



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

August 19, 1999

Admiral Robert K. U. Kihune, USN (Ret.)  
Interim Trustee  
Kamchameha Schools/ Bernice Pauahi Bishop Estate  
Kawajabao Plaza  
Honolulu, Hawaii

Dear Admiral Kihune:

This is in response to your letter dated August 16, 1999, in which you requested information regarding our position on the permanent removal of the Incumbent Trustees.

Pursuant to IRC Section 7121, the Internal Revenue Service (Service) may enter into a Closing Agreement with a taxpayer. A Closing Agreement is an option for the Service to pursue in lieu of revocation in this case. The Service is willing to consider this option. However, as stated in IRM 7.9 EP/EO Procedural Matters Handbook, Chapter 3, Exempt Organizations Closing Agreement Handbook, in situations where "an organization has engaged in flagrant or continuous acts compelling revocation or imposition of tax, a closing agreement may not be appropriate unless future compliance can be assured." Accordingly, the Service has the discretion to decide whether and under what conditions a Closing Agreement will be agreed to and executed, and a duty to ensure future compliance once the Closing Agreement option is chosen.

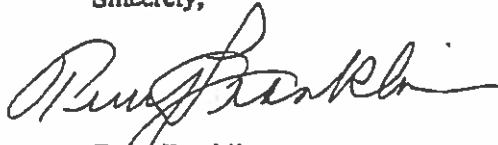
Due to fundamental concerns about whether the Incumbent Trustees would effectively implement any agreement that would be entered into between the Service and Kamchameha Schools Bishop Estate (KSBE), the Service required, as a precondition to entering into Closing Agreement negotiations with KSBE and as an alternative to continuing with administrative revocation procedures, that steps be taken to permanently remove the Incumbent Trustees from their positions as Trustees of KSBE. In coming to this decision, we have relied upon evidence in our administrative files that indicates that the Incumbent Trustees have a history of ignoring Probate Court Orders, Master Report recommendations, Probate Court Stipulations, and the advice of independent experts whose opinions were sought out by KSBE at great expense to KSBE, relating to activities which impact KSBE's exempt status. In addition, we have relied upon evidence that indicates the Incumbent Trustees have a history of pursuing activities which are inconsistent with furthering KSBE's exempt purpose.

Admiral Robert K.U.Kihune, USN (Ret.)

To date, we have relied upon the steps taken by the Interim Trustees regarding permanent removal of the Incumbent Trustees, and have entered into negotiations with KSBE representatives on a Closing Agreement in lieu of revocation, and have reached agreement, subject to the approval of the Probate Court, on the terms of a Closing Agreement that would preserve KSBE's tax exempt status for past periods and going forward. For the reasons stated above, however, it remains the position of the Service that the Incumbent Trustees must be permanently removed from their positions as Trustees of the Bishop Estate in order for the Service to finalize the Closing Agreement that has been negotiated with the Interim Trustees.

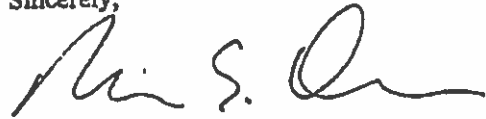
Thank you for your cooperation in this matter.

Sincerely,



Terry Franklin  
Chief, EP/EO Division  
Western Key District  
Internal Revenue Service

Sincerely,



Marcus S. Owens  
Director  
Exempt Organizations Division  
Internal Revenue Service

Oswald Kofoad Stender  
1056 Maunawili Loop  
Kailua, Hawaii 96734

July 30, 1999

Via Hand Delivery

Robert K.U. Kihune  
Chairman, Board of Trustees of the  
Estate of Bernice Pauahi Bishop  
567 S. King St.  
Honolulu, Hawaii 96813

Dear Chairman Kihune:

Thank you for your letter of July 16, 1999.

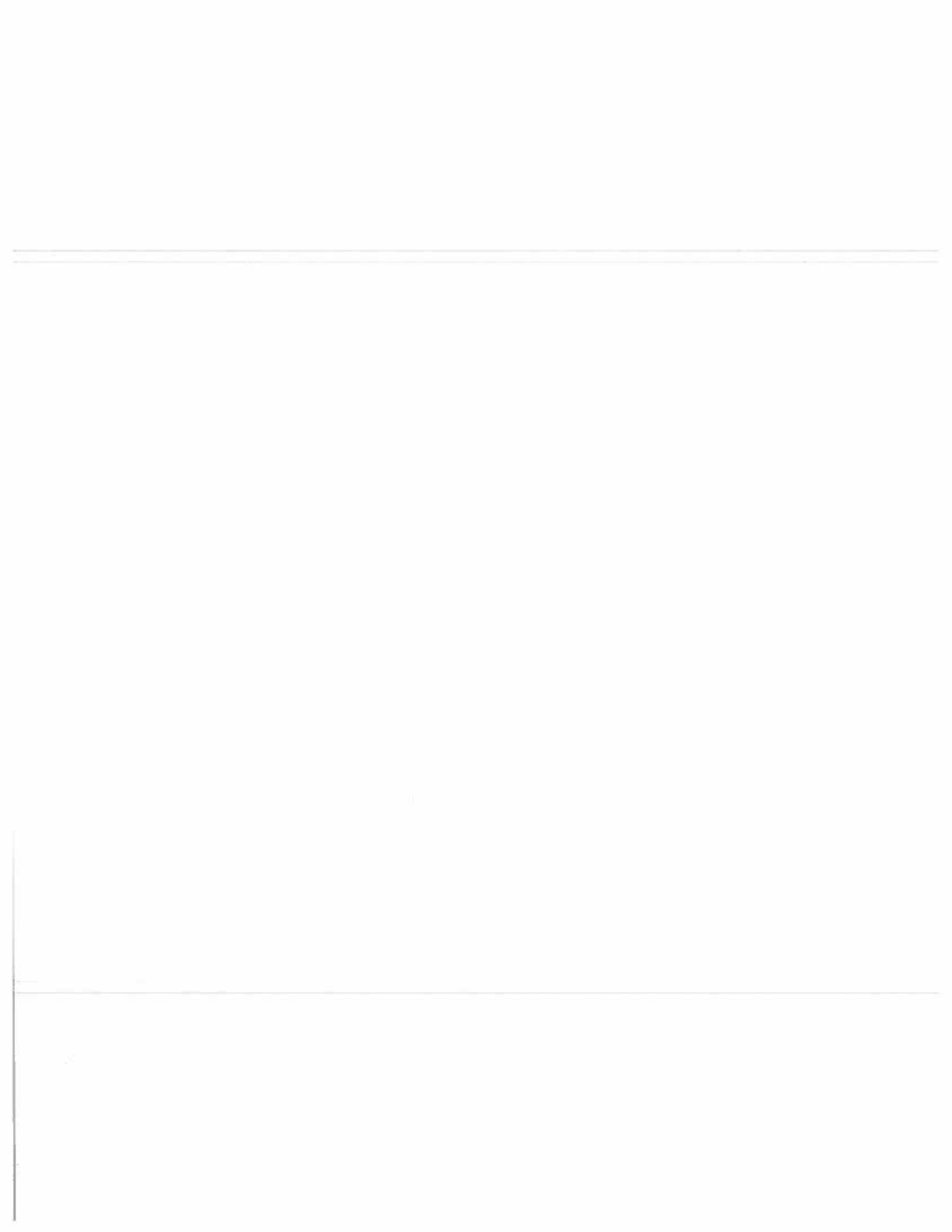
If the Internal Revenue Service continues to require my permanent resignation or removal as a condition of any settlement or closing agreement between the IRS and KSBE or its subsidiaries, I will immediately and permanently resign as a Trustee of the Kamehameha Schools/Bishop Estate, conditioned on the permanent resignation or removal at the Probate or Circuit Court level of all of the other Incumbent Trustees.

Very truly yours,



Oswald Kofoad Stender

EXHIBIT 'B'



August 19, 1999

Admiral Robert K. U. Kihune  
Chairman of the Board of Interim Trustees of  
The Estate of Bernice Pauahi Bishop  
567 South King Street  
Honolulu, Hawaii 96813

**RE: Resignation of Trustee Gerard A. Jervis**

Dear Mr. Chairman:

Upon my appointment as a Trustee of Kamehameha Schools Bishop Estate, I was struck by the honor and extreme importance of this position. It was a truly humbling experience for me.

At first, I set about trying to gain an understanding of the structure and complexities of this enormous Estate. The management systems, subsidiary structures and a deep sense of "how things were done" were all securely in place upon my arrival.

I made inquiry both inside and outside the Estate and was comfortable that we had competent professionals to guide us on legal and tax issues which potentially impacted the Estate. On every decision I participated in, I read the relevant background materials, asked questions of the responsible staff members and consultants and generally satisfied myself that I understood the issues before me. I never, to my knowledge, voted on a tax measure contrary to staff's recommendation, which was usually based upon the advice of outside consultants.

The problems I encountered in the Boardroom as a member of the minority are well established. My efforts, along with Trustee Stender, in the Courts are a matter of public record.

When the Interim Trustees, both through their Petition for Interim Removal and subsequent correspondence, represented that the IRS demanded our resignation or removal, I honestly felt that my duty to the Trust required me to verify the IRS' position regarding my continued service as a Trustee and how that would negatively impact the tax exemption of the Estate.

EXHIBIT "C"

Admiral Robert K. U. Kihuna  
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I have since made my inquiry and I am now satisfied that the tax exempt status of the Kamehameha Schools Bishop Estate will be seriously jeopardized if I remain as a Trustee, this, despite the absence of an itemization of alleged wrongdoing attributable to each of the Incumbent Trustees.

All of the factual predicates of the IRS' threats to revoke the tax exemption are based on decisions and practices adopted by the Estate well before I became a Trustee in December of 1994, virtually all of which, in turn, were based on the advice of well experienced professional employees and outside consultants; all of which received repeated judicial approval; and some of which--relating to compensation--were based on legislation.

I have always been, and remain to this day, deeply committed to the purposes of the Estate and the welfare of Hawaiian children, its intended beneficiaries. As a Trustee my heart was truly touched to see our children learn and progress on our various campuses, and it saddened me deeply that we could not garner the requisite Board support to implement interactive and meaningful community programs to address the educational needs of the Hawaiian community.

As an incumbent Trustee, my fiduciary duty to the Estate must drive my decisions. I have proudly served as a Trustee during the most difficult period of the Estate's history, and I have fought both inside the Boardroom and in the Courts to further the interests of the beneficiaries and expand the reach of Pauahi's legacy in the Hawaiian community. I recognize that my final act as a Trustee must be the protection of the Estate's valuable tax exemption.

Therefore, although involuntarily, in the best interest of the students of the Kamehameha Schools, I hereby tender my resignation as a Trustee of the Kamehameha Schools Bishop Estate.

O wau no me ka ha'a ha'a.



Gerard Aulama Jervis