established and funded during the year to ensure assets are always readily available for educational programs. The remaining resources were allocated to a variety of programs and functions that support the overall educational system of Kamehameha Schools.

See "Education Overview" beginning on page 10 for further details on the education programs and extent of Kamehameha Schools reach for the fiscal year.

INCREASED DIVERSIFICATION OF ENDOWMENT

Kamehameha Schools' Investment Policy, which was also adopted in August 1999, established investment objectives, asset allocation targets and performance measurement guidelines for the endowment. The overall long-term investment objective under this policy is to earn an average annual return of 5 percent plus inflation, which after average trust distributions of 4 percent as targeted under the Spending Policy, would provide at least a one-percent real growth in the endowment. In fiscal year 2000 -2001, significant progress was made toward migrating to the policy's asset allocation targets resulting in a more diversified endowment portfolio.

Accordingly, despite a tough overall capital markets environment, Kamehameha Schools' endowment significantly outperformed two of its three benchmarks with a total return of approximately 4.8 percent. In fiscal year 1999-2000, assisted by a more favorable investment environment, the Schools' total return approximated 14.7 percent. The two-year annualized return approximated 9.6 percent, which exceeds the policy's long-term objective of 5 percent plus inflation.

See "Endowment Overview" section beginning on page 35 for further discussion of investment performance for the fiscal year.

IMPROVED LIQUIDITY AND DEBT STRUCTURE

Kamehameha Schools' ability to generate cash, both internally from its investments and operations and externally from debt issues, is adequate to maintain sufficient liquidity to fund its operating and capital projects and to cover debt and other cash requirements in the foreseeable future. The Schools' liquidity requirements specific to educational programs were enhanced during the year with the establishment of an Operating Reserve Fund Policy, which requires three months of the ensuing fiscal year's operating budget for educational programs be placed in a reserve fund. The operating reserve fund, which ensures sufficient liquidity for educational programs, amounted to $35.4 million as of June 30, 2001.

In addition, significant strides were made during the 2000-2001 fiscal year to eliminate or substantially reduce non-conforming debt arrangements to the requirements of Kamehameha Schools newly adopted Debt Policy. The policy limits the amount of debt allowed to 10 - 20 percent of the fair market value of the endowment and defines the requirements and parameters for the utilization of debt and other appropriate considerations. As a result, debt and debt related guarantees represented only 2.5 percent of the fair market value of the endowment as of June 30, 2001, down from the 6.1 percent as of June 30, 2000.

ALIGNMENT OF FINANCIAL RESOURCES WITH STRATEGIC PLAN

Great progress was made during the year in evaluating the current allocation of financial resources against the goals established in the Strategic Plan. This information, coupled with demographic data on Hawaiians, were utilized in the strategic plan implementation process to help align the future allocation of financial resources and the educational needs of Hawaiians within the context of the priorities and desired outcomes of the Strategic Plan.

In addition, cost structure evaluations continued throughout the organization to ensure we maximize the reach of our financial resources. Cost savings generated from this effort will be reallocated to educational programs and activities as set forth in the Five-year Strategic Implementation Plan (SIP II).

These are exciting times for Kamehameha Schools as the institution looks to expand educational opportunities for Hawaiians in a prudent manner with defined performance outcomes and objectives.

FINANCIAL RESULTS

Kamehameha Schools experienced favorable results for the year ended June 30, 2001. The following is a review of the financial position, statement of activities and cash flows for the 2000-2001 fiscal year:

- ***Financial Position***
  During the year, net assets increased by approximately 21 percent to over $4 billion. The majority of this increase was attributable to gains from the sale of approximately 16.5 million shares of Kamehameha Schools' investment in Goldman Sachs. Gains and investment income from this investment amounted to approximately $719 million.

  Notes payable amounted to $141 million at June 30, 2001 with the decrease from June 30, 2000 primarily coming from the paydown of $95 million under Kamehameha Schools' commercial paper program.

- ***Statement Of Activities***
  The Statement of Activities, which details the revenues and expenses during the year, reported an increase in net assets of approximately $690 million. As previously mentioned, the majority of the increase was due to realized gains from the sale of Goldman Sachs shares. In addition, Kamehameha Schools real estate land sales, leasing activities and oil and gas operations from a taxable subsidiary contributed to the increase in net assets during the year.

  This statement also reported total direct Educational Programs Expenses of approximately $109 million. Direct expenses, capital expenditures, operating reserve funding, support function costs and other education-related costs constitute Kamehameha Schools total spending of approximately $206 million for educational purposes, as reported on the Schedule of Trust Distributions and Spending (Schedule 1). This represents a trust spending rate of approximately 4.1 percent of the five-year average market value of the endowment.

- ***Cash Flows***
  For the year ended June 30, 2001, approximately $103 million of cash and cash equivalents were provided by operations. Primarily due to purchases of investments with external managers, investment activities resulted in a net cash outflow of approximately $292 million. Financing activities also resulted in a net cash outflow of $113 million principally due to the reduction of Kamehameha Schools outstanding debt obligations during the year.

CONCLUSION

By any measure, Kamehameha Schools financial position has been greatly enhanced. This strong financial position will allow Kamehameha Schools to continue its desire to expand the reach of Ke Ali'i Bernice Pauahi Bishop's legacy as stated in its Strategic Plan. As always, Kamehameha Schools 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.

Honolulu, HI 96812-4150

Independent Auditors' Report

The Trustees
Kamehameha Schools:

We have audited the accompanying consolidated balance sheets of Kamehameha Schools and subsidiar
as of June 30, 2001 and 2000, and the related consolidated statements of activities and cash flows for
years then ended. These consolidated financial statements are the responsibility of Kamehameha Schoo
management. Our responsibility is to express an opinion on these consolidated financial statements ba
on our audits. We did not audit the 2000 consolidated financial statements of Bishop Holdi
Corporation, a wholly owned subsidiary, which statements reflect total assets constituting 8% and to
revenues constituting 8% of the related 2000 consolidated totals. Those statements were audited by ot
auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amou
included for Kamehameha Schools, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financ
statements referred to above present fairly, in all material respects, the financial position of Kamehame
Schools and subsidiaries as of June 30, 2001 and 2000, and the change in their net assets and their ca
flows for the years then ended in conformity with accounting principles generally accepted in the Uni
States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken a
whole. The supplementary information included in Schedules 1 and 2 is presented for purposes
additional analysis and is not a required part of the basic financial statements. Such information has be
subjected to the auditing procedures applied in the audits of the basic financial statements and, in
opinion, based on our audits and with respect to the 2000 amounts related to Bishop Holdings Corporati
the reports of other auditors, is fairly stated in all material respects, in relation to the basic financ
statements taken as a whole.

KPMG LLP

October 26, 2001

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2001 AND 2000
(IN THOUSANDS)

	2001	2000
ASSETS		
CASH AND CASH EQUIVALENTS	$ 170,887	473,608
MARKETABLE DEBT AND EQUITY SECURITIES (NOTES 2 AND 10)	3,022,067	1,789,711
PRIVATELY PLACED DEBT AND EQUITY SECURITIES (NOTE 3)	487,396	767,680
RECEIVABLES, NET (NOTE 4)	75,910	69,583
PROPERTY AND EQUIPMENT, NET (NOTE 5)	566,648	570,342
REAL ESTATE HELD FOR DEVELOPMENT AND SALE (NOTE 6)	61,186	56,033
DEFERRED CHARGES AND OTHER (NOTES 8 AND 13)	31,156	35,323
TOTAL ASSETS	$ 4,415,250	3,762,280
LIABILITIES AND NET ASSETS		
NOTES PAYABLE (NOTE 7)	$ 141,276	252,844
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	54,194	37,131
INCOME TAXES PAYABLE (NOTE 8)	97,240	48,196
ACCRUED PENSION LIABILITY (NOTE 9)	32,475	29,529
ACCRUED POSTRETIREMENT BENEFITS (NOTE 9)	18,868	18,767
DEFERRED COMPENSATION PAYABLE (NOTE 10)	12,345	13,965
DEFERRED INCOME AND OTHER	21,548	15,003
TOTAL LIABILITIES	377,946	415,435
NET ASSETS – UNRESTRICTED	4,037,304	3,346,845
COMMITMENTS AND CONTINGENCIES (NOTES 6, 7, 8, 9, 10, 13 AND 15)		
TOTAL LIABILITIES AND NET ASSETS	$ 4,415,250	3,762,280

See accompanying notes to consolidated financial statements.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2001 AND 2000
(IN THOUSANDS)

	2001	2000
REVENUES, GAINS AND OTHER SUPPORT:		
TUITION AND FEES	$ 7,754	7,863
LESS FINANCIAL AID	(5,441)	(5,475)
NET TUITION AND FEES	2,313	2,388
NET REALIZED AND UNREALIZED GAINS ON INVESTMENTS (NOTE 3)	654,011	651,621
INVESTMENT INCOME (NOTE 3)	118,574	134,661
RENTAL	138,622	136,683
NET GAIN (LOSS) ON PROPERTY SALES (NOTE11)	58,896	(581)
FEDERAL GRANTS AND CONTRACTS	2,696	2,743
OTHER, NET (NOTES 12 AND 15)	36,728	8,790
TOTAL REVENUES, GAINS AND OTHER SUPPORT	1,011,840	936,305
EXPENSES:		
EDUCATIONAL PROGRAMS	109,143	99,289
MANAGEMENT AND GENERAL:		
RENTAL	56,032	55,552
OTHER (NOTE 8)	156,206	66,657
TOTAL EXPENSES	321,381	221,498
INCREASE IN NET ASSETS	690,459	714,807
NET ASSETS AT BEGINNING OF YEAR	3,346,845	2,632,038
NET ASSETS AT END OF YEAR	$ 4,037,304	3,346,845

See accompanying notes to consolidated financial statements.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2001 AND 2000
(IN THOUSANDS)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
INCREASE IN NET ASSETS	$ 690,459	714,807
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
NET REALIZED AND UNREALIZED GAINS ON INVESTMENTS	(654,011)	(651,621)
GAINS ON PROPERTY SALES	(95,896)	(45,395)
IMPAIRMENT LOSS ON PROPERTY AND EQUIPMENT AND REAL ESTATE HELD FOR SALE	49,937	48,831
DEPRECIATION, AMORTIZATION AND DEPLETION	37,899	34,132
LOSSES (EARNINGS) IN INVESTEE COMPANIES	13,056	(50,804)
EARNED FINANCE CHARGES NOT RECEIVED	(809)	(774)
AMORTIZATION OF DISCOUNT ON NOTES PAYABLE	1,493	451
CHANGE IN OPERATING ASSETS AND LIABILITIES:		
INCREASE IN RECEIVABLES	(6,327)	(32,381)
DECREASE (INCREASE) IN DEFERRED CHARGES AND OTHER	4,167	(6,835)
DECREASE (INCREASE) IN REAL ESTATE HELD FOR DEVELOPMENT AND SALE	(11,533)	710
INCREASE IN ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES	25,035	1,569
INCREASE IN INCOME TAXES PAYABLE	49,044	25,447
NET CASH PROVIDED BY OPERATING ACTIVITIES	102,514	38,137
CASH FLOWS FROM INVESTING ACTIVITIES:		
PROCEEDS FROM PROPERTY SALES	97,674	48,348
PROCEEDS FROM SALES OF INVESTMENTS	4,403,008	2,253,874
PURCHASES OF INVESTMENTS	(4,713,316)	(2,294,564)
PURCHASES OF PROPERTY AND EQUIPMENT	(79,540)	(60,813)
NET CASH USED IN INVESTMENT ACTIVITIES	(292,174)	(53,155)
CASH FLOWS FROM FINANCING ACTIVITIES:		
PROCEEDS FROM BORROWINGS	748,494	520,969
REPAYMENT OF BORROWINGS	(861,555)	(525,370)
NET CASH USED IN FINANCING ACTIVITIES	(113,061)	(4,401)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(302,721)	(19,419)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	473,608	493,027
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 170,887	473,608
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
INCOME TAXES PAID	$ 22,158	23,585
INTEREST PAID	$ 23,669	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 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, 2001, served students from kindergarten through grade 8. These two campuses will expand over the next four years to include grades 9 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;
- Ke Alii Pauahi Foundation (KAPF);
- Kamehameha Activities Association (KAA) and KAA's wholly owned subsidiary, Bishop Holdings Corporation (BHC) whose consolidated financial statements include the accounts of:
  - 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 its investment in Keauhou Kona Resort Company.

KAPF is a charitable organization whose exclusive purpose as a supporting organization is to actively engage in a fund-raising program and administer and operate the scholarship and financial aid programs for the Schools, KAA and KAPF.

KAA is also 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 and debt 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.

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

(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 Statements 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 $169.0 million and $472.1 million at June 30, 2001 and 2000, respectively.

(e) ***Investments***

Marketable Debt and Equity Securities – The Schools and KAA

Debt and equity securities with readily determinable fair values are reported at fair value with unrealized gains and losses included in the Consolidated Statements 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 and realized 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 in other comprehensive income 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, 2001 and 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 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 security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

(f) ***Derivative Financial Instruments***

At times, 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.

Effective July 1, 2000, BHC adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities,* an amendment of SFAS No. 133. These statements establish accounting and reporting standards requiring that derivative instruments, including certain derivative instruments embedded in other contracts, be recorded on the Consolidated Balance Sheets at fair value as either assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use and designation of the derivative at its inception. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results of the hedged item in earnings, and requires BHC to formally document, designate and assess the effectiveness of the hedge transaction to receive hedge accounting. For derivatives designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income as a separate component of net assets until the hedged item is recognized in earnings. Overall hedge effectiveness is measured at least quarterly. Any changes in the fair value of the derivative instrument resulting from hedge ineffectiveness, as defined by SFAS No. 133 and measured based on the cumulative changes in the fair value of the derivative instrument and the cumulative changes in the estimated future cash flows of the hedged item, are recognized immediately in earnings. BHC has designated all of its commodity hedges as cash flow hedges.

(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% with a weighted average interest rate of approximately 7% at June 30, 2001 and 2000, respectively. The sale of leasehold lots under the financing arrangements is 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 property 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 $1.7 million 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 2001 and 2000, BHC received annual tax credit payments of $8.3 million. BHC also received net profit interest payments of $21.0 million and $7.6 million for the years ended June 30, 2001 and 2000, respectively. These amounts are reported as Other revenues, net in the Consolidated Statements of Activities.

Unevaluated properties and associated costs not currently amortized and included in oil and gas properties amounted to $3.9 million and $2.5 million at June 30, 2001 and 2000, respectively. 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. Depletion expense amounted to $11.1 million and $8.9 million for the years ended June 30, 2001 and 2000, respectively.

(i) Real Estate Held for Development and Sale

Real estate assets held for development and sale are stated at cost net of any write-downs. Cost includes land acquisition and holding costs, site development, construction and other project related costs. Land improvements are allocated to land parcels, based on their relative sales values. Improvements allocated to land are charged to expense when land is sold. Improvements allocated to leased lands are amortized over the service lives of the improvements or lease term, whichever is shorter. Improvements that have been or will be donated to governmental units are amortized over the term of the leases benefited by those improvements. General improvement costs, unless specifically identified to benefit a particular land parcel, are allocated to undeveloped land.

Profits on sales of real estate is recognized when title has passed, minimum down payment criterion are met, the terms of any note received are such as to satisfy continuing investment requirements and collectibility of the note is reasonably assured, the risks and rewards of ownership have been transferred to the buyer and there is no substantial continuing involvement with the property. If any of the aforementioned criteria are not met, profit is deferred and recognized under either the installment, cost recovery, deposit or percentage-of-completion methods. 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. 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 years 2001 and 2000. Effective July 1, 2002, the Schools will commence employer contributions up to a maximum of 3% of employee earnings.

(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 respective leases.

(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 and organized and operated for educational purposes within the meaning of Section 170(b)(1)(A)(ii) of the Internal Revenue Code. KAPF and KAA are also exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualify as supporting organizations described in Section 509(a)(3) of the Internal Revenue Code. To the extent that the Schools, KAPF and KAA receive unrelated business income, such earnings are subject to unrelated business income tax.

Income taxes for BHC are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the 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.

(q) ***Reclassifications***
Certain amounts in the accompanying consolidated financial statements have been reclassified in 2000 to conform to classifications adopted in 2001.

(2) Marketable Debt and Equity Securities

Marketable debt and equity securities at June 30, 2001 and 2000 consisted of the following (in thousands):

	FAIR VALUE 2001	2000
COMMON AND PREFERRED STOCK:		
INVESTMENT BANKING FIRM (NOTE3)	$ 397,848	1,101,038
OTHER	988,314	125,501
CORPORATE DEBT SECURITIES	725,384	185,741
SHORT-TERM CORPORATE OBLIGATIONS	2,358	130,861
GOVERNMENT SECURITIES	326,967	133,458
MUTUAL FUNDS	576,435	87,265
OTHER	4,761	25,847
	$ 3,022,067	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 and internationally. The only individual investment as of June 30, 2001 and 2000 representing more than 10% of total marketable securities is the Schools' investment in 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, 2001 and 2000 (in thousands):

	2001 CARRYING AMOUNT	2001 FAIR VALUE	2000 CARRYING AMOUNT	2000 FAIR VALUE
EQUITY INVESTMENTS	$ 437,610	608,908	530,773	587,515
DIRECT FINANCING LEASE	35,255	35,255	34,446	34,446
LOANS AND SUBORDINATED DEBENTURES	14,531	14,826	27,736	28,073
INVESTMENT BANKING FIRM, AT COST	—	—	174,725	777,031
	$ 487,396	658,989	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 entities 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; and
- Invest in:
  - Equity securities in various industries, including insurance, financial services and healthcare;
  - Currently under-managed companies in need of sophisticated financial assistance;
  - Equity securities in connection with leveraged acquisitions;
  - Medium- and long-term investments in distressed fixed income securities, primarily in Asia; and
  - 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 as of June 30, 2001 and 2000 is as follows (in thousands):

	2001	2000
ASSETS	$ 3,254,983	6,681,524
LIABILITIES	1,305,358	4,660,305
EQUITY	$ 1,949,625	2,021,219
REVENUES	$ 366,640	1,526,651
EXPENSES	366,203	1,288,345
NET INCOME	$ 437	238,306

The Schools' equity in losses of investments amounted to $13.1 million for the year ended June 30, 2001. The Schools equity in income of investments amounted to $50.8 million for the year ended June 30, 2000. These amounts are included in Investment income in the Consolidated Statements of Activities.

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

At June 30, 2001 and 2000, the Schools owned approximately 5.5 million and 22 million shares, respectively, 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. In fiscal 2001, the Schools sold approximately 16.5 million shares of its common stock in the Firm at prices ranging between $90 to $109 per share.

Shares available for sale within a one-year period from the respective balance sheet date are considered marketable and reflected in Marketable debt and equity securities and carried at fair value. The remaining portion of the shares are reflected in Privately placed debt and equity 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.

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 the next fiscal year with interest at 6.5% per annum. Subordinated debentures provide for interest rates of 6.5% to 12% per annum and mature over periods up to seven years. Certain debt investments are collateralized by real property.

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

BHC holds a 40-year lease for a golf course facility located in Virginia. The lease is accounted for as a direct financing lease. At June 30, 2001, the total minimum lease payments to be received and unearned finance charges were $80.0 million and $44.7 million, respectively. At June 30, 2000, the total minimum lease payments to be received and unearned finance charges were $80.7 million and $46.3 million, respectively. Future minimum annual lease payments amount to $1.1 million from 2002 to 2006 and $74.5 million in the aggregate 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) ***Net Realized and Unrealized Gains (Losses) on Investments***

Net realized and unrealized gains (losses) on investments for the years ended June 30, 2001 and 2000, by investment type, are as follows (in thousands):

	2001	2000
MARKETABLE SECURITIES, OTHER	$ (55,450)	7,601
EQUITY INVESTMENTS	(3,246)	39,191
INVESTMENT BANKING FIRM	712,123	602,390
OTHER	584	2,439
	$ 654,011	651,621

(f) ***Investment Income***

Investment income for the years ended June 30, 2001 and 2000, by investment type, is as follows (in thousands):

	2001	2000
CASH EQUIVALENTS	$ 25,899	37,053
MARKETABLE SECURITIES, OTHER	88,221	18,635
EQUITY INVESTMENTS	(8,399)	55,583
INVESTMENT BANKING FIRM	6,413	10,861
LOANS AND SUBORDINATED DEBENTURES	2,676	6,720
MORTGAGE NOTES	3,528	3,172
OTHER	236	2,637
	$ 118,574	134,661

(4) Receivables

Receivables at June 30, 2001 and 2000 consisted of the following (in thousands):

	2001	2000
NOTE AGREEMENTS	$ 80,570	82,478
LESS DEFERRED PROFIT ON NOTE AGREEMENTS	(70,500)	(69,744)
	10,070	12,734
INCOME TAXES	31,063	31,566
TENANT AND TUITION	19,020	13,415
INTEREST	13,169	10,925
TRADE	12,682	9,659
OTHER	1,749	1,979
	87,753	80,278
LESS ALLOWANCE FOR DOUBTFUL ACCOUNTS	(11,843)	(10,695)
	$ 75,910	69,583

(5) Property and Equipment

Property and equipment at June 30, 2001 and 2000 consisted of the following (in thousands):

	2001	2000
EDUCATIONAL PROPERTY AND EQUIPMENT:		
LAND	$ 12,458	9,656
BUILDINGS, IMPROVEMENTS AND EQUIPMENT	216,679	158,485
LESS ACCUMULATED DEPRECIATION	(73,598)	(65,192)
	155,539	102,949
ALL OTHER PROPERTY AND EQUIPMENT:		
LAND AND LAND IMPROVEMENTS	123,169	129,663
BUILDINGS, IMPROVEMENTS AND EQUIPMENT	320,979	358,951
OIL AND GAS PROPERTIES	91,521	77,378
LESS ACCUMULATED DEPRECIATION, AMORTIZATION AND DEPLETION	(190,484)	(173,095)
	345,185	392,897
CONSTRUCTION IN PROGRESS	65,924	74,496
	$ 566,648	570,342

The provision for depreciation and depletion amounted to approximately $37.9 million and $34.1 million for the years ended June 30, 2001 and 2000, respectively.

In addition, the Schools determined that the book values of certain properties, buildings and improvements were impaired. As such, the properties were adjusted to fair value, which resulted in impairment losses of approximately $43.4 million and $22.6 million for the years ended June 30, 2001 and 2000, respectively.

In May 2000, BHC entered into an agreement to sell its interest in the Keauhou Kona Surf and Racquet Club (KSR) to the KSR Association of Apartment Owners for $11.5 million. The sale of KSR closed in September 2000.

(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. At June 30, 2001 and 2000, the carrying amount of certain real estate held for sale exceeded their fair value less costs to sell resulting in impairment losses. The fair value of the real estate was determined based on discounted cash flow analyses prepared by independent appraisers and management. The impairment losses for the years ended June 30, 2001 and 2000 was $6.5 million and $26.2 million, respectively.

In August 2001, BHC completed a bulk sale of one of its projects. The sales price for the project totaled $13.3 million of which $12.5 million was received upon closing after selling and other closing costs. Under the terms of the agreement, BHC is also obligated to complete construction on a certain roadway and filtration pond at an estimated cost of approximately $106,000.

(7) Notes Payable

At June 30, 2001 and 2000, notes payable consisted of the following (columns in thousands):

	2001	2000
Senior promissory notes payable at the rate of 6.89% per annum with annual principal payments of $11.9 million 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	118,575
Notes payable under a $200.0 million commercial paper program, due on various dates from August 29 to February 12, 2001 with interest at the rates ranging from 6.35% to 6.77%. The notes were paid down in May 2001. In connection with this program, the Schools maintain a back-up liquidity facility with a consortium of banks. The facility requires the maintenance of a minimum liquidity balance, based on a proportion of commercial paper outstanding. The facility expires in November 2001.	—	95,257
Note payable to banks under a $37.0 million revolving credit agreement with principal due on September 30, 2002. Interest rate (4.25% on June 30, 2001 and 7.19% to 7.31% on June 30, 2000, respectively) 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	22,701	32,700
Notes payable under $13.0 million credit term loan due July 2, 2001; 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. The notes were paid in full in March 2001.	—	5,704
Note payable under a $6.5 million revolving credit agreement with interest (9.5%) due monthly and principal due March 2, 2002. The note was paid in full in 2001.	—	573
Other, paid in full in 2001.	—	35
	$ 141,276	252,844

BHC has a $50 million bank revolving line of credit with interest at 1.5% over the LIBOR rate. The line of credit facility expires on March 1, 2002. Drawings on the line are secured by oil and gas properties. There were no drawings on the line at June 30, 2001 and 2000.

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

YEAR ENDING JUNE 30:	
2002	$ —
2003	22,701
2004	11,860
2005	11,860
2006	11,860
THEREAFTER	82,995
	$ 141,276

Interest expense for the years ended June 30, 2001 and 2000 is as follows (in thousands):

	2001	2000
THE SCHOOLS	$ 13,441	14,930
BHC	2,417	3,131
	$ 15,858	18,061

(8) Income Taxes

Total income tax expense amounted to $82.6 million for the year ended June 30, 2001. Total income tax benefit amounted to $4.4 million for the year ended June 30, 2000. These amounts are included in Management and general expenses in the Consolidated Statements of Activities. For the year ended June 30, 2001, the components of income tax expense include current and deferred income tax expense of $79.6 million and $3.0 million, respectively. For the year ended June 30, 2000, the components of income tax benefit include current and deferred income tax benefit of $3.4 million and $1.0 million, respectively.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of June 30, 2001 and 2000 are presented below (in thousands):

	2001	2000
DEFERRED TAX ASSETS:		
DIFFERENCE IN BASIS OF INVESTMENTS AND REAL ESTATE	$ 6,499	13,202
NET OPERATING LOSS CARRYFORWARDS	8,059	5,606
DEFERRED INCOME	1,376	4,924
ACCRUED INTEREST	2,730	2,730
OTHER	999	2,402
VALUATION ALLOWANCE	(17,261)	(24,749)
	2,402	4,115
DEFERRED TAX LIABILITIES:		
DEPRECIATION	(1,206)	(1,103)
INVESTMENT BASIS DIFFERENCE AND OTHER	(1,196)	—
	(2,402)	(1,103)
NET DEFERRED TAX ASSET	$ —	3,012

The valuation allowance for deferred tax assets as of July 1, 2000 and 1999 was $24.7 million and $25.5 million, respectively. Total valuation allowance decreased by $7.5 million and $760,000 for the years ended June 30, 2001 and 2000, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portions or all of the deferred tax assets will 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 it will not realize the benefits of these deductible differences. The amount of the deferred tax assets considered realizable, however, could be increased in the near term if estimates of future taxable income during the carryforward period are increased.

Internal Revenue Service Audit

In 1995, the 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 to 1994. It was later expanded to include the years ended June 30, 1995 to 1998 and month ended July 31, 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.

In January 1999, the IRS had proposed revocation of the Schools' tax-exempt status. Through settlement negotiation and the execution of a closing agreement in February 2000, which included the permanent removal and/or resignation of the five former Trustees, a settlement payment (including interest) of $14.0 million, 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 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 $29.8 million that was accrued in the 1999 consolidated financial statements and paid in the year ended June 30, 2001.

The IRS continues to audit the nontaxable treatment of a reorganization that occurred between KAA and other related entities in July 1998. KAA is currently in discussions with the IRS. As of June 30, 2001, an estimate of the expected results from these discussions has been included in the income tax expense discussed above.

(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, 2001 and 2000 are as follows (in thousands):

	2001		2000	
	PENSION	POST RETIREMENT	PENSION	POST RETIREMENT
BENEFIT OBLIGATION	$ 133,244	12,788	125,897	10,318
FAIR VALUE OF PLAN ASSETS	118,386	——	130,386	——
FUNDED STATUS	$ (14,858)	(12,788)	4,489	(10,318)
ACCRUED BENEFIT COST RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS	$ (32,475)	(18,868)	(29,529)	(18,767)

The amount of contributions, benefits paid and net periodic benefit cost for the years ended June 30, 2001 and 2000 are as follows (in thousands):

	2001		2000	
	PENSION	POST RETIREMENT	PENSION	POST RETIREMENT
BENEFIT COST	$ 2,946	574	4,717	177
EMPLOYER CONTRIBUTION	——	473	——	464
BENEFITS PAID	3,153	473	3,064	464

The assumptions used in the measurement of the Schools' benefit obligation for the years ended June 30, 2001 and 2000 are as follows (in thousands):

	2001		2000	
	PENSION	POST RETIREMENT	PENSION	POST RETIREMENT
DISCOUNT RATE	7.00%	7.00%	7.00%	7.00%
EXPECTED RETURN ON PLAN ASSETS	8.00%	N/A	8.00%	N/A
RATE OF COMPENSATION INCREASE	5.30%	N/A	5.30%	N/A

For measurement purposes, a 10%, 15% and 9% annual rate of increase in the per capita cost of covered medical, drug and dental benefits, respectively, were assumed for 2001. The rate was assumed to decrease gradually to 4.5% by the year 2009 and remain at that level thereafter.

(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. This liability has been fully funded and investments are included in Marketable debt and equity securities.

(11) Net Gain (Loss) on Property Sales

Net gain (loss) on property sales for the years ended June 30, 2001 and 2000 consisted of the following (in thousands):

	2001	2000
PROPERTY SALES	$ 120,464	65,664
LESS COST OF PROPERTY SALES	(11,631)	(17,414)
NET PROPERTY SALES	108,833	48,250
IMPAIRMENT LOSS ON PROPERTY AND EQUIPMENT AND REAL ESTATE HELD FOR DEVELOPMENT AND SALE (NOTES 5 AND 6)	(49,937)	(48,831)
	$ 58,896	(581)

(12) Other Revenues, Net

Other revenues, net for the years ended June 30, 2001 and 2000 consisted of the following (in thousands):

	2001	2000
OIL AND GAS OPERATIONS	$ 48,059	30,523
LESS COST OF OIL AND GAS OPERATIONS	(25,970)	(20,469)
NET OIL AND GAS OPERATIONS	22,089	10,054
HOTEL OPERATIONS	3,013	3,025
LESS COST OF HOTEL OPERATIONS	(3,666)	(3,839)
NET HOTEL OPERATIONS	(653)	(814)
OTHER (NOTE 15)	15,292	(450)
	$ 36,728	8,790

(13) Derivative Financial Instruments

BHC uses derivative 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. If BHC did not use derivative investments, its exposure to market risk would be higher.

During fiscal 2001, approximately 26.7% of BHC's equivalent production was subject to hedge positions. As of June 30, 2001, BHC had entered into the following natural gas costless collars:

PERIOD	TOTAL MMBTU	DAILY MMBTU	US $ EPNG SAN JUAN INDEX PRICE FLOOR	CAP
NOVEMBER 2001 – MARCH 2002	450,000	3,000	$ 4.00	6.60

PERIOD	TOTAL MMBTU	DAILY MMBTU	US $ SONAT LOUISIANA INDEX PRICE FLOOR	CAP
NOVEMBER 2001 – MARCH 2002	300,000	2,000	$ 4.00	7.10

The fair value of BHC's hedging contracts was approximately $585,000 at June 30, 2001 and was included in Deferred charges and other assets in the Consolidated Balance Sheets.

During 2000, approximately 21% of the Company's equivalent production was subject to hedge positions. At June 30, 2000, the Company had entered into the following commodity price hedging contracts:

PERIOD	VOLUME IN MMBTU PER DAY	SWAP CONTRACT PRICE PER MMBTU	FAIR VALUE*
NOVEMBER 1999 – OCTOBER 2000	5,000	$ 2.61	(977,212)
MARCH 2000 – FEBRUARY 2001	5,000	2.48	(2,061,990)
APRIL 2000 – MARCH 2001	3,000	2.63	(1,138,551)

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

(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, 2001 and 2000 (in thousands). 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.

	2001		2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
CASH AND CASH EQUIVALENTS	$ 170,887	170,887	473,608	473,608
MARKETABLE DEBT AND EQUITY SECURITIES	3,022,067	3,022,067	1,789,711	1,789,711
PRIVATELY PLACED DEBT AND EQUITY INVESTMENTS	487,396	658,989	767,680	1,427,065
RECEIVABLES	75,910	106,857	69,583	106,858
NOTES PAYABLE	141,276	137,131	252,844	217,039
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	54,194	54,194	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, 2001, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

YEAR ENDING JUNE 30:	
2002	$ 81,608
2003	78,408
2004	72,978
2005	64,381
2006	58,536
THEREAFTER	766,769
	$ 1,122,680

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $24.1 million and $17.3 million for the years ended June 30, 2001 and 2000, respectively.

(b) ***Capital Commitments***

At June 30, 2001 and 2000, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $99 million and $152 million, respectively.

The Schools have also provided unsecured repurchase or guarantee agreements for certain liabilities related to certain investments aggregating $1 million and $93 million at June 30, 2001 and 2000, respectively.

At June 30, 2001, open construction, renovation and major repair contracts amounted to approximately $33 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, 2001.

BHC (and/or its subsidiaries) is engaged in the oil and gas production business and may become subject to certain liabilities as they relate to environmental cleanup 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 cleanup 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 in monthly installments 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 12-month period.

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.

For the years ended June 30, 2001 and 2000, total trustee compensation paid amounted to $522,500 and $764,500, respectively.

(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, which has been included in Other revenues, net in the 2001 Consolidated Statement of Activities.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

SCHEDULE 1

SCHEDULES OF TRUST DISTRIBUTIONS AND SPENDING
YEARS ENDED JUNE 30, 2001 AND 2000
(IN THOUSANDS)

	2001	2000
TRUST DISTRIBUTIONS	$ 206,106	132,753
TRUST SPENDING, NET		
CAMPUS-BASED PROGRAMS:		
OAHU	72,081	66,955
MAUI	2,407	1,826
HAWAII	3,721	3,193
OUTREACH-BASED PROGRAMS:		
EXTENSION AND SUMMER PROGRAMS	5,435	3,386
EARLY EDUCATION	14,552	12,787
FINANCIAL AID AND SCHOLARSHIPS	22,126	21,450
OTHER PROGRAM EXPENDITURES	4,828	6,283
BASE SPENDING	125,150	115,880
LESS — TUITION, FEES AND OTHER EDUCATION INCOME	(8,383)	(7,863)
LESS — NET INCOME FROM AGRICULTURE AND CONSERVATION LANDS	—	(154)
BASE DISTRIBUTIONS	116,767	107,863
MAJOR REPAIRS	3,862	1,737
CAPITAL PROJECTS	50,077	23,153
TOTAL TRUST SPENDING BEFORE RESERVE ACTIVITY	170,706	132,753
RESERVE ACTIVITY — OPERATING, NET	35,400	—
TOTAL TRUST SPENDING	206,106	132,753
TRUST DISTRIBUTIONS IN EXCESS OF TRUST SPENDING	$ —	—
AVERAGE MARKET VALUE OF ENDOWMENT	$ 4,996,812	4,812,799
TRUST SPENDING RATE BEFORE RESERVE ACTIVITY	3.4%	2.8%
TRUST SPENDING RATE	4.1%	2.8%

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

NOTES TO SCHEDULES OF TRUST DISTRIBUTIONS AND SPENDING
YEARS ENDED JUNE 30, 2001 AND 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%.

The schedule is prepared on a cash basis and presents the total distributions made from the Endowment to fund educational programs (trust spending) by major program and activity. It also presents the trust spending rates for the fiscal years ended June 30, 2001 and 2000.

(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 and indirect costs of providing these programs. Other program expenditures represent the direct and indirect costs related to certain educational services that benefit the various campus-based and outreach-based programs. Indirect costs 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. Reserve activity represents the funding of an operating reserve, as approved by the Court, to ensure assets are readily available for unanticipated educational program expenses.

For purposes of this schedule, trust spending on educational programs includes major repairs and capital projects, an allocation of indirect costs and the funding of reserves. These costs are not included in educational program expenses on the Consolidated Statements of Activities. Indirect costs represent finance, administration and legal costs allocated to educational programs and activities. These 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 rates are determined by dividing the total trust spending before reserve activity and 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.

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 rates for the years ended June 30, 2001 and 2000, are based on the estimated average market values for the fiscal years ended June 30, 1996 through June 30, 2000 and June 30, 1995 through June 30, 1999, respectively. The market values for these fiscal years were based primarily on tax assessed values and internal and external appraisals, to the extent available, 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 certain applicable prior period adjustments.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

SCHEDULE 2

SCHEDULES OF TOTAL RETURN

AS OF AND FOR THE YEARS ENDED JUNE 30, 2001 AND 2000

	JUNE 30, 2001		JUNE 30, 2000		FOR THE TWO YEARS ENDED JUNE 30, 2001 ANNUALIZED
ASSET CLASS AND BENCHMARKS	MARKET VALUE (IN THOUSANDS)	TOTAL RETURN %	MARKET VALUE (IN THOUSANDS)	TOTAL RETURN %	TOTAL RETURN %
HAWAII REAL ESTATE	$ 1,690,295	(1.78)	$ 1,881,977	9.03	3.48
CPI+5%		8.30		8.90	8.59
U.S. EQUITY	1,363,433	(2.47)	2,010,796	26.38	11.01
RUSSELL 3000		(13.94)		9.59	(2.88)
NON-U.S. EQUITY	467,929	(13.05)	127,346	24.65	4.11
MSCI EAFE/EMERGING MARKETS FREE INDICES		(24.00)		16.01	(6.10)
FIXED INCOME	1,288,761	8.48	871,237	6.02	6.33
LEHMAN BROTHERS AGGREGATE		11.23		4.56	7.84
ALTERNATIVE INVESTMENTS:					
VENTURE & PRIVATE EQUITY	285,394	(0.82)	283,166	23.40	10.59
CPI+10%		13.45		14.07	13.75
ABSOLUTE RETURN	36,256	5.62	33,992	8.25	6.92
CPI+8%		11.39		12.01	11.69
ENERGY	93,985	59.63	52,964	24.76	62.72
CPI+5%		8.30		8.90	8.59
REAL ESTATE (MAINLAND)	526,059	31.75	391,284	6.79	18.60
NCREIF TOTAL PROPERTY INDEX		11.15		14.78	12.95
TOTAL PORTFOLIO	$ 5,752,112	4.75	$ 5,652,762	14.69	9.59
POLICY PORTFOLIO/CPI+5%		(0.89)		9.41	4.13
CAMBRIDGE ASSOCIATES LARGE ENDOWMENT FUND MEDIAN		(2.44)		9.74	3.47
CPI+5%		8.30		8.90	8.59

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

(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% (Consumer Price Index + 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 improved commercial properties are actively managed by PMC to generate space rents. Improved commercial properties are comprised of shopping centers, office buildings and warehouse facilities.

(b) U.S. Equity

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

(c) Non-U.S. Equity

Non-U.S. equity are comprised of marketable equity securities 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 nonmarketable securities such as equity or equity-linked investments in nonpublic 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 consists primarily of pooled fund investments in limited partnerships.

(f) Absolute Return

Absolute return investments consist of the Schools' ownership interest in funds with investment strategies intended to produce relatively stable, positive returns regardless of the performance of the primary stock and bond markets. These may include the five broad strategies of event arbitrage, market neutral or hedged equity, distressed securities, hedge funds, and multi-strategy funds or fund of funds.

(g) Energy

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

(h) Real Estate (Mainland)

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

(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

The market value of residential real property interests (single-family and condominium) is estimated by internal appraisals using the discounted cash flow method for leased properties and sales comparison approach for unleased properties.

Commercial properties are divided into two primary categories: leased and unleased. The market value of leased properties is estimated by discounting future net cash flows at an appropriate discount rate over a ten-year period. The current tax-assessed value is used to approximate the market value of unleased commercial properties. Most of the commercial properties were appraised internally.

The current tax-assessed value is also used to approximate the market value of real estate held for future development and sale.

The market value of purchase money mortgages is estimated by discounting the expected future net cash flows at a discount rate commensurate with the risk associated with the respective receivables.

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

(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.

(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	POLICY PORTFOLIO/CONSUMER PRICE INDEX PLUS 5%
	CAMBRIDGE ASSOCIATES LARGE ENDOWMENT FUND MEDIAN
	CONSUMER PRICE INDEX PLUS 5%

The MSCI EAFE/Emerging Markets Free Indices and the Policy Portfolio are weighted benchmarks based upon the asset class targets set forth in the Schools approved investment policy. The Policy Portfolio/Consumer Price Index plus 5% benchmark is weighted by the percentage of Hawaii Real Estate fair market values and the aggregate fair market values of all other asset classes combined.

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