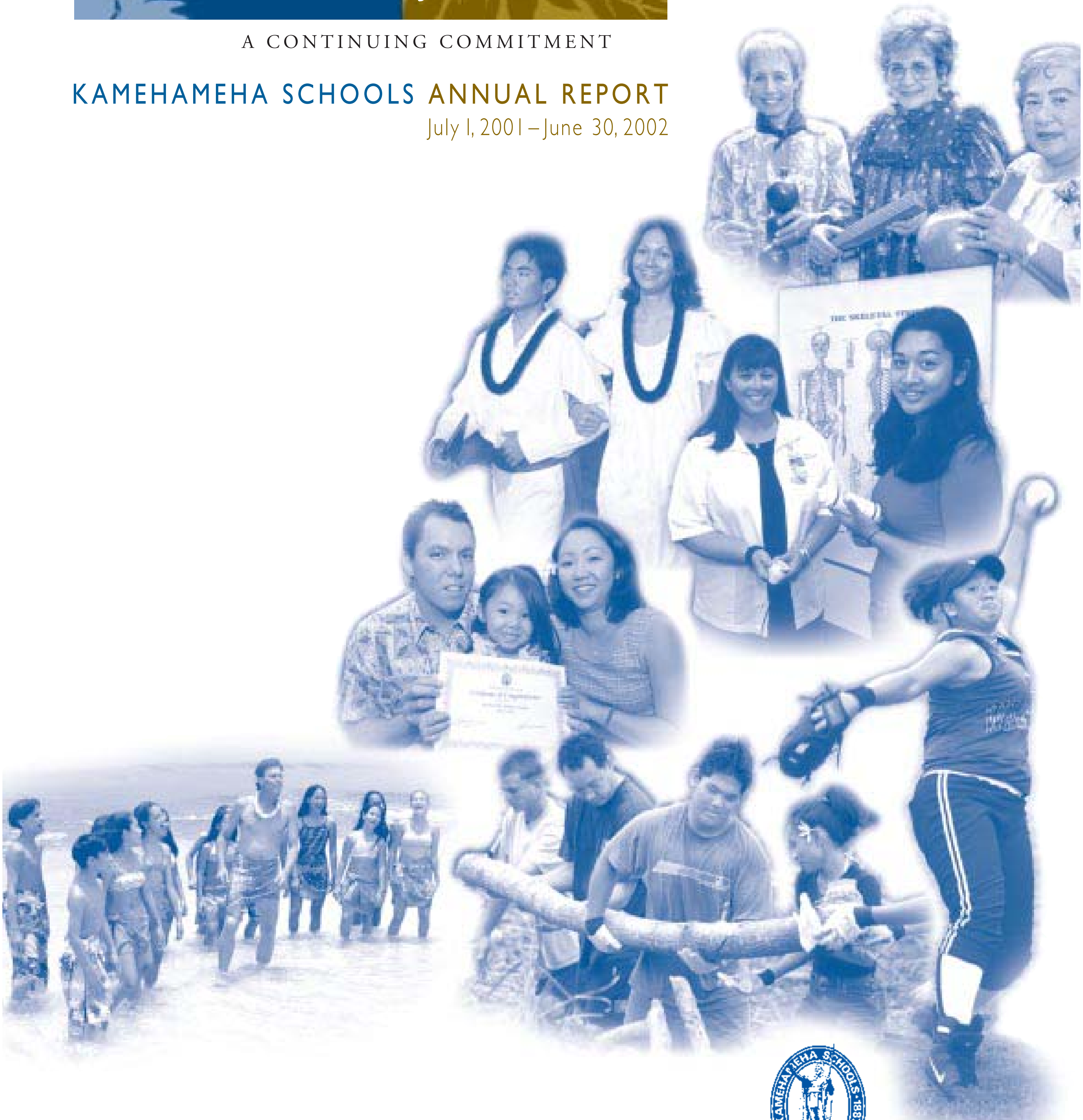
A CONTINUING COMMITMENT

KAMEHAMEHA SCHOOLS ANNUAL REPORT

July 1, 2001 – June 30, 2002



KAMEHAMEHA SCHOOLS

Pauahi's Legacy Lives

CEO MESSAGE

Extending the Reach

A MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Hamilton I. McCubbin, Ph.D.

In my first week of service as my alma mater's Chief Executive Officer, a Kapālama Campus faculty member said to me, "What we do on this campus is not all that Kamehameha can do to educate Hawaiians. We must do more."

I have never forgotten her words; nor that the adoption of *Kamehameha Schools Strategic Plan 2000-2015* directs us to fulfill Pauahi's desire to create educational opportunities in perpetuity to improve the capability and well-being of people of Hawaiian ancestry.

Kamehameha Schools' Strategic Plan laid the foundation—the values, goals and mission of our future. From that plan we set guidelines for our new initiatives and services requiring that each must:

- Meet the educational needs of Hawaiian people;
- Meet stakeholder expectations;
- Align with the Strategic Plan;
- Align with Kamehameha's capabilities to deliver and/or partner; and
- Measure Success.

From these guidelines, emergent tasks guided our systemwide assessment, planning and implementation efforts of Kamehameha Schools (KS) during 2001–2002. A roadmap to our future, we called this guiding segment of our journey our "Strategic Implementation Plan Phase II—Pauahi's Legacy Lives."

Facilitated by KS' Office of Strategic Planning (OSP), the 2001–2002 year at Kamehameha Schools was spent in detailed analysis of organizational change and in process and program alignment with the Strategic Plan.

- We set out to align every aspect of Kamehameha Schools—our values, philosophy of education, goals, programs, business decisions and administration—with the Strategic Plan; and,
- We began the earnest exploration for realistic, achievable, and cost-effective opportunities and collaborations to extend Kamehameha's educational reach beyond the brick and mortar of our three campuses.

ORGANIZATIONAL CHANGE

Kamehameha's faculty and staff labored collaboratively toward significant internal reforms that have begun to transform institutional focus, management structure and ways of doing business.

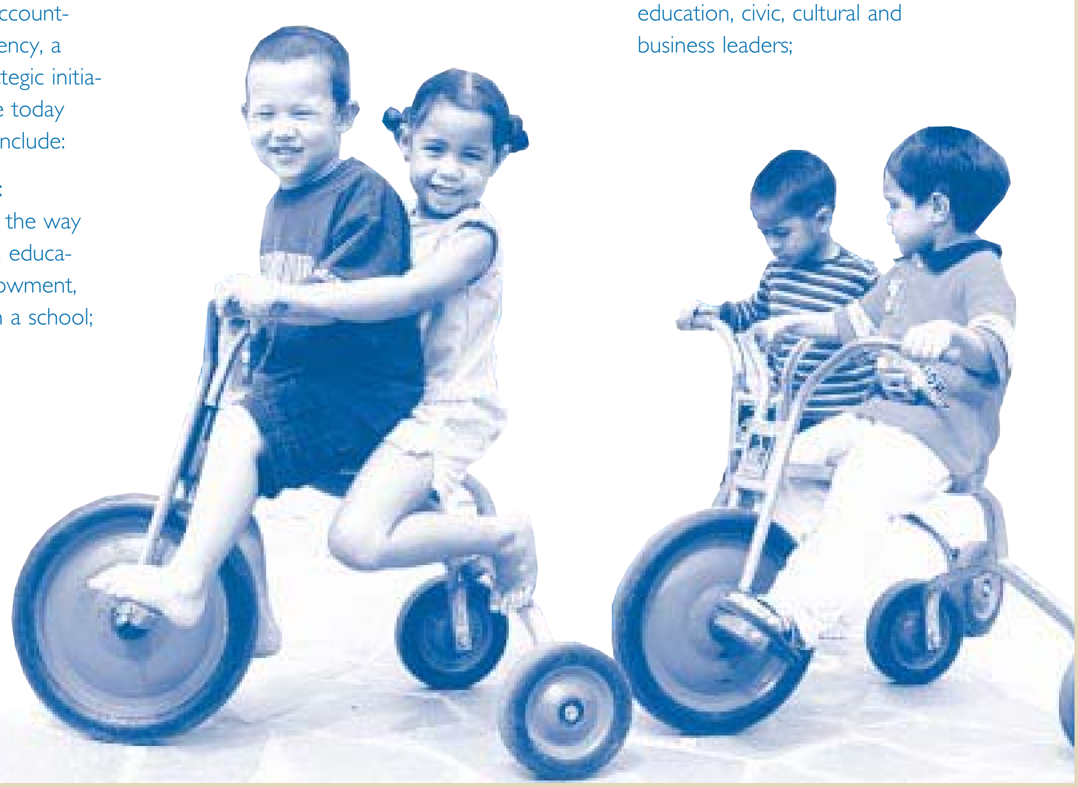
This ongoing process of institutional reshaping is a paradigm shift in organizational thinking, philosophy, patterns of accountability and the strategic alignment of programs and procedures at Kamehameha Schools.

Our new Kamehameha management structure has, with trustee guidance and approval, established clear lines of authority and accountability and invited greater staff participation in program planning, development and service.

STRATEGIC ALIGNMENT AND EMPOWERMENT

As Kamehameha worked to marry internal inclusiveness with accountability and operational efficiency, a series of value oriented strategic initiatives were set forth that are today substantially in place. They include:

- **An educational trust**
  Realigned and redefined the way we view ourselves as an educational trust with an endowment, not an endowment with a school;
- **Inclusiveness as policy**
  Adopted inclusive advisory decision making as institutional policy;
- **A need-based Keiki Scholars program**
  Extended our early education reach with the establishment of a needs-based Pauahi Keiki Scholars Program;
- **K-12 Conversion Charter Schools**
  Collaborated with a non-profit entity to expand Kamehameha's K-12 reach through the support of conversion charter schools;
- **Enhanced distance learning access**
  Enhanced KS distance learning programming to enable increased educational access;
- **An Office of Continuous Improvement**
  Created an Office of Continuous Improvement to provide constant program and process assessment and alignment analysis based on data provided by KS' Policy Analysis and System Evaluation group;
- **Emphasis on two-way communication**
  Continued efforts to restore and foster public trust and confidence in Kamehameha by advancing open communication at all levels, and emphasizing two-way communication with stakeholders;
- **A KS Board of Advisors**
  Encouraged active dialogue with innovators throughout Hawai'i and the nation by establishing a KS Board of Advisors from a representative cross section of our 'ohana as well as recognized education, civic, cultural and business leaders;



- **A rededication to ʻIke Hawaiʻi**
  Rededicated ourselves to the cultivation, perpetuation and practice of ʻIke Hawaiʻi—Hawaiian culture, values, history, language, oral traditions, literature and care for significant cultural and historical places;

A KS Board of Advisors was established from a representative cross section of KS ʻohana as well as recognized state and nationwide education, civic, cultural and business leaders.

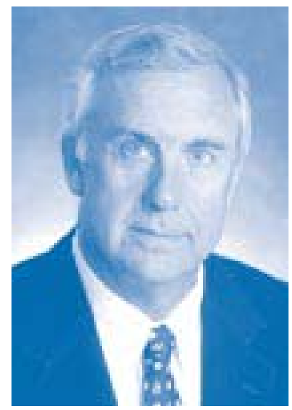
- **Educational publishing**
  Reinvigorated Kamehameha Schools Press to proactively seek out, publish and disseminate culturally relevant materials. This year KS Press assisted in the publication of two outstanding works—the award-winning *Kamehameha and his Warrior Kekūhaupiʻo,* and the precedent-setting journal *Ka Hoʻoilina—The Legacy: Journal of Hawaiian Language Sources;*
- **Lands for educational and cultural use**
  Strengthened use of Kamehameha's Legacy Lands for educational and cultural purposes. The Land Assets Division of our Endowment Group has launched more than two dozen ʻĀina Ulu projects that utilize KS lands as outdoor classrooms;
- **A policies and procedures overhaul**
  Increased delegation of authority by initiating an overhaul and streamlining of internal policies and procedures for consistency, standardization, clear lines of authority, accountability and reporting; and,
- **An Organizational Improvement Survey**
  Reached out to all KS functional areas for input on KS' work environment and organizational effectiveness, netting a 90 percent staff response.

EDUCATION

By July 2001 a systemwide education leadership team was firmly in place, another strategic indicator of Kamehameha's commitment to expanding quality educational opportunities for Hawaiians.

MEET OUR EDUCATION LEADERSHIP TEAM

Dudley "Skip" Hare, Jr., Ed.D. assumed his duties as chief education officer in July 2001 to oversee an expanding network of statewide programs and lead our three-campus headmaster team of Michael J. Chun, Ph.D. at Kapālama, D. Rodney Chamberlain, Ed.D., at Maui, and Stan Fortuna, Jr., Ed.D. at Hawai'i. Since joining Kamehameha in 1988, Chun has overseen the greatest growth in student academic achievement in the Schools' history. Chamberlain is a career educator who spent 22 years at the renowned Milton Hershey School in Pennsylvania and, prior to accepting KS' Maui headmaster post, was head of school at the K-12 University Lake School in Wisconsin. Fortuna brings over 30 years experience—16 years as school superintendent in three Michigan districts—to his new role as headmaster of Hawai'i Campus.



Dudley Hare, Jr., Ed.D.

Hare also oversees early education and outreach programs that have prompted two new dean positions. Suzanne Ramos, dean of Early Childhood Education, joined Kamehameha Schools' staff in 1969, and after many years in high school administration, she was named operations manager for KS' Pre-kindergarten Education Program in 1991.

Michael J. Chun, Ph.D.

Juvenna Chang, Ed.D. returned to her alma mater to take the reins of Kamehameha's rapidly expanding outreach programs as dean of extension education. A respected educator, Chang, held the post of senior scholar with Pacific Resources for Education and Learning before returning to Kamehameha.

D. Rodney Chamberlain, Ed.D.

> *"Ke Ali'i Pauahi also knew that the well-being of her people and culture depended upon the care and resources devoted to their education"*
>
> — Hamilton I. McCubbin, Ph.D.

Together this team—along with KS' entire team of educators and administrators—began the daunting task of assessing and strategically aligning existing programs while extending services and outreach within each of their functional area responsibilities. Additionally, they are in the process of developing the first comprehensive educational picture of Kamehameha Schools and from that, of drafting an operative philosophy of education to guide our efforts.

Stan Fortuna, Jr., Ed.D.

PARTNERING FOR EDUCATION

If we intend to impact future generations of Hawaiians, we must reach our children earlier. Quality early childhood education is the answer and Kamehameha is committed to reach fully one-third of eligible Hawaiian children.

However, KS will not accomplish this alone, but will supplement our private school classrooms with those established in collaboration with the State Department of Education (DOE), private businesses, non-profits and other ali'i trusts.

Suzanne Ramos

Juvena Chang, Ed.D.

LEGISLATIVE ACCOMPLISHMENTS

Signed into law in April 2002, Senate Bills 2662 "Conversion Charter Schools" and SB 2283 "School Readiness" shifted the educational paradigm in Hawai'i resoundingly in favor of children. Kamehameha was instrumental in the passage of both bills.

Representing a significant initiative within Kamehameha's strategic implementation plan, SB 2662 allows non-profit organizations to collaborate with the DOE to manage and operate conversion charter public schools.

Through this legislation, Kamehameha will work with communities to educate their children through "value added" collaborations. KS, through the support of a separate non-profit entity, will provide educational expertise, curriculum, materials and staff development to enhance the existing good work of DOE teachers, K-12 programs and classroom facilities.

This support will allow us to impact literally thousands more Hawaiian children and their families by putting our resources into the public schools.

SB 2662 allows non-profit organizations, such as Kamehameha Schools, to collaborate with the DOE to manage and operate conversion charter public schools.

KEIKI SCHOLARSHIP PROGRAM

Also in April, the Probate Court granted KS trustees the authority to expand early education programs, including scholarships and family educational services.

By May 2002, KS unveiled its Pauahi Keiki Scholars Program designed to provide scholarships for children to attend non-KS preschools and also to assist independent preschools with the resources necessary for accreditation.

INVESTMENT AND REPORTING

Significant progress in allocating assets to targets set by our Investment Policy has resulted in a more diversified endowment portfolio that optimizes the value and stability of our resources to ensure that Pauahi's Legacy Lives.

And, in accordance with KS' Spending Policy, annual trust spending for educational programs in fiscal 2001-2002 totaled approximately $223 million, a $17 million increase over the prior year. This represents a spending rate of 4.3 percent of the five-year average market value of the endowment – well within our target of 2.5 to six percent.

PAUAHI'S LEGACY LIVES

We are indeed proud of the men and women whose 2001-2002 accomplishments demonstrate and validate the strategic objectives of a vital institution, committed to improving the well-being of people of Hawaiian ancestry through education.

In the years ahead, Kamehameha Schools will work proactively toward continued expansion of our educational reach to 0-2 year olds, three and four-year olds, K-12 conversion charter schools, extension education, distance learning and career education opportunities.

As we take on these added obligations, we vow to maintain the excellence of our existing programs – seeking reductions in operating costs and increased revenue opportunities to underwrite important new outreach efforts.

Our beloved founder Ke Ali‘i Pauahi knew that the well-being of her people and culture depended upon the care and resources devoted to their education. That powerful truth remains today.

Reviewing our recent history as contained in this report, one can easily see our staff is doing more, achieving more and extending our reach. For the men and women of Kamehameha have – once again – demonstrated their deep commitment to ensuring that Pauahi's Legacy Lives.

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

EDUCATION

Education Overview

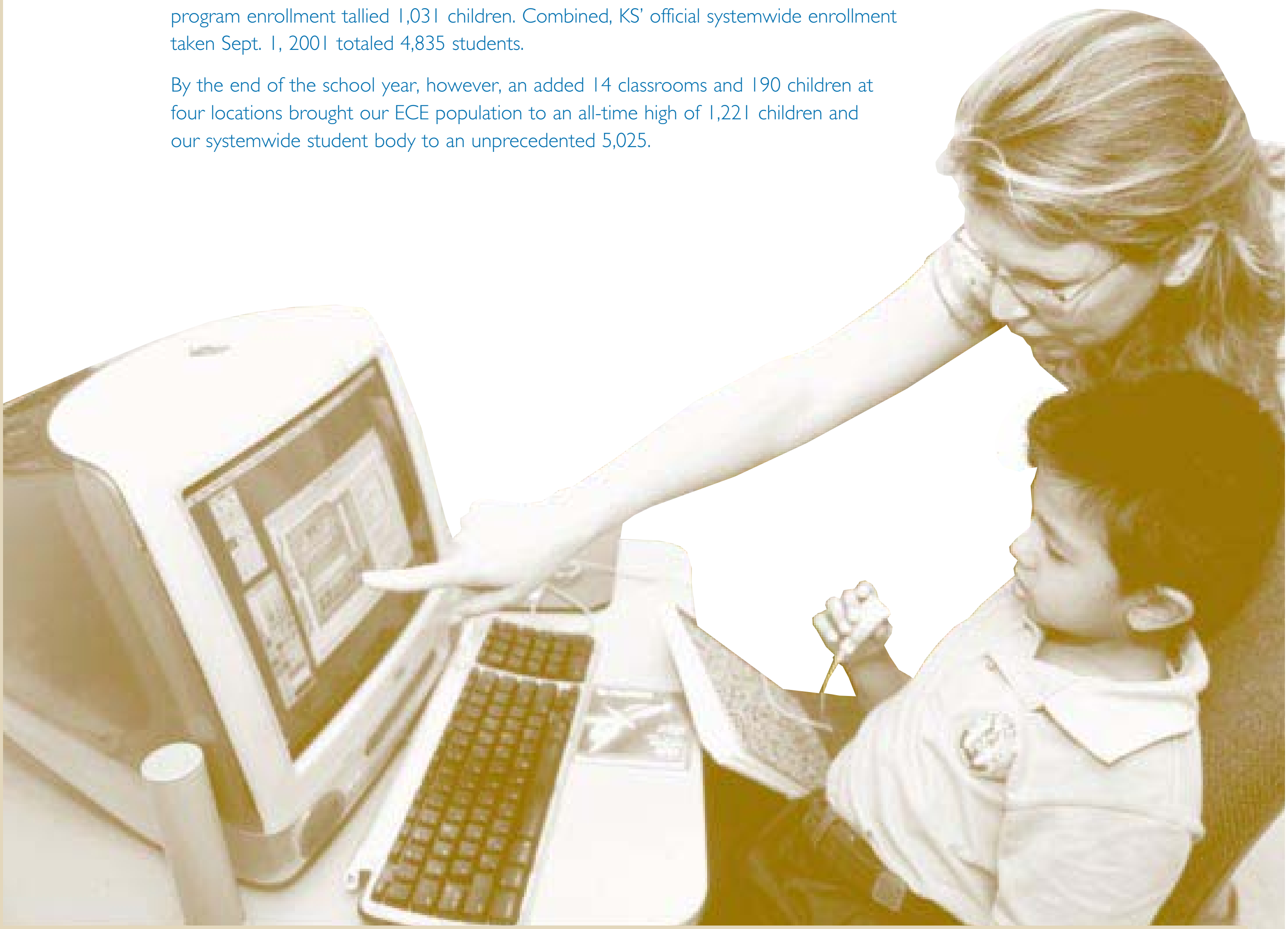
Rapid change and positive growth marked the 2001–2002 school year. Guided by our strategic implementation plan, Kamehameha witnessed accelerated growth in facilities, programs at neighbor island campuses, and in our ability to reach more Hawaiians through renewed emphasis on extension education and early childhood education programs.

Aligning Kamehameha Schools' statewide educational system with the Kamehameha Schools Strategic Plan 2000-2015 for the purpose of extending our educational reach among people of Hawaiian ancestry guided every aspect of our work in fiscal year 2001–2002.

EXTENDING THE SYSTEM

At the onset of the school year, Kamehameha's three-campus kindergarten through grade 12 (K-12) program enrollment stood at 3,804 students—a six percent increase (270 students) over the previous year. At the same time, our 58-classroom, 28-site Early Childhood Education (ECE) program enrollment tallied 1,031 children. Combined, KS' official systemwide enrollment taken Sept. 1, 2001 totaled 4,835 students.

By the end of the school year, however, an added 14 classrooms and 190 children at four locations brought our ECE population to an all-time high of 1,221 children and our systemwide student body to an unprecedented 5,025.



TOTAL ENROLLMENT BY PROGRAM

Official enrollment for the 2001–2002 school year as of Sept. 1, 2001.		
PROGRAM	NUMBER	
	Program	Campus
KAPĀLAMA CAMPUS		3,192
High School (9-12)	1,801	
Middle School (7-8)	640	
Elementary (K-6)*	751	
HAWAIʻI CAMPUS		340
High School (begins SY '02)	n/a	
Middle School (6-8)	144	
Elementary (K-5)	196	
MAUI CAMPUS		272
High School (begins SY '02)	n/a	
Middle School (6-8)	144	
Elementary (K-5)	128	
EARLY CHILDHOOD EDUCATION		1,031
Oʻahu Preschools	465	
Hawaiʻi Preschools	370	
Kauaʻi Preschools	106	
Maui Preschools	72	
Molokaʻi Preschools	18	
Total Pre-K to 12 Enrollment		4,835

Source: School Administrative Student Information (SASI) Databases 9/1/2001.
**Hawaiʻi and Maui Campuses have adopted a 6-8 grades middle school structure; Kapālama Campus has retained grade 6 in its elementary division.*

Kapālama Campus K-12 enrollment is expected to remain relatively constant at about 3,200. Campus-based K-12 programs at Hawaiʻi and Maui campuses, however, are anticipated to triple present enrollment as their high school programs come on-line. By 2005, Kamehameha's total campus-based K-12 enrollment will have expanded to approximately 5,000 students where it is anticipated to stabilize.

Extending our K-12 reach will not end there, however. Among new initiatives set forth in our strategic implementation plan, non-campus-based K-12 outreach programs are currently in development—with both public and private agencies and foundations—that will add 1,000 new K-12 students to Kamehameha-resourced collaborative educational programs.

EXTENDING THE REACH

Working together, Kamehameha's educational leadership set out on a thorough, department-by-department assessment of our existing education programs and to bring clarity and specificity to our strategic objective of extending the reach of Kamehameha Schools.

A daunting procedure, the process is still underway. Yet, early accomplishments included formalization of the official names of Kamehameha's three permanent K-12 Campuses. Approved by the trustees in December 2001, neighbor island campus names reflect their island's identity—KS Hawai'i Campus (KSHC) and KS Maui Campus (KSMC)—while on O'ahu, Kapālama Campus will retain its historic name and identity.

Next, with a commitment to maintaining the excellence of our existing programs, the Education leaders worked closely with the Chief Executive Officer, KS' Office of Strategic Planning (OSP), and the Policy Analysis & System Evaluation (PASE) office to initiate new educational service goals.

Unveiled by CEO Dr. Hamilton McCubbin at a December 2001 press conference, Kamehameha's most immediate strategic objectives were to expand early childhood enrollment to about one-third eligible Hawaiian children in the state; increase K-12 enrollment through collaborations and partnerships; bolster adult career educational opportunities; expand "life-long learning" programs; and, utilize the estate's vast land holdings for community development and "eco-cultural" education.

Violet-Marie (Mahela) Rosehill conducts a workshop for kūpuna on the ahupua'a.

The long process of research and development that consumed much of the 2001–2002 school year yielded important strategic education initiatives that were poised for implementation at the end of fiscal 2002.

Major initiatives—conversion charter schools and the Pauahi Keiki Scholars Program—anticipate extending our educational reach and resources well beyond the brick and mortar of our campuses and directly into communities with large Hawaiian populations. K-12 campus-based programs grew at an unprecedented rate. And, KS' Instructional Planning Project began the process of developing a systemwide philosophy of education.

CONVERSION CHARTER SCHOOLS

Representing a significant strategic initiative was the April 2002 passage of Hawai'i State Senate Bill 2662—Conversion Charter Schools.

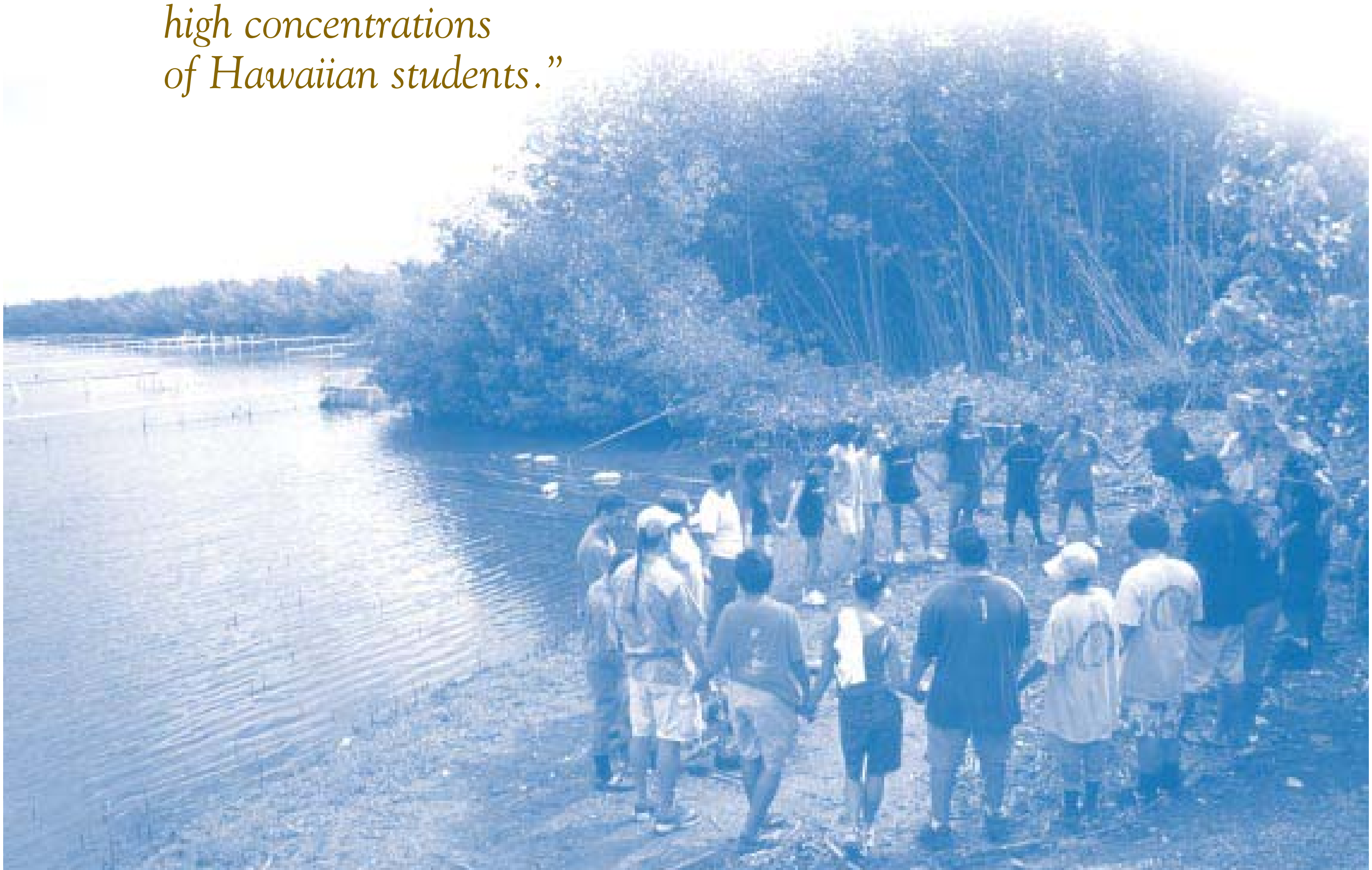
Vigorously advocated by KS, the legislation allows non-profit organizations to collaborate with the DOE and others to bring educational expertise and resources to the management of selected public schools.

"Hoʻokākoʻo Corporation is a new non-profit organization established to support DOE K-12 programs in districts with high concentrations of Hawaiian students."

Hoʻokākoʻo Corporation is a new, separate non-profit organization established to manage and operate K-12 conversion charter school programs. Through its support of Hoʻokākoʻo Corporation, KS will facilitate improved educational services to more Hawaiians in the public schools.

Groundwork is already in place for Hoʻokākoʻo Corporation to work closely with the DOE schools, providing financial and professional resources, curriculum materials, staff development and consulting services in "value added" support to DOE K-12 programs in districts with high concentrations of Hawaiian students and academic need.

Participating school selection will be made by Hoʻokākoʻo Corporation based on several factors, including being located in areas currently under-served, having high percentages of Hawaiian students enrolled and high levels of at-risk indicators—such as absentee rates, public assistance and test scores.



PAUAHI KEIKI SCHOLARS

Consistent with our core value that acknowledges the critical importance of building a solid foundation for learning in the formative years, as well as expanding community capacity for education, KS' educational reach was greatly enhanced through the creation of the Pauahi Keiki Scholars Program.

In April 2002, the Probate Court granted Kamehameha's "Petition for Instructions," allowing the trustees to expand KS' early childhood education programs by developing, implementing and maintaining three new programs including early education scholarships and family educational services.

KS' first major initiative was the Pauahi Keiki Scholars Program (PKS). A collaboration between ECE and Ke Ali'i Pauahi Foundation's Financial Aid Department, the Pauahi Keiki Scholars Program expands early education opportunities by providing need-based scholarships to 4-year-olds giving preference to those of Hawaiian ancestry, enabling them to attend qualified preschools in their communities.

A Pauahi Keiki scholar and her parents.

In its first year, PKS launched a major scholarship solicitation, identifying qualified 4-year-olds in need. Next, more than 100 preschools wishing to qualify to participate in PKS were each visited and reviewed by Kamehameha's Early Childhood Education professionals under the direction of Dean Suzanne Ramos. Once approved by ECE, matching qualified students with approved preschools was begun.

More than just a scholarship program, PKS also began mentoring participating preschools that are working toward accreditation, thereby providing the means for long-term growth and expansion of community capacity for education—a significant strategic goal.

K-12 CAMPUS-BASED PROGRAMS

Our K-12 campus programs expanded at a rapid rate, providing 500 more spaces for K-8 students. At KS' Hawai'i and Maui campuses, Phase II construction—of five planned phases—was completed. New classrooms, gymnasiums, cafeterias, media centers and playing fields were in place in time for the arrival of grade nine—the first high school classes—on our neighbor island campuses.

Both Hawai'i and Maui campuses reflect state-of-the-art instructional facilities supported by top-of-the-line technology.

Kapālama Campus maintained its commitment to program excellence with the Elementary School achieving Western Association of Schools and Colleges (WASC) accreditation. Kapālama's Middle School gained its own identity, independent governance and principal in the 2001–2002 school year. Finally, Kamehameha High School at Kapālama expanded its outstanding academic, arts, science, advanced placement, and honors programs.

INSTRUCTIONAL PLANNING PROJECT

In reviewing and updating our entire instructional program, the Kamehameha Schools Instructional Planning Project reflects the enormity of KS' recent transformation from a single K-12 campus program to a statewide K-12 multi-campus, early childhood and extension education institution.

Headed by an 18-member interdisciplinary steering committee, including representatives from each Kamehameha campus, Early Childhood and Extension Education divisions, Kamehameha Schools Instructional Planning Project includes five work groups currently engaged in a broadly collaborative effort to propose a KS Philosophy of Education, establish systemwide educational standards, create a consistent effective student assessment program, and set up a process for providing our faculty with ongoing high quality staff development opportunities. Our goal is to establish and maintain high quality educational programs at each of the campuses and divisions.

PAUAHI'S LEGACY LIVES

The strategic initiatives sketched above mirror Kamehameha Schools' continuing commitment to the vision of Ke Ali'i Pauahi and the mission of this institution—to promote the well-being of people of Hawaiian ancestry through education.

But initiatives are only words without dedicated people to create, implement and guide them to positive outcomes. At Kamehameha, we are blessed with a hardworking, committed faculty and staff, dedicated to aligning this institution with our Strategic Plan and to implementing new initiatives to expand our educational reach.

As reports from each of our education divisions reveal, our faculty and staff and the work they do are the reason more children of Hawaiian ancestry will be touched by Kamehameha Schools' education programs—the reason Pauahi's Legacy Lives.

Kamehameha Schools–
Kapālama Campus

In the aftermath of the Sept. 11, 2001 tragedy, teachers, counselors, administrators and KS students participated in prayer and a memorial march. Without dismissing the year's emotional overlay, school resumed with a renewed sense of purpose and, in time, even the winsome joy of youth reemerged—albeit forever changed.

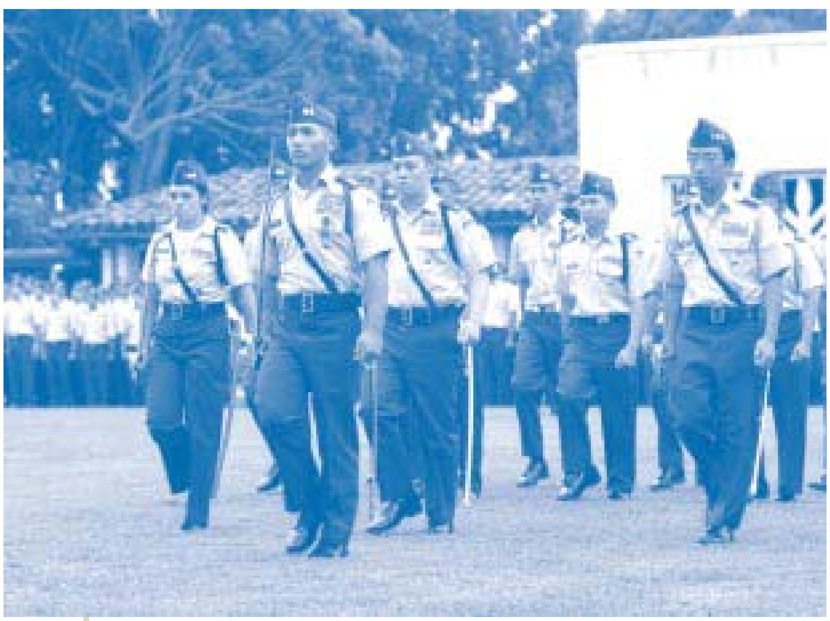
KAMEHAMEHA HIGH SCHOOL—KAPĀLAMA

Kamehameha High School—Kapālama (KHS) provides an exemplary college preparatory program designed to prepare grades 9 through 12 students for leadership positions in this global 21st century.

The Class of 2002 added 446 new graduates to Kamehameha Schools' 18,940 alumni who earned diplomas between 1891 and 2001. Seventy-one received academic honors diplomas—the largest number ever awarded to a single graduating class. Heavily recruited by top universities and colleges throughout the nation, 98 percent of them planned to pursue higher education.

Transitioning from federally funded programs included the elimination of some lunch programs, scholarships, college counseling sessions, and drug awareness and education programs. But in recognition of their importance KS will continue to underwrite several programs in lieu of federal dollars.

Additionally, Kamehameha Schools Junior Reserved Officers Training Corps (JROTC) was deactivated in May 2002. With a military program dating back to 1888, Kamehameha organized the first JROTC unit in Hawai'i after Congress passed the National Defense Act in 1916. At the time of deactivation Kamehameha's JROTC was rated Honor Unit with Distinction—the highest rating awarded by the US Army to a high school unit.

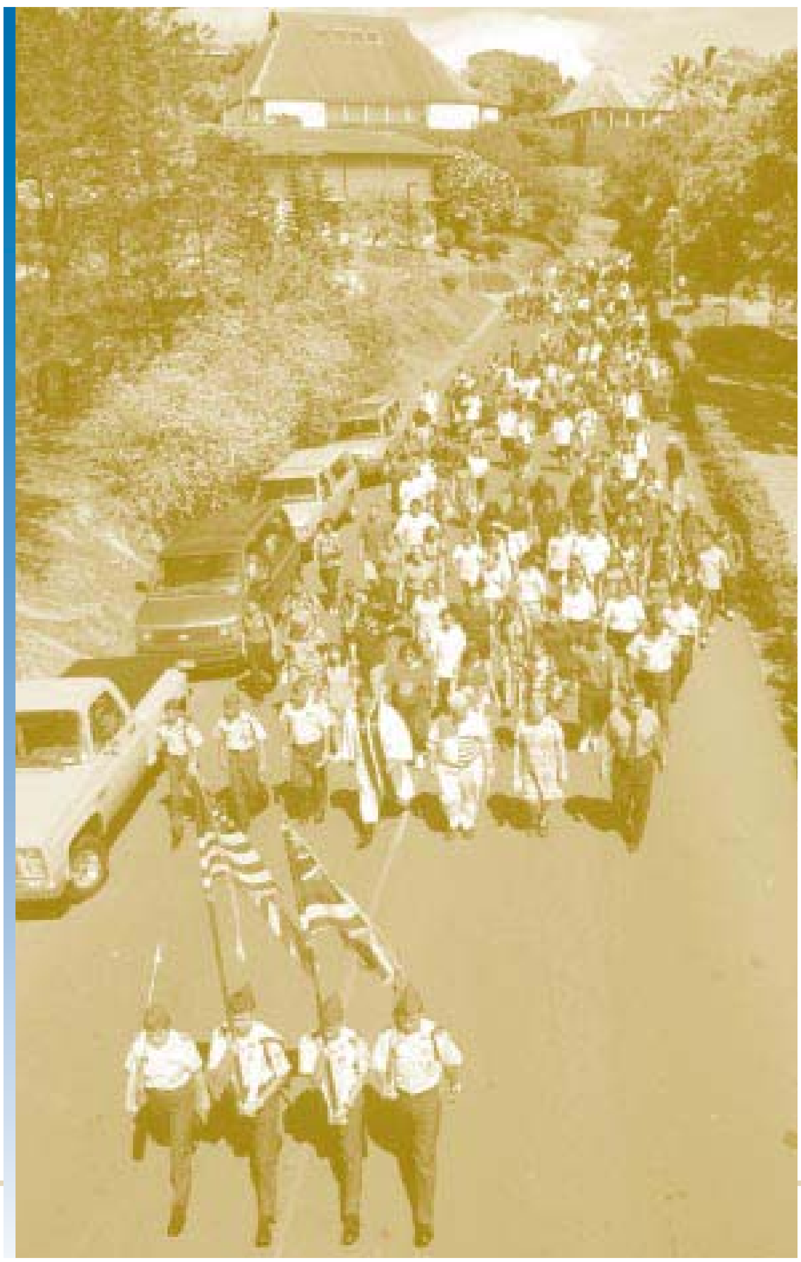


Kamehameha Schools Junior Reserved Officers Training Corps (JROTC) was deactivated in May 2002.

ENROLLMENT

Kapālama Campus—High School (KHS)		
Grade Level	Enrollment	Program
Grade 9	454	
Grade 10	448	
Grade 11	449	
Grade 12	450	
Program Total		1,801

Source: SASI Databases 9/1/2001



September 11, 2001 Memorial March on Kapālama Campus.

STUDENT ACHIEVEMENT

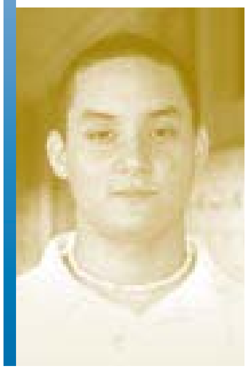
KHS students continued Kamehameha Schools' tradition of academic excellence, brought honor to their teachers and recognition for themselves in a year filled with outstanding achievements, state and national individual and team successes.

The Class of 2002 fielded 24 National Merit Commended Scholars and six National Merit Semi-Finalists. KS commended scholars ranked among the top 50,000 students nationwide and KS semi-finalists among the top one-half of one percent in the state of Hawai'i.

Mentored by teachers Calvin Fukuhara and Kim Slagel, the math team came in sixth in the nation—bringing home 21 individual and team trophies—at the 2002 Mu Alpha Theta National Convention held in July 2001—KS' best-ever finish in 25 years of national convention competition.

Math team mentors Fukuhara and Slagel

"The KS Kapālama High School math team came in sixth in the nation at the Mu Alpha Theta National Convention in July 2001."



Using a team approach, Kapālama teachers led students to top awards in two prestigious national writing competitions. In WordMasters attentive reading competition, KS' 11th and 12th grade team placed fourth in the nation—with Ke‘opu Reelitz ‘02 one of only 29 students in the nation to achieve a perfect score, while the 9th and 10th grade team placed sixth in the nation. And, Russell Soon ‘02 was honored with the National Council of Teachers of English 2001 Achievement Award in Writing.

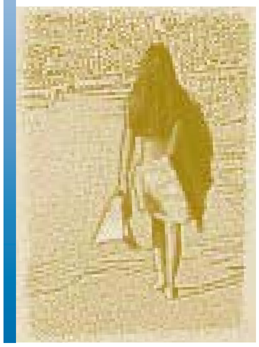
Russell Soon ‘02

In February 2002, KS swept the Hawai‘i Association of Independent Schools Science and Engineering Fair for the second consecutive year. KS received two of the top four competition places. Kiani Arkus ‘03 placed first for her work in biochemistry and Theresa Martinson ‘02 and Kanana Dang ‘03 won team honors, automatically granting them a berth at the International Science and Engineering Fair in May. KS students also captured seven out of 10 Best of Category Awards.

Early in the new year, Kiani Arkus ‘03 repeated as first-place winner at the 2002 Pacific Symposium for Science and Sustainability. More than 80 high school students presented research.

KHS teams placed first overall in the Hawai‘i Physics Olympics; first and second—the top two Hawai‘i finishers—in the Hawai‘i Bridge Building Competition. In addition, the junior varsity "A" Physics Team earned first-place overall in the 2002 test of Engineering Aptitude, Mathematics and Science at the University of Hawai‘i at Mānoa.

Dive teammates (l-r) Ronnie Oda ‘05, Sara Picador ‘03 with state diving champion, Josh Tyau ‘06.



KS Kapālama High School Student Art

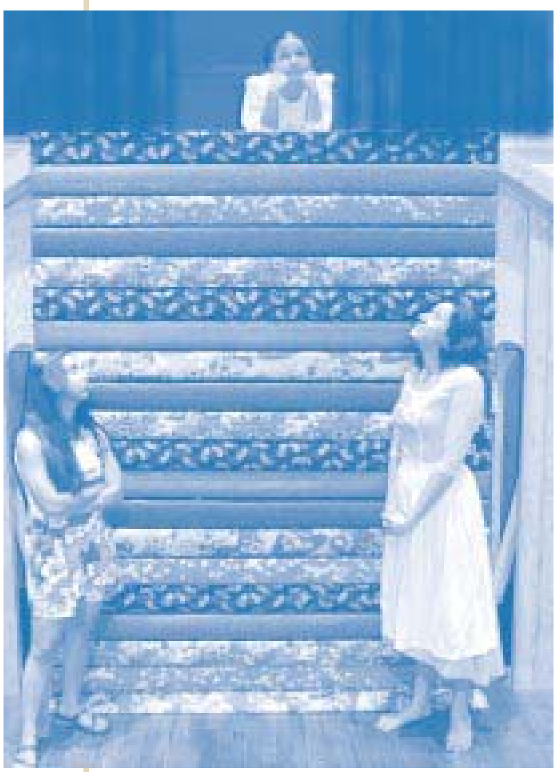
STUDENT ACHIEVEMENT *(Continued)*

KHS students displayed 11 individual pieces in the 39th Annual Hawai'i Regional Scholastic Art Exhibit—the most competitive juried high school art competition in the state. Among KS student entries, five were awarded Gold Key Awards and six received Silver Key Awards; three students also received Regional Special Achievement Awards.

The Hawai'i Speech League State Forensic Championships were held at the Kapālama campus in April 2002. At the end of the three-day tournament, Kamehameha Schools Speech and Debate team had won the overall championship. Kamehameha ended the tournament with 63 total points.

KHS athletics captured state championships in varsity softball, girls division I basketball, varsity cheerleading (cheerleaders also placed third in national competition) girls division-I paddling, boys varsity cross country, boys varsity golf, and boys varsity volleyball. KHS also won ILH championships in 25 other competitive varsity and junior varsity sports.

KHS student newspaper, *Ka Mō'ī,* was awarded first-place with Special Merit by American Scholastic Press Association; placed Best in Overall Photography and, was awarded Best Editorial for a private school with an enrollment of 1,700 - 2,500. The winning editorial, "Terrorist Attack Fosters Nationwide Hysteria," was written by seniors Holly Coleman and Ka'imi Crowell. English teacher Elizabeth Truesdell mentors *Ka Mō'ī* student journalists.

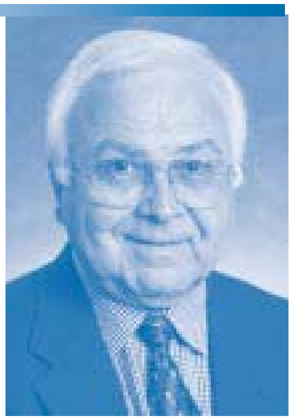


Jordan-Ryan Medeiros '02

In May 2002, Jordan-Ryan Medeiros '02 was named a Presidential Scholar by the U.S. Department of Education. Medeiros traveled to Washington D.C. where he met President George W. Bush and received his Presidential Scholar medallion. Medeiros cited KS teacher/mentor Calvin Fukuhara as the educator who most influenced him. A National Merit Finalist, Medeiros is pursuing his college education at Massachusetts Institute of Technology.

KS Drama Club, Keaka Kamehameha, presented The Princess and the Iso Peanut *to delighted audiences.*

STAFF ACHIEVEMENT



Anthony Ramos

Principal Tony Ramos was honored with the title of Hawai'i Secondary School Principal of the Year.

The National Council on Economic Education filmed economics teacher Dee Mecham's class as part of a video series aimed at inspiring and educating teachers. Mecham proved to be an inspiration to all, as he was also honored as Hawai'i Economics Teacher of the Year.

Elizabeth Truesdell was one of 175 from among more than 300 applicants selected to attend the High School Journalism Institute sponsored by the American Society of Newspaper Editors in June 2002.

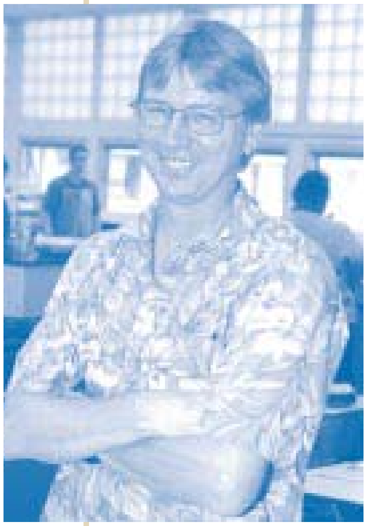
Under the direction of science teachers Dr. Lawrence Mordan and Nathan Nishimura, student research on the medicinal properties of indigenous Hawaiian plants has led to further training, financial support and internship opportunities for students. Groundbreaking research undertaken by students enrolled in the Honors Science Research Program led the National Cancer Institute (NCI) to grant a major research award to 'Imi Hale—the Native Hawaiian cancer awareness and research division of Papa Ola Lōkahi—for further study. Mordan and Nishimura will continue to develop KS' Honors Science research program and Kamehameha Schools will contribute laboratory and classroom facilities in the collaborative effort.

Teachers Peter Grach, Jay Kauka, Joel Truesdell, Nishimura and Mordan have guided Kamehameha's award-winning science program. Kamehameha Schools is the only high school science program ever so recognized by NCI. Four Kamehameha students were chosen for a research award.

"It was their opinion [the Hawai'i Academy of Science], that the significant improvement in the quality and sophistication of high school research projects over the past few years was a direct result of the bar being raised by the students at Kamehameha."

– Dr. Lawrence Mordan

STAFF ACHIEVEMENT *(Continued)*



In March 2002, Joel Truesdell was honored as one of 10 Hawai'i finalists for the 2001 Presidential Awards for Excellence in Mathematics and Science Teaching.

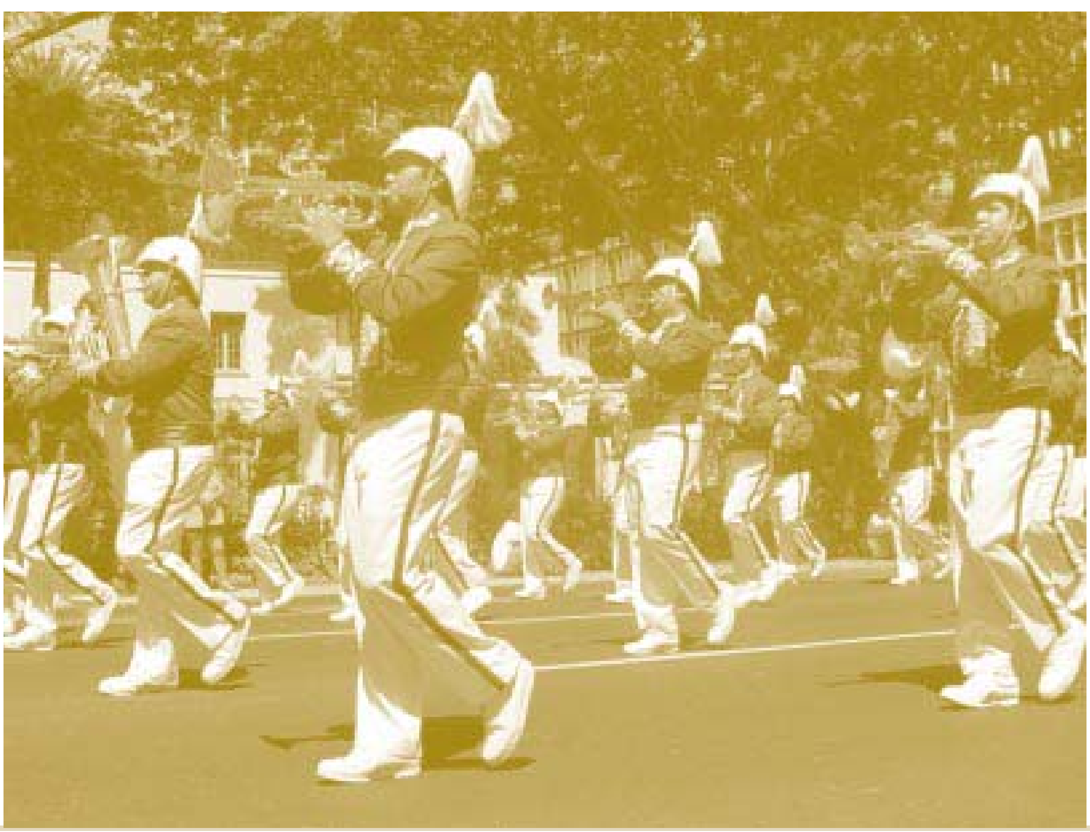
In November 2001, the KS Tournament of Bands celebrated its 25th Anniversary with a tribute to its founder John Riggle, director of the Warrior Marching Band and Color Guard. In January 2002, the band and color guard represented the State of Hawai'i in the Pasadena Tournament of Roses Parade.

Visual Arts Department Head Don Harvey and his staff mentored award-winning KS students in the April 2002 Congressional Art Exhibit. Five out of the nine winning entries were works by KS students.

Coached by Ruth Canham, Reggie Coats, Healani Huch, Gary Obrecht, Jim Slagel, Elizabeth Truesdell, Gail Woliver and Elsie Yonamine, KHS students reached national rankings in this year's WordMasters Challenge. In year-end cumulative standings, 11th- and 12th-graders placed 12th, and ninth- and 10th-graders placed 15th, out of 251 high schools in the national competition.

Joel Truesdell

KS Kapālama High School Marching Band



KAMEHAMEHA MIDDLE SCHOOL—KAPĀLAMA

Middle school curricula are designed to provide students with a systematic way of learning while continuing to practice basic skills. Comprised of seventh and eighth grade classes, the middle school model advocates coordinated group activities to promote cohesiveness and bonding. There is a strong emphasis placed on teaming of students and teachers. Teaming fosters cross-curriculum planning and coordination and helps create a "small school" feeling as students progress from elementary to middle school.

Sandy Young, Ed.D.

A major Kamehameha Schools' strategic development in the 2001–2002 school year was the launching of an independently governed, fully operational Kamehameha Middle School (KMS) program on the Kapālama Campus under the direction of Principal Sandy Young, Ed.D.

During its first full year of operation, KMS focused on the review and discussion of best practices in middle level curriculum and programs, developed a student activities and leadership program and emphasized Kamehameha's strategic goals and objectives.

Organizational restructuring—from a 7-12 grade secondary school unit to an independent 7-8 grade middle school—resulted in significant improvements in student, parent and faculty involvement. Also instituted were advisory decision-making councils made up of a cross section of staff, teachers, administrators, parents and students that worked to recognize and encourage excellence among students, staff and faculty.

ENROLLMENT

Grade Level	Enrollment	Program
Grade 7	325	
Grade 8	315	
Program Total		640

Source: SASI Databases 9/1/2001

STUDENT ACHIEVEMENT

More than 70 percent of KMS students received academic honors during the 2001–2002 year, and the first three distinguished scholars—students with five continuous straight "A" averages—were recognized at the Leadership and Honors Banquet.

"More than 70 percent of KMS students received academic honors during the 2001–2002 year."

Middle school students raised more than $2,600 in relief funds for victims of the Sept. 11, 2001 tragedy.

Eighth grader Jerome Ascuncion took first-place—over 82 student contenders—in the 14th Annual Hawai'i Geographic Bee competition in April 2002. The boarder from Ha'ikū, Maui traveled to Washington D.C. with his parents and social studies teacher Shirley Todd to represent the state in the National Geographic Bee.

STAFF ACHIEVEMENT

KMS Principal Sandy Young, Ed.D. was named to a four-year term on the advisory board of the National Honor Society (NHS). Already on the board of the National Association of Secondary School Principals, Young works with national educational leaders. Young hopes to bring a chapter of the National Junior Honor Society to the Kapālama middle school.

Kalama Dining Hall cook Wilma Joyce Nauka's family was the focus of a TV Asahi television production broadcast in Japan. The TV Asahi crew filmed Nauka preparing the May Day lunch for Kapālama's middle, elementary and Ulupono Preschool students and staff. Scenes from the segment were part of an hour-long documentary titled, "Families in Harmony—the Real Hawaiian Family."

Hawaiian language teacher Lilinoe Ka'ahanui received accolades from her peers and the community as "the face" of imua tv—Kamehameha Schools' monthly half-hour television program broadcast on public access stations throughout the state and in the San Francisco Bay area. Ka'ahanui hosts the magazine-style program that spotlights outstanding KS students, staff, alumni, programs and activities.

Lilinoe Ka'ahanui

Wilma Joyce Nauka

KAMEHAMEHA ELEMENTARY SCHOOL—KAPĀLAMA

Kamehameha Elementary School (KES) provides a program that addresses the development of the "whole" child through academics, social skills, the arts, and cultural, spiritual and physical education.

Among the most important educational initiatives at KES through the 2001–2002 school year was its accreditation process. Principal Kahele Kukea led the KES program to a six-year accredited term from the Hawai'i Association of Independent Schools (HAIS) and the Western Association of Schools and Colleges (WASC).

A self-study completed in December 2001 resulted in a five-to-seven year tactical plan that seeks to align KES with both the overall Kapālama Education Plan and Kamehameha Schools Strategic Plan in four major goal areas: communication; curriculum/instruction; responsibilities of parents and students; and admissions.

Kahele Kukea

ENROLLMENT

Grade Level	Enrollment	Program
Kindergarten	80	
Grade 1	80	
Grade 2	80	
Grade 3	80	
Grade 4	144	
Grade 5	143	
Grade 6	144	
K-6 Program Total		751

Source: SASI Databases 9/11/2001

STUDENT ACHIEVEMENT

Twenty-three sixth-graders were honored with the U.S. Department of Education's President's Award for Educational Excellence for high achievement and citizenship.

KES students demonstrated community service through a number of wide-ranging projects. The members of the Kamehameha Schools Children's Chorus and their families created 20 Thanksgiving baskets for the Prevent Child Abuse Hawai'i drive and performed for patients of Maluhia and Kapi'olani Hospitals. Colleen Tano's fifth-grade class sang for the children at Shriner's Hospital. KES students also donated 948 pounds of food to the Hawai'i Food Bank and raised more than $450 for the Afghan Children's Relief Fund.

In the wake of Sept. 11, fifth-grade students created and sold lapel pins in the shapes of hearts and stars painted with the American flag, with proceeds going to the Hawai'i chapter of the American Red Cross.

It was quite a year for the Kamehameha Schools Children's Chorus (KSCC) under the direction of Lynell Bright. Locally, the chorus joined island artists in recording "Give Aloha" to promote the first Synergy Hawai'i Day. At a national and even international level, they recorded two songs—title track "He Mele No Lilo" and "Hawaiian Roller Coaster Ride"—for the soundtrack of the animated Walt Disney feature *Lilo & Stitch.* The chorus attended the film's Hollywood premiere, appeared on ABC Television's "Movie Surfers" program and performed the songs during the pre-game show of the 2002 Pro Bowl at Aloha Stadium. Several airlines have also featured the *Lilo & Stitch* numbers as part of their in-flight entertainment programs.

Again leading the Jump Rope for Heart campaign, KES students raised more than $58,000 for the American Heart Association—the highest total of any school in Hawai'i for the eighth consecutive year. The three elementary school campuses raised more than $74,000 for American Heart Association.

The KES Jazz Band, in its first public performance at the Charles Reed Bishop Awards Dinner, earned standing ovations for its lively presentations.

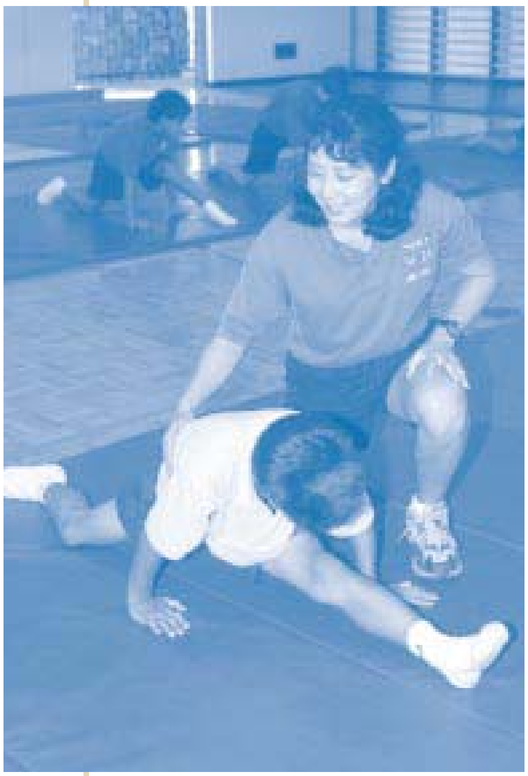
KS Children's Chorus performs a Disney song from Lilo and Stitch *with composer Mark Ho'omalu.*

STAFF ACHIEVEMENT

Among Kapālama's outstanding staff achievers this year were 19 teachers trained in the Schools Attuned program, two teachers enrolled in Pauahi Leadership Training, and two engaged in a University of Hawai'i–Hilo space science program.

Demonstrating servant leadership, 19 KES teachers served as cooperating teachers for University of Hawai'i College of Education pre-service teaching programs, and 11 served as mentors for the new Hawaiian culture-based University of Hawai'i Kaho'iwai teacher training program.

Physical education teacher Lynn Yuen was named Hawai'i State Elementary Physical Education Teacher of the Year.



Lynn Yuen, 2001-2002 Hawai'i State Elementary Physical Education Teacher of the Year.

Under the leadership of PE teachers Jay Tschillard and Lynn Yuen, KES students raised more than $58,000 for the American Heart Association by participating in the Jump Rope for Heart Campaign.

KAMEHAMEHA SUMMER SCHOOL—KAPĀLAMA

Restructuring Kamehameha Schools summer programs was undertaken in the fiscal year 2001–2002. Campus-based academic and some summer enrichment programs transferred to the Program Support Division. Remaining summer courses were consolidated under the Extension Education Division's enrichment programs.

Additionally, major summer construction on the elementary campus forced Kapālama's Summer School Primary Program to move to a temporary location at Pauoa Elementary School. About 140 KES students enrolled in the primary program and nearly 380 non-Kamehameha students also took advantage of this unique opportunity.

A new Hawaiian elementary enrichment program for grades three and four was also added to the Kapālama Summer School program. Aligning with KS' commitment to cultivate, nurture, perpetuate and practice ʻIke Hawaiʻi, the elementary enrichment program offered studies in Hawaiian language, technology, performing arts and culture. Students learned and practiced Hawaiian vocabulary, sang mele and chants and studied the ahupuaʻa system.

More than 95 enrichment, improvement and credit courses were offered at the Kapālama Campus Summer School for grades 5-12.

Pauoa Summer School Hōʻike

ENROLLMENT

Kapālama Campus—Summer School

Grade Level	KS Students	Non-KS Hawaiians	Non-Hawaiians	Program Total
1-4	141	379	26	546
5-8	442	466	35	943
9-12	844	130	18	992
Total	1,427	975	79	2,481

Kamehameha Schools–
Hawai‘i Campus

Kahu Wendell Davis, Trustee Robert Kihune, CEO Hamilton McCubbin, Headmaster Stan Fortuna and Kahu Kordell Kekoa untie the maile lei at the opening of the KSHC middle school.

Hawai‘i Campus' unique geography offers creative learning opportunities for its students. Particularly important in 2001–2002 was faculty participation in advanced training in technology, astronomy, Hawaiian language, music, math and more. Astronomy, volcanology, and agriculture are among the many exciting career opportunities available to students on their home island.

On Sept. 7, 2001, more than 1,000 parents, students, staff, alumni and guests gathered to celebrate the opening of the middle school on the 312-acre permanent Kamehameha Schools Hawai‘i Campus in Kea‘au (KSHC).

KHSC grew exponentially during the year. The campus' student population doubled—from 174 in the 2000 school year to 340 in 2001—and the search for more than 50 new staff positions required for the 2002-2003, was initiated.

Simultaneous with population growth was the dynamic environment created by the construction of eight new K-5 and high school buildings.

Guiding KS' burgeoning Hawai‘i Island program was Headmaster Stan Fortuna, Jr., Ed.D., who joined Kamehameha in July 2001 following a 16-year post as school superintendent in three Michigan districts. With extensive teaching, fiscal and school construction experience, Fortuna holds education and business management degrees from the University of Chicago, Western Michigan University and Aquinas College, and completed a Harvard University fellowship.

Noteworthy among education initiatives begun in the 2001–2002 school year were partnerships with Cornell University, Nāwahīokalani‘ōpu‘u Immersion School, the Kahala Center, and the University of Hawai‘i-Hilo.

In addition, planning for an innovative high school curriculum—that will include career academies and the "inverted science" curriculum—got underway in anticipation of KSHC's first high school class in fall 2002.

High School Principal Ninia Aldrich

ENROLLMENT

Hawai'i Campus—Elementary School

Official enrollment for the 2001–2002 school year as of Sept. 1, 2001.

Grade Level	Enrollment	Program
Kindergarten	20	
Grade 1	20	
Grade 2	20	
Grade 3	40	
Grade 4	48	
Grade 5	48	
Program Total		196

Source: SASI Databases 9/1/2001.

ENROLLMENT

Hawai'i Campus—Middle School

Grade Level	Enrollment	Program
Grade 6	48	
Grade 7	48	
Grade 8	48	
Program Total		144

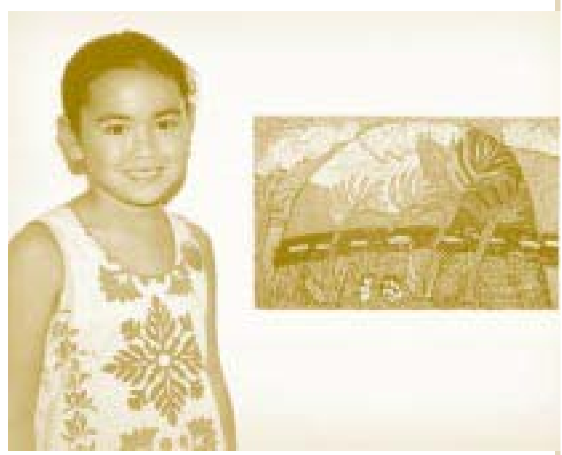
Source: SASI Databases 9/1/2001.

K-8 Principal Barbara Robertson

KSHC ELEMENTARY SCHOOL— STUDENT ACHIEVEMENTS

Seventy-five KSHC students from kindergarten through grade eight had entries accepted for exhibition in the 14th Annual Young at Art Exhibit—a juried art exhibit held at the East Hawai'i Cultural Center in collaboration with University of Hawai'i-Hilo and various professional artists. Second-graders Amanda Lerma and Corin Kim received Awards of Recognition for their entries.

Mentored by physical education teacher Tammy Lee, elementary school students set a campus record by raising more than $9,200 for the American Heart Association in the annual Jump Rope for Heart campaign.



Amanda Lerma with her award-winning painting.

STUDENT ACHIEVEMENT

KSHC's middle school math team received second-place honors in the Hawai'i Island Math Counts Competition and qualified to compete in the state championships in April 2002. Hawai'i campus students received honorable mention in the state competition that also witnessed the first head-to-head contest between two KS campuses at the state level. Sister campus Kapālama also achieved honorable mention.

In another, rather unique student accomplishment, middle school students hosted a tri-campus (Kapālama, Hawai'i and Maui) educational activity and dance on the Hawai'i Campus—a first in the annals of Kamehameha Schools.

Theme Week provided interdisciplinary studies and a unique set of service learning opportunities for middle school students. Emphasis on Hawaiian values permeated activities. Among student projects were the cleaning of lo'i (taro patches) in Waipi'o Valley; rebuilding fishpond rock walls at Keaukaha; and, litter pick up at Queen Lili'uokalani Park. Seventh-graders studied geology from the mountain to the sea and rebuilt rock walls. Sixth-graders—interviewing visitors to Hilo and meeting with state and county officials—studied the effect of tourism on the island of Hawai'i.

KSHC Middle School students in between rounds at the State Math Counts competition.

Finally, extending educational opportunities for students in collaboration with UH-Hilo, KSHC math teachers fostered student participation in the "Stock Market Game," receiving first-place honors in the program over other Hawai'i Island middle, high and college level students. These students went on to win second-place, middle school division, in the statewide competition.

K-8 Vice Principal Eva Bogue

STAFF ACHIEVEMENT

A production of Shakespeare's *A Midsummer's Night Dream* in dinner theatre style included the team effort of teachers from KSHC's drama department, health and nutrition class, art department and faculty volunteers.

Supporting greater educational access to Kamehameha, faculty planned and organized a summer orientation program for incoming K-8 students. Overseen by kinder-garten teacher Karen Coon, teachers collaboratively prepared new students in class protocol, chants, songs, and values so that they might confidently enter the fall program.

Teachers Nani Pai, Karen Loo and Tracey Kaneakua attended mainland conferences. Nani Pai was nominated to the Geography Alliance. Curriculum Coordinator Keala Lee Loy worked with teachers to develop a systematic curriculum and review process to ensure proper sequencing and articulation across grade levels.

Kamehameha Schools–
Maui Campus

Highlighting the 2001–2002 school year were important initiatives focusing on reach, quality and improvement at Kamehameha Schools Maui Campus (KSMC). These initiatives reflected the campus' cultural dynamic of growth in facilities, staffing, curriculum and student population serving to align Maui's K-12 program with Kamehameha Schools strategic goals and implementation efforts.

While establishing strong academic and behavioral standards, KSMC also worked to embed an expectation of service learning and leadership—at school and in the Maui community.

The addition of 96 new students doubled the number of sixth- and seventh-graders and added an eighth grade level.

Display at KSMC dedication of new buildings on September 27th.

Coincident with Maui's student, staff and curricula expansion, was the construction of five major buildings and a completed educational leadership team led by Headmaster D. Rodney Chamberlain, Ed.D. A career educator, Chamberlain spent 22 years at the Milton Hershey School in Pennsylvania and was head of school for University Lake School in Wisconsin prior to joining Kamehameha in July 2001. Chamberlain holds a master's degree and doctorate in curriculum and supervision from Pennsylvania State University.

KSMC held several special events, among them:

- All-school Founder's Day and May Day programs;
- The first eighth-grade Rite of Passage Ceremony as middle school students move on—nine to board at Kapālama Campus and 39 as incoming freshmen at the new KSMC high school; and,
- A blessing for the last elementary school building, Nāhiʻenaʻena, and the naming of buildings coming on-line as campus construction proceeds over the next four years.

Organizationally, KSMC also began its transition from a K-8 elementary campus to a K-12 school. Structurally, the organization was remodeled to put a leadership team in place in preparation for a second division (i.e., the middle school campus) by July 2002, and the rudiments of a high school division beginning in the 2002-2003 fiscal year.

Maui leadership team (l to r) front row: Lokelani Patrick, Kimberly Thomas and Carl Alexander. Middle row: Dr. Rod Chamberlain, high school principal Mitchell Kalauli and K-8 principal Lee Ann DeLima. Back row: Douglas Holt, Kalani Wong and Kurt Ginoza.

ENROLLMENT
Maui Campus—Elementary School

Grade Level	Enrollment	Program
Kindergarten	20	
Grade 1	20	
Grade 2	20	
Grade 3	20	
Grade 4	24	
Grade 5	24	
Program Total		128

Source: SASI Databases 9/1/2001

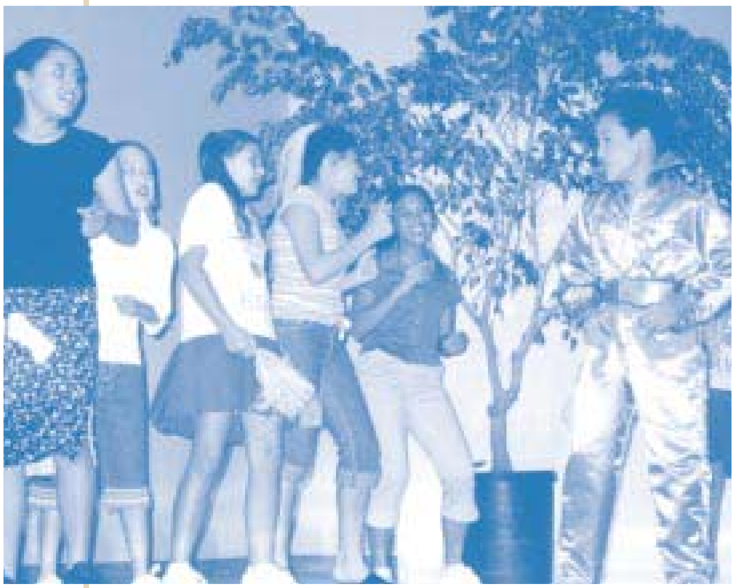
ENROLLMENT
Maui Campus—Middle School

Grade Level	Enrollment	Program
Grade 6	48	
Grade 7	48	
Grade 8	48	
Program total		144

Source: SASI Databases 9/1/2001

STUDENT ACHIEVEMENT

March 2002 brought the culminating project for KSMC's fifth-grade drama class. Students—with help from fourth- and sixth-graders and parents—presented a two-hour production of the hit Broadway musical, *Bye Bye Birdie.* Directed by teacher Peter Winkler, three successive performances drew an estimated audience of more than 800 who enjoyed this new Maui children's theatrical tradition.



KSMC elementary students sang and danced their way through a two-hour production of the musical, Bye Bye Birdie.

Middle school students participated and scored well in several new events, such as the Department of Education/American Institute of Architects Bridge Building Contest and Kiwanis Track Meet, while the eighth-grade girls volleyball team won the two tournaments it entered.

Middle school students' service learning projects included the preparation of "doggie bags" of treats to help new owners with their adopted pets from the Maui Humane Society. Middle school students also assisted with the removal of alien plant species in the Lā'au Hawai'i Project and volunteered to assist efforts of the U.S. Marine and Wildlife Reserve, Hawaiian Islands Humpback Whale National Marine Sanctuary, Hale Mākua and the 'Īao Congregational Church Shelter Dinners.

STAFF ACHIEVEMENT

Among myriad efforts advanced amid the great growth spurt, KSMC welcomed 24 new faculty and staff members and collected operational baseline data to establish benchmark improvements for the future.

Academically, staff members added to their educational credits with the completion of one general equivalency diploma, two bachelor's and two master's degrees and participated in numerous workshops, courses and seminars.

Early Childhood Education

Under the direction of Dean Suzanne Ramos, Kamehameha's Early Childhood Education program (ECE) operated 57 classrooms at 28 locations throughout Hawai'i with a total enrollment of 1,031 students at the start of the year. Additional ECE classrooms at Pu'u Kahea in Wai'anae, Waimānalo, Ko'olau Loa, on O'ahu, Paukūkalo on Maui, and Waimea on Hawai'i brought Kamehameha's early childhood program to a historic operational high of 72 classrooms at 32 sites on five islands with a student population of 1,221 by the close of the school year.

Positively affecting early childhood education programs throughout the state of Hawai'i, Kamehameha's Early Childhood Education program opened up training opportunities to educators statewide, including private providers, state Department of Education and the University of Hawai'i.

Sharing KS' expertise continued with EXPO 2002 in January, where ECE staff prepared 66 language and literacy teaching exhibits.

Waimanalo preschoolers' sandbox is a playground as well as an educational resource.

ECE continued the innovative Breakthrough to Literacy Program (BTL)—in use in selected KS preschool classrooms since 1999. Studies have shown that children's greatest gains on standardized tests were those from classes utilizing the program, and parent surveys have reported an increased interest in books and reading by children in BTL classrooms.

Knowing that parents are a child's first teachers, Kamehameha's ECE staff encourages parents to participate actively in their children's school life. ECE staff provide parent workshops and activities related to child development and learning.

Three years ago, ECE began very successful extended-day programs at Ulupono on O'ahu and Waikoloa on the island of Hawai'i. To extend KS' reach to parents who would not otherwise be able to enroll their children in Kamehameha's preschool program, ECE will expand extended-day programs to nine new sites in the 2002-2003 school year.

ENROLLMENT

Early Childhood Education Enrollment—Systemwide

CLASSROOMS ENROLLMENT			
Regions	3-year-olds	4-year-olds	Total
O'ahu			
Honolulu	0	120	120
Ko'olau Loa	8	86	94
Ko'olau Poko	29	32	61
Wai'anae	16	174	190
Hawai'i			
East Hawai'i	12	176	188
West Hawai'i	61	121	182
Kaua'i	31	75	106
Maui	9	63	72
Moloka'i	0	18	18
Program Total	166	865	1,031

Source: SASI databases

** Since the official enrollment was taken, additional ECE classrooms opened, bringing Kamehameha's year-end preschool enrollment total to 1,221.*

STUDENT ACHIEVEMENT

A Breakthrough to Literacy class of 4-year-olds in Wai‘anae participated in a cross-age reading project with their neighboring 3-year-old class. Every child was able to read a book to his or her three-year-old partner.

Kamehameha Waikoloa Preschool children performed the "Pauahi Chant," written by KS Hawai‘i Campus' Hawaiian language teacher Hana Pau, for the opening of the Waimea Preschool.

Kahuku preschooler Keala Swafford was named the Preschool/Kindergarten category winner in the statewide Read to Me International Bookmarker Contest. Sponsored by the Hawai‘i Public Library System, Keala's winning artwork was printed and distributed at public libraries statewide, at KS Hawai‘i and Maui campus libraries and the Kapālama Elementary School Learning Center.

A highlight of the year was the participation of the Kalihi-Pālama children in the Founder's Day program at the Kapālama Campus. In years past, these children have always attended the program representing all KS preschool children across the state. At the 2001 ceremonies, two Kapālama high school seniors escorted each Kalihi-Pālama preschool child into the program.

STAFF ACHIEVEMENT

Eighteen ECE staff members enrolled in graduate level work in early childhood education; eight received Child Development Associates certification; five teaching assistants are working toward bachelor's degrees in early childhood education. Mona Amas and Sue Collins were nominated as Early Childhood Professionals of the Year. The late Sheri Galarza was a member of the National Standards Board in Reading and Literacy. Two staff members received training as accreditation validators for the National Association for the Education of Young Children (NAEYC) bringing the total number of staff KS validators to four. Kanani Mānoa is a member of a Hawai'i Medical Association project to develop cultural materials for the University of Hawai'i School of Medicine. Finally, West Hawai'i teacher Lehua Tan Kaulukukui was a torch-bearer for the Winter Olympics in Salt Lake City, Utah.

Extension Education

In the 2001–2002 year, Kamehameha Schools Extension Education Division (EED) was re-established as a major force.

With a mission to extend Kamehameha's reach by providing culturally based educational opportunities, primarily to non-Kamehameha Hawaiian students, the division added new program directors for its Hawaiian Studies Institute and enrichment programs, expanded literacy enhancement and distance learning services, completed the successful transitioning of federally funded programs, and celebrated the 35th anniversary of Hoʻomākaʻikaʻi: Explorations.

Literacy Enhancement Program Director Anna Sumida

Under the leadership of Dean Juvenna Chang, Ed.D., EED engaged in a year-long planning effort. New statements of vision, goals, objectives, operational plans and budgets were developed to align with KS' Strategic Plan and Pauahi's Legacy Lives priorities. Building on existing programs—Hawaiian Studies Institute, K-3 Reading, Summer Programs and Distance Learning—EED also created four new initiatives in a Grants Institute; Community Learning Center; Health, Wellness and Family Education; Career Education and Lifelong Learning.

ENRICHMENT

Name changes were instituted for two existing programs—K-3 Reading became Literacy Enhancement and Summer Programs was re-titled Enrichment Programs—to more accurately reflect EED's extending reach through offering programs to more Hawaiian students and their families on a year-round basis.

Highlighting campus-based enrichment programs, Hoʻomākaʻikaʻi: Explorations celebrated its 35th year. The week-long Kapālama-based residential program for fifth-graders of Hawaiian ancestry began in 1968 with an enrollment of 928. Since its inception, more than 50,000 non-Kamehameha student-explorers have completed the culturally rich program; approximately 1,800 students participate each summer.

ENROLLMENT
Campus-based Enrichment Programs

Campus-based Enrichment Programs							
Program	O'ahu	Hawai'i	Maui	Lāna'i/ Moloka'i	Kaua'i	Out of State	Total
Ho'omāka'ika'i: Explorations	939	304	152	45	151	225	1,816
Computer Camp	76	54	17	8	42	8	205
Kūlia I Ka Pono	38	37	4	4	19	16	118
Performing Arts Academy	90	-	1	-	-	3	94
International Studies Institute	8	2	-	-	-	20	30
Summer Science Institute	26	1	-	-	1	-	28
	1,177	398	174	57	213	272	2,291

Source: SASE Databases

Kamehameha again extended program support at Department of Education (DOE) summer program sites throughout the state. Working collaboratively with the DOE, KS assisted in funding the costs of teacher training, instructional materials, supplies, transportation, and field trips. In addition KS provided supplemental funding for administrators, teachers, teacher aides, specialists and kūpuna.

ENROLLMENT
KS/DOE Summer Enrichment Schools

Program	O'ahu	Hawai'i	Maui	Lāna'i/ Moloka'i	Kaua'i	Out of State	Total
Hawaiian Immersion—							
Ānuenue (+ multiple sites)	462	69	42	-	-	-	573
Kealakehe Elementary	-	243	-	-	-	-	243
Konowaena Elementary	-	120	-	-	-	-	120
Kohala/Waimea/Waikoloa	-	500	-	-	-	-	500
Lāna'i Elementary & H.S.	-	-	-	61	-	-	61
Lā'ie Elementary	73	-	-	-	-	-	73
Kamaile Elementary	150	-	-	-	-	-	150
Leihōkū Elementary	200	-	-	-	-	-	200
Mākaha Elementary	60	-	-	-	-	-	60
Wai'anae Elementary	75	-	-	-	-	-	75
Mā'ili Elementary	50	-	-	-	-	-	50
Nānākuli Elementary	180	-	-	-	-	-	180
Waimea Canyon	-	-	-	-	128	-	128
Kapa'a Elementary	-	-	-	-	182	-	182
	1,250	932	42	61	310	0	2,595

Source: Hawai'i State Department of Education

Among EED's unique collaborations, the Career Exploration Academy culinary arts course—a partnership of the enrichment program and Kapi'olani Community College (KCC)—earned KS students two credits toward a culinary arts degree.

ENROLLMENT

Unique Collaborations

Program	O'ahu	Hawai'i	Maui	Lāna'i/ Moloka'i	Kaua'i	Out of State	Total
Summer Strings Workshop							
Suzuki Violin Workshop	-	-	27	-	-	-	27
Exposure Workshop	-	-	16	-	-	-	16
Performance Workshop	-	-	29	-	-	-	29
Hina Malailena (Hāna Tutorial Program)	-	-	167	-	-	-	167
Career Exploration Academy—Culinary Arts	10	-	-	-	-	-	10
Nā Pua No'eau Summer Institute	-	44	-	-	-	-	44
Excite Camp	-	-	20	-	-	-	20
	10	44	259	-	-	-	313

Source: Kamehameha Schools Extension Education Division

Program	O'ahu	Hawai'i	Maui	Lāna'i/ Moloka'i	Kaua'i	Out of State	Program Total
All programs	2,437	1,374	475	118	523	272	5,199

Source: Program partner reports

Educational Initiatives

LITERACY ENHANCEMENT

EED's Literacy Enhancement Program (formerly the K-3 Reading Program) increased its reach to nearly 3,800 by providing instructional, tutorial and parental support at Nānāʻikapono, Nānākuli and other DOE and charter school sites.

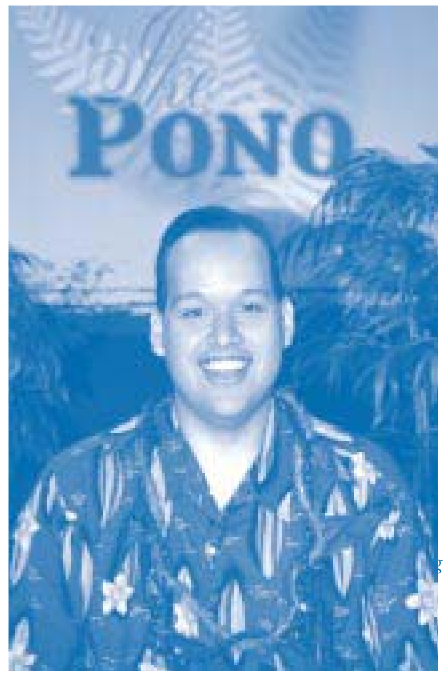
Twenty-one teachers from four DOE schools participated in a year-long study group to implement literature circles for professional development credits.

DISTANCE LEARNING

Distance Learning (DL) expanded its reach beyond two television courses for Kamehameha students to a statewide educational forum; digitized programs on-line; a pilot course for teachers on Molokaʻi using DL technologies; and an electronic field trip project. These efforts had a projected reach of more than 25,000 viewers.

EED's Distance Learning Department also debuted ʻIke Pono, a 30-minute cable TV educational discussion forum, shown on DOE and public access channels statewide. Aaron Mersberg, DL instructional designer moderated the series on educational issues relevant to the Hawaiian community.

The department also launched an on-line Hawaiian language study course. Titled "Kulāiwi" (native language), the 24 hour-long programs introduced viewers to Hawaiian language basics. This series is accessible worldwide by way of Kamehameha Schools' Distance Learning Website at http://ksdl.ksbe.edu. Electronic feedback from around the world indicates that the on-line Kulāiwi videotapes are helping anyone with an interest to learn the Hawaiian language.



Aaron Mersberg

HAWAIIAN STUDIES INSTITUTE

EED's Hawaiian Studies Institute developed and implemented Ka ʻIke o Nā Kūpuna resource program with Kūpuna Violet-Marie Rosehill, Julie Williams, and Carinthia Harbottle. The Windward Oʻahu pilot program supplemented culturally based DOE K-2 social studies classes with EED disseminated curriculum resources including the teaching kit "Kāneʻohe—Where I Live" based on the K-2 ahupuaʻa curriculum. In its initial year, training was completed for eight teachers, 72 kūpuna and 124 K-2 students.

TRANSITIONS

While transferring federal programs to other agencies, EED maintained positive relationships with its partners at the federal, state and community levels and continued program services to K-12 constituents through the end of the school year. The Native Hawaiian Higher Education Scholarship Program was transferred to the University of Hawaiʻi at Mānoa; the Native Hawaiian Health Scholarship Program transferred to Papa Ola Lōkahi; the Safe and Drug Free Program (SDFP) transferred to the Pacific Resources for Education and Learning; and, the Kamehameha Talent Search terminated its federal program but continued services to DOE students through the end of the school year with KS funding.

Kūpuna Violet-Marie Rosehill, Julie Williams, and Carinthia Harbottle.

STUDENT ACCOMPLISHMENT

The Kamehameha Talent Search program served 529 carryover participants: 71 percent were low-income and potential first generation college students; at least 80 percent of participating high school seniors graduated from high school or received a certificate of high school equivalency. Of the 157 seniors, 113 or 71 percent declared college enrollment plans.

Twelve KS Moloka‘i teachers received DOE professional development credits for completing a "Writing Across the Curriculum" course offered through distance learning.

STAFF ACCOMPLISHMENT

Anna Sumida, director of the Literacy Enhancement program, co-authored *Elevating Expectations* (Oct. 2001) with four teachers from Kamehameha Elementary School. The book focuses on alternative assessment, student-created rubrics, goal setting and three-way (parent, teacher, student) conferencing. Sumida also made a presentation at the National Council of Teachers of English conference on the relationship of cultural/self-identify on student comprehension strategies and writing.

Kaipo Hale, director of the Hawaiian Studies Institute, developed a teaching tool kit and curriculum on the life of Queen Liliu‘okalani for grades K-8 in KS/DOE partnered summer school programs. Staff of the KS Safe and Drug Free Program adapted Kamehameha Schools' ‘E Ola Pono curriculum for preschoolers and families.

In February 2002, the video "Kamehameha Schools—The Legacy Grows," made for Kamehameha's 2001 Service Awards program, received an Award of Distinction in 2001 Communicator Awards—an international competition recognizing outstanding work in the communications field. Chosen from more than 5,400 entries, "Kamehameha Schools—The Legacy Grows" was a collaboration of KS' Human Resources and Distance Learning departments.

The Distance Learning Department uses technology to deliver learning opportunities to more Hawaiians wherever they are.

Thirteenth. I give, devise and bequeath all of the rest, residue and remainder of my estate real and personal wherever situated unto the trustees below named, their heirs and assigns forever, to hold upon the following trusts, namely: to erect and maintain in the Hawaiian Islands two schools, each for boarding and day scholars, one for boys and one for girls, to be known as, and called the Kamehameha Schools.

Bernice P. Bishop

ADMISSIONS AND KE ALI'I PAUAHI FOUNDATION

Admissions Overview

As anticipated, Kamehameha Schools Admissions Office experienced a significant increase in overall applications for the 2001–2002 school year—from 6,018 to 7,506. The 25 percent increase was predictably traceable to massive enrollment expansion efforts at both the Hawai'i and Maui campuses.

Several strategies were undertaken to meet the challenges of expanding enrollment. Admissions added staff and opened "branch" offices at each of the new campus sites. Although the vast majority of application requests continue to be made by telephone or in person, comprehensive application information was offered on the Admissions Website—as well as direct e-mail links to admissions staff.

K-12 CAMPUS ADMISSIONS

Campus/Program	Applications	Invited	Percent Admitted
Kapālama Campus			
Kindergarten	1,109	80	7.2
Grade 4	887	65	7.3
Grade 7	1,224	182	14.9
Grade 9	881	167	19.0
Grade 10	238	16	6.7
Grade 11	143	16	11.2
Grade 12	56	9	16.1
Hawai'i Campus			
Kindergarten	112	20	17.9
Grade 3	84	20	23.8
Grade 4	76	28	36.8
Grade 5	74	24	32.4
Grade 6	85	26	30.6
Grade 7	136	23	16.9
Grade 8	74	24	32.4
Maui Campus			
Kindergarten	163	20	12.3
Grade 4 (Waitlisted)*	17	4	23.5
Grade 6	130	24	18.5
Grade 7	108	24	22.2
Grade 8	75	24	32.0
K-12 Totals	5,672	796	14.0

Source: Director of Admissions Report for the 2001–2002 school year.

*Maui Campus grade 4 invitees were drawn from waitlisted applicants

EARLY CHILDHOOD EDUCATION (ECE) ADMISSIONS

Statewide Admissions – Regular Session

ECE Program All sites & facilities	Applications	Invited	Percent Admitted
Three-year-old Program	544	236	43.4
Four-year-old Program	1,290	914	70.9
ECE Statewide Totals	1,834	1,150	62.7

Source: Director of Admissions Report for the 2001–2002 school year.

1 Kamehameha Schools' Policy is to give preference to Hawaiians to the extent permitted by law.

2 Kamehameha Schools' admissions 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 2000-2001 academic year, reflecting students entering Kamehameha programs for the first time in this reporting period, that is, in the 2001–2002 academic and fiscal year.

3 Kamehameha Schools' Admissions Department Website is http://www.ksbe.edu/admissions.

Ke Ali‘i Pauahi Foundation

Rockne Freitas, Ed.D.

Ke Ali‘i Pauahi Foundation (KAPF) is a vital tool in extending Kamehameha's educational reach.

Guided by its Vice President and Executive Director Rockne C. Freitas, Ed.D., KAPF is growing capacity for increasing the number of Hawaiians obtaining post-high education and multiplying the opportunities for alumni and friends of Kamehameha to become a part of Pauahi's living legacy through meaningful, tax-deductible contributions to Ke Ali‘i Pauahi Foundation's educational endowment.

A CELEBRATION OF GIVING

Ke Ali‘i Pauahi Foundation marked its first year by honoring Princess Bernice Pauahi Bishop and celebrating the circle of donors who demonstrated their belief in and support of Pauahi's legacy through their gifts of service and monetary contributions. Together, Kamehameha Schools' trustees, faculty, staff, alumni, parents and friends have built a strong beginning for the foundation.

Fully operational by the summer of 2001, KAPF is dedicated to perpetuating the value of kahiau—giving generously from the heart, with no expectation of return—while continuing Pauahi's vision of providing quality educational opportunities for students of Hawaiian ancestry. In gratitude for all that Pauahi has provided, the foundation gives others the opportunity to broaden her legacy. The following are just a few of the new programs and endowments that have been created to nurture this spirit of kahiau.

- Pennies for Pauahi is a program that KS Hawai'i Campus students initiated to collect pennies, pencils, paper and books to be shared with families in need throughout their community on Founder's Day 2002.
- The Inspirational Educator Endowment gives donors the opportunity to recognize individuals instrumental in inspiring others toward greater ends. Gifts in honor of these mentors are building an endowment to award scholarships to aspiring educators who are committed to serving the Hawaiian community.

  In celebration of KS' annual Service Awards, many KS faculty and staff were honored by their colleagues with donations in their names to the Inspirational Educator Endowment.
- The Myron B. and Laura Thompson Scholarship Endowment is dedicated to encouraging and enabling more Hawaiian students to achieve their dreams as envisioned by Myron "Pinky" and Laura Thompson. It was the Thompson family's wish to establish a scholarship that would enable more Hawaiian students to achieve their educational goals with hopes that they, in turn, become leaders who pave the way for generations to come.
- All in the Family is a new program which invites KS trustees, staff, faculty, parents and alumni to reinforce Pauahi's legacy with gifts for future generations. It is the spirit of kahiau that will be shared through scholarships for even more students of Hawaiian ancestry.

A YEAR OF TRANSITION

In 2001–2002, transitioning the administration of federal grants programs to other agencies and organizations serving Hawaiians negatively affected the total program dollars administered by KAPF. Yet, KS-funded financial aid and scholarship dollars—administered by KAPF's Financial Aid and Scholarship Services division—actually increased.

KAMEHAMEHA SCHOOLS-FUNDED FINANCIAL AID 2001–2002

	Amount	Applications	Recipients	Percent Awarded
Preschool-Grade 12				
Preschool	$341,500	653	575	88.1%
Elementary	$820,300	773	689	89.1%
Middle School	$911,100	519	481	92.7%
High School	$2,550,600	1,206	1,124	93.2%
Summer Programs				
KS Campus Program	$569,100	2,884	1,990	69.0%
KS/DOE Summer Program	$422,400	2,883	1,995	69.2%
Post-High School				
KS Graduates	$7,492,800	1,920	1,166	60.7%
Non-KS Graduates	$7,714,000	4,539	1,840	40.5%
KS/Alu Like Vocational Programs	$604,800	490	474	96.7%
East-West Center	$125,000	38	5	13.2%
Other Programs				
Hoʻomaka Hou	$106,000	58	58	100.0%
Total KS-Funded Financial Aid	$21,657,600	15,963	10,397	65.1%

Source: Ke Aliʻi Pauahi Foundation—Financial Aid & Scholarship Services Division

Kamehameha took great care to ensure a smooth transition from federally funded programs without interruption to services provided. KS also assumed the costs of three programs that subsidized meals for qualified students, library equipment and materials and student leadership.

Kamehameha worked closely with the U.S. Dept. of Education, appropriate federal agencies and the Hawaiʻi Congressional Delegation in facilitating the changes.

And, finally, the transfer of funds from Kamehameha Activities Association to KAPF was completed at the end of this fiscal year. To date, the foundation manages more than 70 individual accounts for an endowment in excess of $6 million.

PAUAHI KEIKI SCHOLARS

Knowing that the first five years of life are critical for a child's optimum development, and with Kamehameha preschools currently reaching only about 16 percent of the eligible 4-year-old Hawaiian children, in December 2001, KS' trustees requested court permission to expand early education programs in order to reach more children beyond KS' campuses and preschool classroom facilities.

Called the Pauahi Keiki Scholars Program (PKS), this historic initiative has enabled KS to expand its early educational reach by providing scholarships, with preference given to needy preschool age children of Hawaiian ancestry, for use in qualified, non-KS preschools throughout the state.

Eligible preschools include those accredited by the National Association for the Education of Young Children (NAEYC), in the process of NAEYC accreditation, or a program approved by the KS' Early Childhood Education Division.

Administered by KAPF's Financial Aid and Scholarship Services Program (FASS), PKS awarded nearly $1 million in need-based preschool scholarships to 198 4-year-olds for the 2002-2003 school year.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Endowment Overview

KS' 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.

Kamehameha Schools' endowment performed remarkably well during a year filled with significant world events that shook all of the major stock market indices and substantially devalued many investment portfolios.

The endowment posted a negative total return of less than one percent between July 1, 2001 and June 30, 2002, while the U.S equity markets posted double-digit losses for the same period. The S&P 500 index slid 18 percent; the NASDAQ composite index declined 31 percent and Dow Jones Industrial Average closed at more than a 10 percent loss. The global economy showed little momentum; most European equity markets experienced a loss of more than 20 percent and Asian stock markets dropped by about eight percent from January through June 2002.

Against this backdrop, the Endowment Group continued to implement strategic initiatives to efficiently and prudently utilize its resources to achieve KS' primary mission: to create educational opportunities in perpetuity to improve the capability and well-being of people of Hawaiian ancestry.

This includes significant master planning initiatives for major KS land holdings at Keauhou on the Big Island and Kaka'ako and Mō'ili'ili on O'ahu.

ASSET ALLOCATION

The endowment group continues to adjust its asset allocation to create a more efficient portfolio with more favorable risk/return characteristics and a more consistent long-term performance.

In August of 2001, KS adopted a Rebalancing Policy, which set ranges for its major non-core (or non-Hawai'i real estate) asset categories. This will allow KS to hold rebalancing costs at minimal levels. As of June 30, 2002, KS was within its targeted ranges with the exception of an overallocation to the Alternative Asset category and a small under-allocation to US Equity. (See chart)

Neil Hannahs, Land Assets Division Director

Sanford Murata, Commercial Assets Division Director

Susan Todani, Sr. Asset Manager, Investments

KAMEHAMEHA SCHOOLS' NON-CORE PORTOLIO*

Asset Class	Allocation 6/30/00	Allocation 6/30/01	Allocation 6/30/02	Target/ Range
U.S. Equity	53.1%	33.6%	31.3 %	32-48%
Non-U.S. Equity	3.4%	11.5%	12.9%	8-21%
Fixed Income	23.0%	31.7%	33.1%	25-35%
Alternative Investments:				
Venture and Private Equity	7.5%	7.0%	5.3%	5.0%
Absolute Return	0.9%	0.9%	0.8%	5.0%
Energy & Other	1.9%	2.3%	2.4%	2.5%
Real Estate (Mainland)	10.2%	13.0%	14.2%	2.5%
Total Alternatives	20.5%	23.2%	22.7%	10-20%

* *Amounts may not equal 100 percent due to rounding.*

Given the current economic slowdown, minimal merger, acquisition and initial public offering activity, migration toward the Asset Allocation targets is progressing as soundly as possible. It is estimated that the portfolio may take a few years longer to meet its target ranges as alternative asset investments mature or are sold. KS does not, however, expect the delay in reaching our policy ranges to significantly impact portfolio returns.

During the 2001– 2002 fiscal year, KS sold its remaining 5.46 million shares in Goldman Sachs stock for roughly $500 million. This enabled KS to reallocate and diversify the proceeds into other assets in accordance with its asset allocation targets. The sale of the Goldman Sachs stock contributed to enhanced performance, reduced volatility (risk) and improved liquidity in KS' Total Endowment.

Further, despite the positive performance of Mainland Real Estate, this asset class is significantly over allocated. Moving forward, KS plans to reduce its mainland real estate holdings to within the targeted ranges and reallocate the proceeds to other asset classes.

INVESTMENT PERFORMANCE

For the one-year period ended June 30, 2002, the Total Endowment achieved a total return of -0.65 percent. This return outperformed the blended Policy Portfolio benchmark (a policy-weighted average of all benchmarks for each individual asset class), CPI + 5 percent and the Cambridge Associates Large Endowment Fund Median benchmark.

The Endowment's three-year annualized return of 6.02 percent also outperformed the aforementioned benchmarks.

The Endowment, however, underperformed the Investment Policy's long-term benchmark of CPI +5 percent. This CPI + 5 percent benchmark represents a long-term absolute positive inflation-adjusted return standard, which does not always reflect realistic performance expectations for the short-term. Thus, from an investment policy standpoint, comparison to this return threshold is evaluated over rolling 10 to 20 year periods. Please refer to the "Schedules of Total Return" for a more detailed breakdown of the investment performance results.

Even though the U.S. economic forecast is generally optimistic, it is unlikely that it will clear investors' concerns immediately. The uncertainty of the timing and strength of economy recovery and investors' doubts about corporate governance will restrain further cash inflow in the capital market. KS believes, however, that over the long-term, market conditions will improve to a more normalized rate of growth, one that will enable KS to support its spending policy and its mission of providing education in perpetuity.

KS staff and UH students volunteer to clear hau and other plant species at He'e'ia Fishpond on O'ahu.

STEWARDSHIP AND ECO-CULTURAL EDUCATION

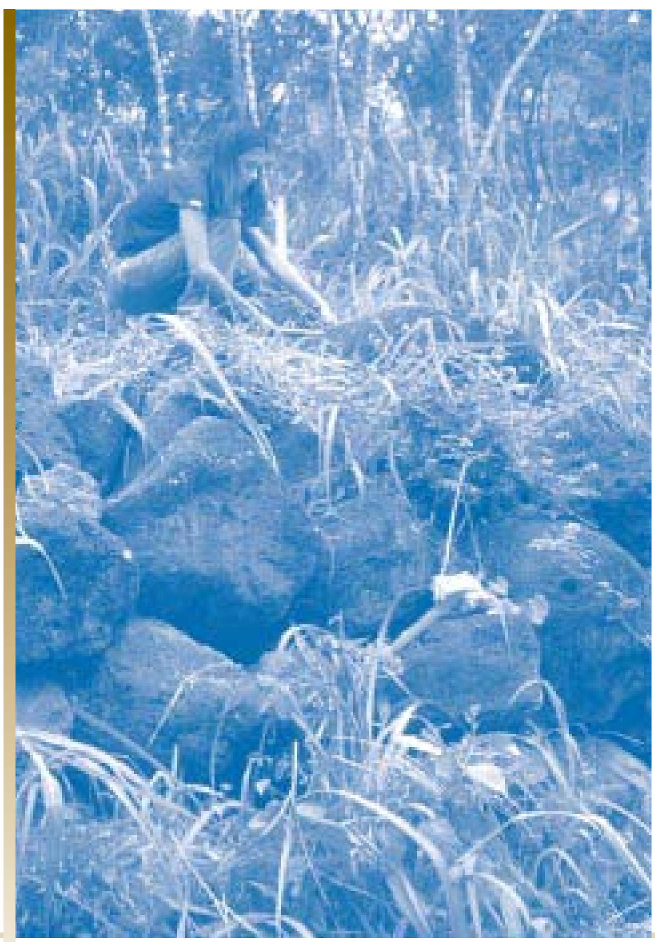
The soul of Hawaiian people is rooted in the ʻāina—Hawaiʻi lands. As Hawaiians, we strive to be one with our Hawaiʻi land and hold it in the same regard as a cherished family member.

Therefore, in aligning with Kamehameha Schools' Strategic Plan 2000-2015—to "mālama i ka ʻāina: practice ethical, prudent and culturally appropriate stewardship of its lands and resources"—KS has sought to optimize the cultural, educational, economic, environmental and community benefits of extending our educational reach through land-based initiatives.

Endowed by the legacy of Ke Aliʻi Bernice Pauahi Bishop, Kamehameha Schools is blessed with extensive ʻāina—some 360,000 acres of Hawaiʻi lands zoned for agriculture and conservation. These lands include invaluable and abundant assets: 63 miles of ocean frontage, historic fishponds, 100 miles of streams, tropical and dryland forests, lava fields and mountaintop watershed. They also comprise important ecosystems as well as precious native plant and animal communities.

Each of these natural resources offers unique environmental and cultural stewardship opportunities and a foundation for the development of eco-cultural educational programs—classrooms without walls—that can be used to perpetuate Hawaiian culture as well as provide outdoor scientific laboratories that both inspire the spirit and stimulate the mind.

During the 2001–2002 fiscal year, the KS Endowment Group's Land Assets Division (LAD) worked to bridge KS land management with our educational mission, developing a weave of culturally appropriate programs that are working collaboratively and synergistically for economic, cultural, environmental, community and educational benefits.



"Bridging land management with education is a cornerstone of the Strategic Plan and reflective of our efforts to operate Kamehameha as a total system working to serve more people of Hawaiian ancestry through education."

–HAMILTON I. McCUBBIN, Ph.D.

Named ʻĀina Ulu—lands of growth and inspiration—this LAD-initiated program calls for the use of the environment as an integrating context for learning. As of June 30, 2002, LAD has embarked upon 32 ʻĀina Ulu initiatives on the islands of Kauaʻi, Oʻahu, Maui, Molokaʻi and Hawaiʻi each based upon the Hawaiian tradition of nurturing natural resources.

Concluding its first complete program year, among the most significant ʻĀina Ulu initiatives implemented and underway are:

- **Edith Kanakaʻole Foundation Family-Based Education Center—Hawaiʻi**
  In collaboration with Hawaiʻi Island's Edith Kanakaʻole Foundation, KS lands provide a base for active year-round cultural programs. This site, at Honohononui, includes Hale Kanakaʻole—the building that houses Hālau o Kekuhi as well as the Edith Kanakaʻole Foundation offices and schools.

  Here also, Lauhuki Preschool and Ke Ana Laʻahana Charter School implement a strong cultural foundation through their educational curricula. Native plant propagation at an on-site nursery provides for revegetation educational opportunities.

  Serving also as a demonstration site for marine life observation, marine resources management and mālama kai, a traditional fish trap exists on the land, as well as a small fish hatchery pond and coastal farming. Workshops on fabric dying, hau processing, fishing and net-making take place.

  Hale o Lono and Keokea provide sites for traditional aquaculture including workshops in fishpond maintenance, fish care and limu propagation techniques.

- **Ka‘ūpūlehu Dry Forest Program—Hawai‘i**
  Collaborating with the Hawai‘i Forest Industry Association, the National Tropical Botanical Garden, U.S. Fish and Wildlife Service, the U.S. Forest Service and others, the ‘Āina Ulu program provided summer educational opportunities for 20 students and other community members through internships, an outreach coordinator and multimedia curriculum development.

  Complementing and supporting ongoing stewardship and maintenance of dry forest resources, students participated in weed control, animal pest control and the planting of rare trees.

- **Keauhou Bird Conservation Center—Hawai‘i**
  This native and endangered Hawaiian bird captive-breeding program is a collaboration with the Zoological Society of San Diego. Reaching approximately 2,000 Hawai‘i school children annually, this program is developing techniques to preserve and restore bird species in the wild, which will ultimately benefit the Hawaiian rain forest ecosystems at the broadest level.

  Specializing in the captive breeding and reintroduction of 12 species of endemic Hawaiian forest birds, program interns work in the Keauhou-Ka‘ū region and support education in land-based learning.

- **Waipā Ahupua‘a Education Center—Kaua‘i**
  Collaborating with the Waipā Foundation, KS is actively engaged in ahupua‘a resource management and offers educational programs year-round through the Waipā Ahupua‘a Learning Center.

  In fiscal 2001–2002, 750 people participated in programs offered at the center, including: planting traditional lo‘i, and elementary students propagating native plants—incorporating math and measurement. There was kapa making, hula, ‘ukulele, ‘ōlelo Hawai‘i, oral histories and the opening of an āuwai (irrigation ditch) that had not flowed in over 50 years.

- **He‘e‘ia Fishpond Restoration and Management—O‘ahu**
  KS is working with Paepae o He‘e‘ia which, in addition to ongoing fishpond stewardship practices, provides educational programs based on traditional fishpond management to three O‘ahu charter schools: Hālau Kū Mana, Hakipu‘u Learning Center and Ke Kula o Samuel M. Kamakau.

  An important cultural and educational experience for students, He‘e‘ia Fishpond is regularly visited by DOE, charter and private school students. During 2001–2002, more than 1,700 people participated in the program.

- **Conservation Corps—O‘ahu, Hawai‘i, Kaua‘i**
  Through this ‘Āina Ulu program, Pono Pacific organized Youth Conservation Corps students to spend one week at each of the three ‘Āina Ulu sites—He‘e‘ia, Ka‘ūpūlehu and Waipā—participating in stewardship and eco-cultural education opportunities. KS supported extending the program to more students of Hawaiian ancestry. Participants are exposed to conservation career opportunities through partnerships with the State Department of Land and Natural Resources, U.S. Fish and Wildlife Service, the Nature Conservancy and KS land managers.

  For Kamehameha Schools, integrating Hawaiian cultural values and knowledge into resource stewardship practices is both consistent with the immense value Hawaiians place on caring for the land—mālama i ka ‘āina—and an important community-wide educational initiative that can only heighten understanding of the interdependencies of man and environment.

DISCUSSION OF FINANCIAL RESULTS

Fiscal year 2001–2002 will be remembered as a year filled with challenges and exciting initiatives. Guided by the principles of its Strategic Plan and its underlying policies and processes, Kamehameha Schools (KS) continued to make significant progress in relation to educational spending, endowment performance and further extending the reach of Ke Ali'i Bernice Pauahi Bishop's legacy.

COMMITMENT TO EDUCATIONAL FUNDING AND PAUAHI'S LEGACY LIVES

KS' Spending Policy sets a target of 4 percent of the five-year average market value of its endowment to be expended annually on its education mission. Annual trust spending based on absolute dollars and as a percentage of the endowment has increased year after year.

In fiscal year 2001–2002, trust spending totaled approximately $223 million—a $17 million increase over the prior year—representing 4.3 percent of the five-year average market value of the endowment.

Noteworthy increases in campus-based programs and capital project expenditures were primarily associated with the ongoing expansion of the Maui and Hawai'i campuses. Considerable progress has also been made in outlays for early education programs.

KS continued to concentrate on improving the quality of its current educational programs and extending its reach to more Hawaiians. While maintaining the excellence of its current programs, KS finalized and began implementing "Pauahi's Legacy Lives," which will extend its reach through greater collaboration with other organizations as well as with families and their communities.

The non-profit Ke Ali'i Pauahi Foundation (KAPF) became fully operational during the fiscal year. KAPF will engage in raising funds and administering various scholarship and financial aid programs with preference given to Hawaiian Students at and beyond the KS campuses. It also provides a counseling program for post-high school scholarship recipients, which is designed to promote college retention and degree completion.

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

ADVANCEMENT OF THE MANAGEMENT OF RISK AND RETURN OF ENDOWMENT ASSETS

KS' Investment Policy establishes 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 real return of 5 percent plus inflation, which after average trust distributions of 4 percent as targeted under the Spending Policy, would provide a one-percent real growth in the endowment.

In August 2001, KS adopted a policy to re-balance the allocation of its non-core or non-Hawai'i real estate assets. This policy allows KS to periodically re-balance its non-core assets to achieve and maintain the asset allocation targets adopted as part of its Investment Policy. During the fiscal year, continued progress was made toward migrating to the policy's asset allocation targets resulting in a more diversified endowment portfolio with less elastic risk-return characteristics. Various strategies were either implemented or commenced based on the premise and goals of the policy. Over-concentrated internal stock holdings, such as Goldman Sachs, were divested with proceeds reinvested into several funds managed by various external managers. Conscious efforts were also made to market and identify appropriate suitors for alternative mainland real estate and energy subsidiary investments.

As a result of continued diversification and appropriate oversight, KS endowment outperformed two of its three benchmarks with a total return of -0.65 percent for fiscal year 2001–2002. The endowment's three-year annualized return as of June 30, 2002 of approximately 6.0 percent also outperformed two of its three benchmarks, with a slight under-performance compared to the policy's long-term objective of 5 percent plus inflation or 7.8 percent.

USE OF DEBT FOR EXPANSION OF EDUCATIONAL MISSION

KS' Debt Policy, which was adopted in May 2001, limits the amount of debt allowed to 10-20% of the fair market value of the endowment and defines the requirements and parameters for the utilization of debt and other appropriate considerations. During the year KS obtained a $150 million private shelf facility to debt finance the development of certain educational capital projects. As of June 30, 2002, the balance outstanding was $20 million. As a result, debt and debt related guarantees represented 3.0 percent of the fair market value of the endowment as of June 30, 2002.

FINANCIAL RESULTS

The following is a review of the financial position, statement of activities and cash flows for the 2001–2002 fiscal year:

- Financial Position

  During the year, net assets decreased by two percent to just under $4 billion. The majority of this decrease was attributable to net realized and unrealized losses on investments of $136 million.

  Cash and cash equivalents decreased primarily due to the reinvestment of cash and equivalents into higher yielding investments included in marketable debt and equity securities. In accordance with KS' reallocation efforts of its non-core assets, assets held for sale from discontinued activities of $102 million reflects the net assets of the energy subsidiary to be divested; while the increase in real estate held for development and sale reflects those additional mainland real estate investments actively being held and negotiated for sale as of June 30, 2002.

- Statement of Activities

  The Statement of Activities, which details the revenues and expenses during the year, reported a decrease in net assets of approximately $89 million. As previously mentioned, the majority of the decrease was due to net realized and unrealized losses of $136 million on investments in the capital markets.

FINANCIAL RESULTS *(Continued)*

This statement also reflects total direct educational program expenses of approximately $115 million. This compares to total trust spending of approximately $223 million for educational purposes, as reported on the Schedule of Trust Spending (Schedule 1) which includes not only such direct expenses, but also capital expenditures, operating reserve funding, support function costs and other education-related costs.

- Cash Flows

For the year ended June 30, 2002, cash and cash equivalents decreased by $115 million. Most of the decrease represents reinvestment of existing assets into longer-term and higher-yielding investments. As shown, investment activities due to purchases of investments with external managers and purchases of property and equipment resulted in a net cash outflow of approximately $175 million. This outflow was offset by approximately $40 million of cash and cash equivalents provided by operations and $20 million of cash borrowed from KS' $150 million private shelf facility.

CONCLUSION

All things considered, Kamehameha Schools' financial position remains as strong as ever. In context with the Strategic Plan and its policies, we will keep monitoring and evaluating our long-term investment and educational spending policies and strategies to ensure the continued strength in our financial position. Continual cost structure evaluation and containment will also augment targeted endowment returns. These combined strategies will provide current and future allocations of financial resources in the delivery of Ke Ali'i Bernice Pauahi Bishop's legacy to serve many more generations of people of Hawaiian ancestry through education.

INDEPENDENT AUDITORS' REPORT

KPMG

P.O. Box 4150
Honolulu, HI 96812-4150

The Trustees
Kamehameha Schools:

We have audited the accompanying consolidated balance sheets of Kamehameha Schools and subsidiaries as of June 30, 2002 and 2001, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of Kamehameha Schools' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kamehameha Schools and subsidiaries as of June 30, 2002 and 2001, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

KPMG LLP

September 20, 2002

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

Consolidated Balance Sheets, June 30, 2002 and 2001, (in thousands)		
	2002	2001
Assets		
Cash and cash equivalents	$ 21,249	136,084
Marketable debt and equity securities (note 2)	3,042,847	3,020,114
Privately placed debt and equity securities (note 3)	420,377	487,396
Assets held for sale from discontinued activities, net (note 4)	102,478	94,626
Receivables, net (note 5)	29,554	66,224
Property and equipment, net (note 6)	580,287	515,169
Real estate held for development and sale (note 7)	84,433	61,186
Deferred charges and other (note 14)	31,115	29,519
Total assets	$ 4,312,340	4,410,318
Liabilities and Net Assets		
Notes payable (note 8)	$ 161,276	141,276
Accounts payable and accrued expenses	85,928	49,339
Income taxes payable (note 9)	30,610	97,240
Accrued pension liability (note 10)	36,543	32,398
Accrued postretirement benefits (note 10)	19,327	18,868
Deferred compensation payable (note 11)	9,628	12,345
Deferred income and other	20,497	21,548
Total liabilities	363,809	373,014
Net assets – unrestricted	3,948,531	4,037,304
Commitments and contingencies (notes 4, 8, 10, 11, and 16)		
Total liabilities and net assets	$ 4,312,340	4,410,318

See accompanying notes to consolidated financial statements.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

Consolidated Statements of Activities, Years ended June 30, 2002 and 2001 (in thousands)

	2002	2001
Revenues, gains, and other support:		
Tuition and fees	$ 9,033	7,754
Less financial aid	(5,615)	(5,441)
Net tuition and fees	3,418	2,313
Rental (note 16)	138,559	138,622
Net realized and unrealized gains (losses)		
on investments (note 3)	(135,915)	654,011
Investment income (note 3)	109,845	118,574
Net gain on property sales (note 12)	25,663	58,896
Federal grants and contracts	1,365	2,696
Other, including discontinued activities,		
net (notes 4, 13, and 16)	11,048	36,728
Total revenues, gains, and other support	153,983	1,011,840
Expenses:		
Educational programs	115,079	109,143
Management and general:		
Rental	52,372	56,032
Other (note 9)	75,305	156,206
Total expenses	242,756	321,381
Increase (decrease) in net assets	(88,773)	690,459
Net assets at beginning of year	4,037,304	3,346,845
Net assets at end of year	$ 3,948,531	4,037,304

See accompanying notes to consolidated financial statements.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Years ended June 30, 2002 and 2001 (in thousands)

	2002	2001
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (88,773)	690,459
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Net realized and unrealized losses (gains) on investments	135,915	(654,011)
Net gain on property sales	(31,479)	(108,833)
Impairment loss on property and equipment and real estate held for development and sale	5,816	49,937
Depreciation, amortization, and depletion	23,562	26,599
Losses (earnings) in investee companies	(9,530)	13,056
Changes in operating assets and liabilities:		
Decrease (increase) in assets held for sale from discontinued activities, net	8,323	(8,311)
Decrease (increase) in receivables	33,491	(5,269)
Increase in real estate held for development and sale	(7,374)	(21,518)
Decrease (increase) in deferred charges and other	(2,519)	4,239
Increase in accounts payable, accrued expenses, and other liabilities	37,519	23,500
Increase (decrease) in income taxes payable	(66,630)	49,044
Other	1,854	727
Net cash provided by operating activities	40,175	59,619
Cash flows from investing activities:		
Proceeds from property sales	55,161	120,464
Proceeds from sales of investments	10,322,929	4,402,047
Purchases of investments	(10,402,517)	(4,712,823)
Purchases of property and equipment	(134,051)	(65,289)
Purchases of investments and property and equipment from discontinued activities	(16,532)	(13,778)
Net cash used in investment activities	(175,010)	(269,379)
Cash flows from financing activities:		
Proceeds from borrowings	20,000	748,494
Repayment of borrowings	—	(861,555)
Net cash provided by (used in) financing activities	20,000	(113,061)
Net decrease in cash and cash equivalents	(114,835)	(322,821)
Cash and cash equivalents at beginning of year	136,084	458,905
Cash and cash equivalents at end of year	$ 21,249	136,084
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 57,599	22,158
Interest paid	26,327	23,669
Supplemental disclosure of noncash investing activities:		
Transfer of property and equipment to real estate held for development and sale, net	38,272	—

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 Hawai'i (the Court). The primary assets of the Schools are lands and properties located in the State of Hawai'i 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 enrichment and summer school programs. Early education programs are conducted in various facilities throughout the State of Hawai'i. The campus-based programs include campuses on the islands of O'ahu, Maui, and Hawai'i. The Oahu Campus is a kindergarten through grade 12 program. The Maui and Hawai'i campuses are in their development stages and, as of June 30, 2002, served students from kindergarten through grade 9. These two campuses will expand over the next three years to include grades 10 through 12. The Schools are also engaged in summer programs, educational partnerships, and other programs that are outreach related and 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 as of June 30, 2002, include the accounts of:

- **The Schools;**
- **Ke Ali'i Pauahi Foundation (KAPF);**
- **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; Gwinnett Associates Limited Liability Company; Lake Manassas 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.; Keauhou Resort Development Corporation 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 fundraising program and administer and operate the scholarship and financial aid programs for the Schools and KAPF. KAPF also provides a counseling program for post-high school scholarship recipients, which is designed to promote college retention and degree completion;

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 and a golf course.

In addition, a subsidiary is a captive insurance company that provides property and liability coverage for the Schools and its affiliates.

In addition to those entities described above, the consolidated financial statements as of June 30, 2001, include the accounts of Kamehameha Activities Association (KAA), a charitable organization whose exclusive purpose as a support organization was to provide funds to the Schools for its educational programs and to advance the mission, vision, and goals of the Schools. In accordance with certain closing agreements with the Internal Revenue Service (IRS), certain KAA assets were transferred to the Schools and effective June 28, 2002, KAA merged into KAPF with KAPF as the surviving entity. *See note 9*.

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 $19.6 million and $134.4 million at June 30, 2002 and 2001, respectively.

(E) INVESTMENTS

- **Marketable Debt and Equity Securities – The Schools**

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 included in net assets. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

At June 30, 2002 and 2001, debt and equity securities were classified as available-for-sale and were reported at amounts which approximate fair value.

(E) INVESTMENTS *(continued)*

- **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

BHC has entered into various commodity price hedging contracts with respect to its oil and gas production activities. 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 (FASB) Statement of Financial Accounting Standards No. 133 (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 derivative gains and losses to offset related results of the hedged item in the consolidated statements of activities, 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 net assets. 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 5- to 15-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, 2002 and 2001, respectively. The sale of leasehold lots under the financing arrangements are accounted for using the cost recovery method whereby no profit is recognized until cash payments are received.

(H) PROPERTY AND EQUIPMENT

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

(I) ASSETS HELD FOR SALE FROM DISCONTINUED ACTIVITIES, NET

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 proven 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 the 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 properties, receives tax credit payments from the purchaser based on the amount of natural gas produced, and receives net profits interest carved out of the working interest equal to the cash flows from the production of the properties until certain events, as defined in the agreement, 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. BHC received tax credit payments of approximately $8.0 million and $8.3 million for the years ended June 30, 2002 and 2001, respectively, and net profits interest of approximately $4.2 million and $21.0 million for the years ended June 30, 2002 and 2001, respectively. These amounts are included in other revenues, including discontinued activities, net in the consolidated statements of activities.

Unevaluated properties and associated costs not currently amortized and included in assets held for sale from discontinued activities, net in the accompanying consolidated balance sheets amounted to approximately $3.1 million and $3.9 million at June 30, 2002 and 2001, 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, unless sold within this timeframe. *See note 4.*

Oil and gas properties are located primarily in Colorado, New Mexico, and Alabama. Depletion and depreciation expense amounted to $9.3 million and $11.1 million for the years ended June 30, 2002 and 2001, respectively, and are included in other revenues, including discontinued activities, net in the accompanying consolidated statements of activities.

(J) 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. In accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* management uses estimated expected future net cash flows (undiscounted and excluding interest costs) to measure the recoverability of real estate assets held for development. The recoverability of real estate assets held for sale is determined by comparing appraised value or the net present value of the estimated expected future cash flows (using a discount rate commensurate with the risks involved) to the carrying amount of the asset. The estimate of expected future net cash

(J) REAL ESTATE HELD FOR DEVELOPMENT AND SALE *(Continued)*

flows is inherently uncertain and relies to a considerable extent on assumptions regarding current and future economic conditions. If, in future periods, there are changes in estimates or assumptions, the changes could result in an adjustment to the carrying amount of real estate.

Profit 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 is 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.

(K) 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.

(L) 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) of the Internal Revenue Code. The plans cover substantially all the Schools' and BHC's employees after satisfying service requirements. Participating employees may defer up to 20% and 50% (subject to certain limitations) of their pretax earnings for Section 403(b) and Section 401(k) plans, respectively. Effective July 1, 2002, the Schools commenced employer contributions up to a maximum of 3% of pretax employee earnings.

(M) 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.

(N) INCOME TAXES

In a ruling dated February 9, 1939, and as reaffirmed in 1969, 1986, and 2000, the 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 is also exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies as a supporting organization as described in Section 509(a)(3) of the Internal Revenue Code. To the extent that the Schools and KAPF 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.

(O) 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.

(P) IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF

The Schools account for long-lived assets in accordance with the provisions of SFAS No. 121. This statement 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 are measured by a comparison of the carrying amount of the asset to future net cash flows (undiscounted and excluding interest costs) 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.

(Q) 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.

(R) RECLASSIFICATIONS

Certain amounts in the accompanying consolidated financial statements have been reclassified in 2001 to conform to classifications adopted in 2002. Such reclassifications had no effect on previously reported changes in net assets.

(S) NEW ACCOUNTING PRONOUNCEMENT

In August 2001, FASB approved SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* which supercedes SFAS No. 121 and Accounting Principles Board's Statement No. 30. SFAS retains the requirements of SFAS No. 121 for recognition and measurement of an impairment loss on long-lived assets, and establishes a single accounting model for all long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. SFAS No. 144 will be effective for the Schools' fiscal year 2003. Management does not expect the adoption of SFAS No. 144 to have a material effect on the Schools' financial position and change in net assets.

2. Marketable Debt and Equity Securities

Marketable debt and equity securities at June 30, 2002 and 2001 consisted of the following (in thousands):

	Fair value	
	2002	2001
Common and preferred stocks	$1,073,696	1,384,209
Corporate debt securities	638,968	725,384
Short-term corporate obligations	15,454	2,358
Government securities	457,279	326,967
Mutual funds	857,255	576,435
Other	195	4,761
	$3,042,847	3,020,114

Common and preferred stocks, corporate debt securities, and short-term corporate obligations are with corporations and mutual funds involved in various industries located throughout the United States and internationally.

As of June 30, 2002, there were no individual investments representing more than 10% of total marketable securities. As of June 30, 2001, the Schools' owned approximately 5.5 million shares in a major New York investment banking firm (the Firm) which represented more than 10% of total marketable securities. The shares of the Firm were carried at fair value that were estimated using quoted market prices discounted for the time restrictions on sale. The 5.5 million shares were sold in January 2002. In fiscal years 2002 and 2001, the Schools sold approximately 22.0 million shares of its common stock in the Firm at prices ranging between $90 to $109 per share.

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.

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, 2002 and 2001 (in thousands):

		2002		2001	
		Carrying amount	Fair value	Carrying amount	Fair value
Equity investments	$	378,524	546,473	437,610	608,908
Direct financing lease		35,744	35,744	35,255	35,255
Loans and subordinated debentures		6,109	6,109	14,531	14,826
	$	420,377	588,326	487,396	658,989

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, 2002 and 2001 is as follows (in thousands):

		2002	2001
Assets	$	3,148,018	3,254,983
Liabilities		1,396,948	1,305,358
Equity	$	1,751,070	1,949,625
Revenues	$	1,351,367	366,640
Expenses		1,402,418	366,203
Net income (loss)	$	(51,051)	437

The Schools' equity in earnings (losses) of investments amounted to $(9.5) million and $13.1 million for the years ended June 30, 2002 and 2001, respectively. These amounts are included in investment income in the consolidated statements of activities.

(B) LOANS AND SUBORDINATED DEBENTURES

Loans provide for principal and interest payments over the next fiscal year with interest at 8.75% to 10% per annum. Subordinated debentures provide for interest rates of 6.5% per annum and mature over periods up to six years. Certain debt investments are collateralized by real property.

(C) 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, 2002, the total minimum lease payments to be received and unearned finance charges were $78.9 million and $43.1 million, respectively. 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. Future minimum annual lease payments amount to $1.1 million from 2003 to 2006, $1.6 million in 2007, and $72.9 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 lessee has the option to purchase the golf club facilities either at the conclusion of the lease term or any time during the lease term based on amounts specified in the lease agreement.

(D) NET REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS

Net realized and unrealized gains (losses) on investments for the years ended June 30, 2002 and 2001, by investment type, is as follows (in thousands):

		2002	2001
Marketable securities, other	$	(228,938)	(55,450)
Equity investments		(638)	(3,246)
Investment banking firm		101,662	712,123
Other		(8,001)	584
	$	(135,915)	654,011

(E) INVESTMENT INCOME

Investment income for the years ended June 30, 2002 and 2001, by investment type, is as follows (in thousands):

		2002	2001
Cash equivalents	$	1,710	25,899
Marketable securities, other		87,523	88,221
Equity investments		12,854	(8,399)
Investment banking firm		1,309	6,413
Mortgage notes		3,843	3,528
Loans and subordinated debentures		969	2,676
Other		1,637	236
	$	109,845	118,574

4. Assets Held for Sale from Discontinued Activities, Net

In May 2002, BHC approved a plan to sell its oil and gas activities within an estimated 9- to 12-month period. For all periods presented, assets net of liabilities and cash flows related to the discontinued activities have been reported separately in the accompanying consolidated balance sheets and consolidated statements of cash flows. Further, the results of the oil and gas activities are included as other revenues, including discontinued activities, net in the accompanying consolidated statements of activities, with 2001 amounts restated. See note 13.

The assets and liabilities of the discontinued activities at June 30, 2002 and 2001 consist of the following (in thousands):

	2002	2001
Cash and cash equivalents	$ 36,143	34,803
Marketable debt and equity securities	3,978	1,953
Receivables and other, net	9,098	9,686
Property and equipment	56,310	51,479
Other assets	1,594	1,637
Total assets	107,123	99,558
Accounts payable and accrued expenses	(4,527)	(4,855)
Other liabilities	(118)	(77)
Total liabilities	(4,645)	(4,932)
Assets held for sale from discontinued activities, net	$ 102,478	94,626

5. Receivables

Receivables at June 30, 2002 and 2001 consisted of the following (in thousands):

	2002	2001
Note agreements	$ 67,367	80,570
Less deferred profit on note agreements	(57,885)	(70,500)
	9,482	10,070
Tenant and tuition	20,732	19,020
Interest	11,660	13,169
Trade	501	2,996
Income taxes	—	31,063
Other	221	1,749
	42,596	78,067
Less allowance for doubtful accounts	(13,042)	(11,843)
	$ 29,554	66,224

6. Property and Equipment

Property and equipment at June 30, 2002 and 2001 consisted of the following (in thousands):

		2002	2001
Educational property and equipment:			
Land	$	16,067	12,458
Buildings, improvements, and equipment		270,401	216,679
Less accumulated depreciation		(83,855)	(73,598)
		202,613	155,539
All other property and equipment:			
Land and land improvements		82,042	121,909
Buildings, improvements, and equipment		310,569	319,635
Less accumulated depreciation,			
amortization, and depletion		(152,937)	(147,838)
		239,674	293,706
Construction in progress		138,000	65,924
	$	580,287	515,169

The provision for depreciation, amortization, and depletion amounted to approximately $23.6 million and $26.6 million for the years ended June 30, 2002 and 2001, respectively.

The book values of certain properties, buildings, and improvements were impaired. The properties were adjusted to fair value, which resulted in impairment losses of approximately $4.8 million and $43.4 million for the years ended June 30, 2002 and 2001, 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.

7. 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, 2002 and 2001, 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, 2002 and 2001 was $1.0 million and $6.5 million, respectively.

During 2002, the Schools approved plans to sell certain real estate assets. These assets, with a carrying amount of $60.5 million, were transferred from property and equipment to real estate held for development and sale in the accompanying consolidated balance sheet. As of June 30, 2002, the fair value less costs to sell exceeded the carrying amount of these assets.

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.

8. Notes Payable

At June 30, 2002 and 2001, notes payable consisted of the following (columns in thousands):

	2002	2001
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 minimum endowment value and a certain liquidity ratio.	$ 118,575	118,575
Senior promissory notes payable under a $150.0 million private shelf facility at the rate of 6.80% per annum with annual principal payments of $952,000 beginning March 1, 2007, with the final payment on March 1, 2027. The note agreement contains certain restrictions and requires maintenance of a minimum endowment value and a certain liquidity ratio.	20,000	—
Note payable to banks under a $37.0 million revolving credit agreement which matures on September 30, 2002. Interest rate (2.31% on June 30, 2002 and 4.25% on June 30, 2001) options include the bank's prime rate, a certificate of deposit rate plus 37.5 basis points, or floating LIBOR rate plus 25 basis points. The notes were paid-off on September 20, 2002.	22,701	22,701
	$ 161,276	141,276

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

Year ending June 30:		
2003	$	22,701
2004		11,860
2005		11,860
2006		11,860
2007		12,812
Thereafter		90,183
	$	161,276

Interest expense for the years ended June 30, 2002 and 2001 is as follows (in thousands):

		2002	2001
The Schools	$	8,323	13,441
BHC		1,165	17,736
	$	9,488	31,177

9. Income Taxes

Total income tax expense amounted to $5.9 million and $67.3 million for the years ended June 30, 2002 and 2001, respectively. These amounts are included in other management and general expenses in the consolidated statements of activities. For the year ended June 30, 2002, income tax expense consisted of current income tax expense of $5.9 million. For the year ended June 30, 2001, the components of income tax expense include current and deferred income tax expense of $64.3 million and $3.0 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, 2002 and 2001 are presented below (in thousands):

	2002	2001
Deferred tax assets:		
Difference in basis of investments and real estate	$ 12,063	6,499
Net operating loss carryforwards	15,999	8,059
Deferred income	1,276	1,376
State tax provisions	1,962	—
Accrued interest	–	2,730
Other	5,523	999
Valuation allowance	(27,178)	(17,261)
	9,645	2,402
Deferred tax liabilities:		
Depreciation	(1,376)	(1,206)
Investment basis difference and other	(8,269)	(1,196)
	(9,645)	(2,402)
Net deferred taxes	$ —	—

BHC has net operating loss carryforwards of approximately $41.1 million as of June 30, 2002, expiring on various dates through the year 2021.

The valuation allowance for deferred tax assets as of July 1, 2001 and 2000 was $17.3 million and $24.7 million, respectively. The total valuation allowance increased by $9.9 million and decreased by $7.4 million for the years ended June 30, 2002 and 2001, 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 carry forward period are increased.

IRS 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. 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 removal 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 were 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 1999 and paid in the year ended June 30, 2001.

In fiscal year 2002, the Schools and its related entities signed closing agreements with the IRS that resolved all outstanding tax issues relating to the taxable year ended July 31, 1998 for PHC, the taxable years ended through June 30, 1999 for KAA, and the taxable years ended through June 30, 2000 for the Schools. Under the agreements, KAA paid the IRS approximately $17 million (plus interest) to correct information from a previously filed tax return and the for-profit subsidiaries paid $55.6 million in taxes (plus interest) which was included in income taxes payable and provision for income taxes for the year ended June 30, 2001. The closing agreements also resulted in the transfer of the majority of KAA's assets to the Schools and the subsequent merger of KAA into KAPF, with KAPF as the surviving entity.

10. 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, 2002 and 2001 is as follows (in thousands):

	2002		2001	
	Pension	Post retirement	Pension	Post retirement
Benefit obligations	$ 145,448	15,014	132,930	12,788
Fair value of plan assets	106,315	—	118,296	—
Funded status	$ (39,133)	(15,014)	(14,634)	(12,788)
Accrued benefit cost recognized in the consolidated balance sheets	$ 36,543	19,327	32,398	18,868

The amounts of net periodic benefit cost, contributions, and benefits paid for the years ended June 30, 2002 and 2001 are as follows (in thousands):

	2002		2001	
	Pension	Post retirement	Pension	Post retirement
Benefit cost	$ 4,145	972	2,939	574
Employer contribution	—	513	—	473
Benefits paid	3,650	513	3,153	473

The assumptions used in the measurement of the Schools' benefit obligation for the years ended June 30, 2002 and 2001 are as follows:

	2002		2001	
	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 9%, 13%, and 8% annual rate of increase in the per capita cost of covered medical, drug, and dental benefits, respectively, were assumed for 2002. The rate was assumed to decrease gradually to 4.5% by the year 2009 and remain at that level thereafter.

11. 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. The liability has been fully funded and investments are included in marketable debt and equity securities in the consolidated balance sheets.

12. Net Gain on Property Sales

Net gain on property sales for the years ended June 30, 2002 and 2001 consisted of the following (in thousands):

		2002	2001
Property sales	$	55,161	120,464
Less cost of property sales		(23,682)	(11,631)
Net property sales		31,479	108,833
Impairment loss on property and equipment and real estate held for development and sale (notes 6 and 7)		(5,816)	(49,937)
	$	25,663	58,896

13. Other Revenues, Including Discontinued Activities, Net

Other revenues, including discontinued activities, net for the years ended June 30, 2002 and 2001 consisted of the following (in thousands):

		2002	2001
Continuing activities:			
Hotel operations	$	2,501	3,013
Less cost of hotel operations		(3,150)	(3,666)
Net hotel operations		(649)	(653)
Golf course operations		2,340	—
Less cost of golf course operations		(3,356)	—
Net golf course operations		(1,016)	—
Other (note 16)		4,276	15,292
Other income, net from continuing activities		2,611	14,639
Discontinued activities (note 4):			
Oil and gas operations		30,323	48,059
Less cost of oil and gas operations		(21,886)	(25,970)
Other income from discontinued activities		8,437	22,089
Other revenues, net	$	11,048	36,728

14. Derivative Financial Instruments

BHC's discontinued oil and gas activities use 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 exposures. The derivative financial instruments, are principally held by BHC, for purposes other than trading. If BHC did not use derivative investments, its exposure to market risk would be higher.

During fiscal year 2001, approximately 26.7% of BHC's equivalent production was subject to hedge positions. As of June 30, 2002, BHC was not a party to any derivative financial instruments. As of June 30, 2001, BHC had entered into the following natural gas costless collars:

			US $ EPNG San Juan index price	
Period	Total MMBtu	Daily MMBtu	Floor	Cap
November 2001–March 2002	450,000	3,000	$ 4.00	6.60
			US $ SONAT Louisiana index price	
Period	Total MMBtu	Daily MMBtu	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 assets held for sale from discontinued activities, net in the consolidated balance sheets. In December 2001, the counterparty to BHC's outstanding hedging contracts filed for protection under Chapter 11 of the U.S. Bankruptcy Code. BHC did not receive full payment to which it was entitled under the terms of its hedging contracts with such counterparty. BHC received market pricing for the volumes indicated above and received $171,000 under the terms of the hedging contracts. The remaining amount of $414,000 was expensed during the year ended June 30, 2002.

15. Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Schools' financial instruments at June 30, 2002 and 2001 (in thousands). Note 14 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.

	2002		2001	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	$ 21,249	21,249	136,084	136,084
Marketable debt and equity securities	3,042,847	3,042,847	3,020,114	3,020,114
Privately placed debt and equity securities	420,377	588,326	487,396	658,989
Receivables, net	29,554	55,465	66,224	97,171
Notes payable	161,276	160,693	141,276	137,131
Accounts payable and accrued expenses	85,928	85,928	49,339	49,339
Income taxes payable	30,610	30,610	97,240	97,240

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

Cash and cash equivalents, accounts payable and accrued expenses, and income taxes payable: 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 securities: 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, net: 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.

16. Commitments and Contingencies

(A) RENTAL INCOME

The majority of land and buildings are generally leased under long-term lease arrangements. At June 30, 2002, future rental income from these leases based on present effective minimum rentals is summarized as follows (in thousands):

Year ending June 30:		
2003	$	76,092
2004		70,923
2005		63,303
2006		56,309
2007		50,430
Thereafter		707,378
	$	1,024,435

Percentage rental income, based on stipulated percentages of gross lessees' sales, amounted to approximately $11.4 million and $15.6 million for the years ended June 30, 2002 and 2001, respectively.

(B) CAPITAL COMMITMENTS

At June 30, 2002 and 2001, the Schools were committed under agreements with certain partnerships and corporations to invest an additional $76 million and $100 million, respectively.

At June 30, 2002 and 2001, open construction, renovation, and major repair contracts amounted to approximately $71 million and $33 million, respectively.

During August 2002, the Schools entered into contracts for construction on the Maui and Hawaii campuses of approximately $48 million and $58 million, respectively.

(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, 2002 and 2001.

(D) ENVIRONMENTAL ISSUES *(Continued)*

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

(E) TRUSTEE MATTERS

In September 1999, the Court approved monthly compensation of $15,000 to each of the Interim Trustees for their services from the date of their appointment on May 7, 1999. In January 2000, the Court approved a Compensation Committee's recommendation regarding Trustee compensation. Effective February 1, 2000, Trustees received an annual retainer of $30,000 payable monthly and will receive a meeting fee of $1,500 per meeting, except for the Chairperson, who will receive $2,000 per meeting. The meeting fee is subject to a maximum of 45 meetings during a 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, 2002 and 2001, total Trustee compensation amounted to $525,000 and $522,500, respectively.

(F) ATTORNEY GENERAL

The Attorney General of the State of Hawai'i 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, including discontinued activities, net for the year ended June 30, 2001.

(G) EMPLOYEE BONUSES

In connection with the planned sale of the BHC's oil and gas operations as discussed in note 4, BHC entered into agreements to retain its employees through the date of sale. BHC has committed that upon the sale of the oil and gas operations, retention bonuses aggregating approximately $1.6 million will be payable. This amount has not been accrued in the accompanying consolidated financial statements at June 30, 2002. In addition, depending on the ultimate sales proceeds, BHC may pay up to approximately $3.0 million in additional incentive bonuses.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES - SCHEDULE 1

Schedules of Trust Spending, Years ended June 30, 2002, 2001, and 2000 (in thousands)

	2002	2001	2000
Trust spending, net:			
Campus-based programs:			
Kapālama	$ 70,661	72,081	66,955
Maui	5,266	3,721	3,193
Hawai'i	5,300	2,407	1,826
Outreach-based programs:			
Extension education and summer programs	4,795	5,435	3,386
Early childhood education	17,060	14,552	12,787
Financial aid/scholarships	16,726	16,852	16,634
Ke Ali'i Pauahi Foundation	3,322	—	—
Other program expenditures	2,681	4,828	6,283
Base spending	125,811	119,876	111,064
Less: Tuition, fees, and other education income	(4,128)	(3,109)	(3,047)
Less: Net income from agriculture and conservation lands	—	—	(154)
Base distributions	121,683	116,767	107,863
Major repairs	3,907	3,862	1,737
Capital projects	116,256	50,077	23,153
Debt financing of capital projects	(20,000)	—	—
Total trust spending before reserve activity	221,846	170,706	132,753
Reserve activity – operating, net	1,000	35,400	—
Total trust spending	$ 222,846	206,106	132,753
Average market value of Endowment	$ 5,210,717	4,996,812	4,812,799
Trust spending rate before reserve activity	4.3%	3.4%	2.8%
Trust spending rate	4.3%	4.1%	2.8%

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

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

Notes to Schedules of Trust Spending, June 30, 2002 and 2001

(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, 2002, 2001, and 2000.

(2) Trust Spending and Trust Spending Rate

Trust spending represents the amounts spent during the fiscal year on educational programs by major program and activity. The campus-based and outreach-based program costs represent direct and indirect costs of providing these programs. Ke Ali'i Pauahi Foundation expenditures represent the direct and indirect costs of providing scholarships and other education related 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, which represents the portion of the finance, operations, and legal services cost that are in support of the Schools' educational programs and purpose, are allocated to education based on various methods depending on the type of cost including headcount, square footage, and proportion in relation to the other estimates based on management's best judgment. Major repairs and capital projects (and related debt financing) are directly attributable 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. 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.

(3) 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, 2002, 2001, and 2000, are based on the estimated average market values over the last five fiscal years utilizing the respective year-end and/or quarter-end values. 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 Hawai'i 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.

(4) Reclassifications

Certain amounts in the accompanying schedules of trust spending have been reclassified for 2000 and 2001 to conform to classifications adopted in 2002.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES - SCHEDULE 2

Schedules of Total Return as of and for the years ended June 30, 2002, 2001 and 2000

Asset Class and Benchmarks	June 30, 2002 Market value (in thousands)	June 30, 2002 Total return %	June 30, 2001 Market value (in thousands)	June 30, 2001 Total return %	June 30, 2000 Market value (in thousands)	June 30, 2000 Total return %	For the three years ended June 30, 2002 Annualized Total return %
Hawai'i Real Estate	$1,550,268	(2.07)	$1,690,295	(1.78)	$1,881,977	9.03	1.43
CPI+5%		6.23		8.30		8.90	7.83
U.S. Equity	1,213,532	(10.02)	1,363,433	(2.47)	2,010,796	26.38	3.50
Russell 3000		(17.25)		(13.94)		9.59	(7.93)
Non-U.S. Equity	500,620	(2.45)	467,929	(13.05)	127,346	24.65	1.87
MSCI EAFE / Emerging Markets Free Indices		(8.29)		(24.00)		16.01	(6.84)
Fixed Income	1,281,282	7.62	1,288,761	8.48	871,237	6.02	6.76
Lehman Brothers Aggregate/Three Month U.S. Treasury Bill		8.17		—		—	7.74
Lehman Brothers Aggregate		—		11.23		4.56	8.10
Alternative Investments:							
Venture & Private Equity	204,985	(19.56)	285,394	(0.82)	283,166	23.40	(0.54)
CPI+10%		11.28		13.45		14.07	12.96
Absolute Return	32,148	6.67	36,256	5.62	33,992	8.25	6.84
CPI+8%		9.26		11.39		12.01	10.91
Energy	94,639	0.70	93,985	59.63	52,964	24.76	38.69
CPI+5%		6.23		8.30		8.90	7.83
Real Estate (Mainland)	550,927	16.61	526,059	31.75	391,284	6.79	17.94
NCREIF Total Property Index		5.60		11.15		14.78	9.60
Total Portfolio	$ 5,428,401	(0.65)	$ 5,752,112	4.75	$ 5,652,762	14.69	6.02
Policy Portfolio/CPI+5%		(1.43)		(0.89)		9.41	2.21
Cambridge Associates Large Endowment Fund Median		(4.34)		(2.44)		9.74	0.80
CPI+5%		6.23		8.30		8.90	7.83

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) Hawai'i Real Estate

The Hawai'i 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 is comprised of marketable equity securities of U.S. companies.

(c) Non-U.S. Equity

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

(e) Venture and Private Equity

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

The market value of residential real property interests (single-family and multi-family) are estimated internally and externally using a discounted cash flow method for leased properties, and a sales comparison approach for unleased properties.

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

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 is based on quoted market prices, and if applicable, discounted for time restrictions.

(c) Non-U.S. Equity

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

(d) Fixed Income

The market value of marketable debt securities is 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
Hawai'i Real Estate	Consumer Price Index plus 5%
U.S. Equity	Russell 3000
Non-U.S. Equity	MSCI EAFE Index/Emerging Markets Free Indices
Fixed Income	Lehman Brothers Aggregate/Three Month Treasury Bill
	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 Lehman Brothers Aggregate/Three Month Treasury Bill benchmark is weighted by the percentage of fixed income and cash management funds fair market value. The Policy Portfolio/Consumer Price Index plus 5% benchmark is weighted by the percentage of Hawai'i real estate fair market values and the aggregate fair market values of all other asset classes combined.