KAMEHAMEHA SCHOOLS

CLOSING AGREEMENT COMPLIANCE REPORT

February 22, 2001

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BACKGROUND

The Interim Trustees[1] of Kamehameha Schools ("KS" or "Trust Estate"), formerly known as Kamehameha Schools Bishop Estate, following the resignation of all of the Incumbent Trustees, entered into the "Closing Agreement on Final Determination Covering Specific Matters" (the "Closing Agreement") with the Internal Revenue Service ("IRS") dated February 23, 2000 (the "Effective Date"). The Closing Agreement covers the interests of KS, its subsidiaries and affiliated organizations (collectively, "KS Organizations"). The Closing Agreement resolved KS audit and UBIT tax issues covering the 1990-1996 time period and the "credit enhancements issue" for the 1990-1998 time period and allowed KS to preserve its tax-exempt status, subject to the terms and conditions of the Closing Agreement.

The Closing Agreement includes Parts A (Resolution of Audit Issues Relating to KS(BE)'s Exempt Status), B (Settlement of UBIT and Tax Issues) and C (which describes, among other things, the term of the Closing Agreement and filing instructions). Part A has twenty-five separate sections labeled sections A through Y, but only sections A through X require action on the part of the KS Organizations. Parts B and C each have seven separate sections labeled 1 through 7, but only sections B.1 and C.2 require action on the part of the KS Organizations.

Part A, Section O. of the Closing Agreement calls for the Internal Auditor to monitor the KS Organizations' compliance with the terms and conditions of the Closing Agreement. The Internal Auditor must report to the IRS on the KS Organizations' compliance efforts over the five-year term of the Closing Agreement beginning with the Effective Date. The report to the IRS will be made annually in the form of a "Special Filing," a copy of which will be provided to KS and the Attorney General of the State of Hawaii, as *parens patriae* ("AG"). During this five-year period, if there is no material breach of the terms and conditions of the Closing Agreement, the IRS will not take steps to revoke KS' tax-exempt status.

In addition to the Special Filing by Internal Audit, certain sections of the Closing Agreement require the KS Organizations to report to the IRS within a specified period of the Effective Date on the KS Organizations' actions taken to satisfy or implement the conditions of those sections. Other sections require the KS Organizations to provide a copy of or make available to the IRS, the AG, the court appointed Masters, the Probate Court, or a combination of them, the KS Organizations' efforts to satisfy the conditions of those sections.

The IRS audit included issues that arose during the annual accounting periods of KS from July 1, 1993 through June 30, 1999 (the "109th through 114th Annual Accounts"). The 109th through 114th Annual Accounts were finally approved by the Probate Court by Orders entered January 30, 2001. The Court's Orders approving the 109th through 114th Annual Accounts resulted in the Incumbent and Interim Trustees being discharged and released from liability, the approval of all transactions during said period, and the satisfaction of all Court Orders and Stipulations. Internal Audit is monitoring KS' compliance with the Court Orders and Stipulations entered after June 30, 1999.

[1] Capitalized terms, unless otherwise defined herein, shall have the same meanings as described in the Closing Agreement.

PURPOSE OF REPORT

The purpose of this Report (the "Report") is twofold. First, this Report serves to satisfy the reporting requirements of the KS Organizations under the Closing Agreement for the period which began with the Effective Date and ends on the date of this Report. Second, while not every section specified above in Parts A, B and C requires reporting to the IRS or to all of the above named parties, this Report also serves to provide notice to all of the parties of the KS Organizations' good faith efforts to comply with the terms and conditions of the Closing Agreement.

In this Report, the full terms of each section that required the KS Organizations to take action and on which KS now reports are stated and are followed by a summary of the action taken and KS' representation of the current status. Many sections require the KS Organizations to take more than one action. In those instances, the provisions of those sections have been modified by inserting numbers in brackets before each provision requiring action. The summary under each section is then broken into parts and organized to track the bracketed numbers in each section. The current status of each part follows the summary of each bracketed number.

EXECUTIVE SUMMARY

The efforts taken by the Interim Trustees, together with the Chief Executive Officer ("CEO") and the respective Chief Executives of KS (see Section A.1.F.) and the officers/directors of the other KS Organizations, include the following initiatives instituted to comply with the Closing Agreement:

- Re-implementation of the Internal Audit function, which has been outsourced to Arthur Andersen LLP.

- Periodic updates to the Trustees (the term "Trustees" includes the Interim Trustees and/or those appointed as Trustees effective January 1, 2001, as appropriate) and CEO by management and Internal Audit to ensure the Trustees and CEO are informed of issues and matters of interpretation regarding the Closing Agreement.

- Creating a tracking data base to monitor, update and document relevant matters for each Closing Agreement section.

- Discussing matters of interpretation with outside advisors for guidance and conferring with the IRS as necessary.

- Frequent discussions with Internal Audit on issues and seeking input on clarification of various matters pertaining to the Closing Agreement.

- Holding monthly Closing Agreement status meetings at which time management of KS Organizations and Internal Audit collectively discuss progress.

- Meeting between the CEO and the IRS in February 2000 to discuss matters relating to the Closing Agreement.

- KS development of the annual report to the IRS (herein) to summarize the status of KS Organizations' implementation of the Closing Agreement. Copies of this report are also being distributed contemporaneously to the Court Masters and the AG and will be filed in Probate Court.

Through these efforts and initiatives, KS will be better able to remain focused on its primary mission.

A.1.A. PERMANENT REMOVAL OF INCUMBENT TRUSTEES

In the event that any removal action of the Incumbent Trustees, namely Henry Haalilio Peters, Richard Sung Hong Wong, Marion Mae Lokelani Lindsey, Gerard Aulama Jervis, and Oswald Kofoad Stender, is set aside on appeal or by collateral attack and one or more of the Incumbent Trustees is reinstated as trustee of KSBE, this Closing Agreement shall be null and void in which event the procedures specified in paragraph A.1.Y.4. of this Closing Agreement will apply.

The permanent resignations of the five Incumbent Trustees have not been set aside on appeal or by collateral attack, nor have any of the five Incumbent Trustees been reinstated as a trustee of KS.

On August 24, 1999, the Interim Trustees filed a Petition for Removal of Trustees Marion Mae Lokelani Lindsey, Henry Haalilio Peters and Richard Sung Hung Wong and for Evidentiary Hearing seeking the permanent removal of three of the Incumbent Trustees. The trial on the petition was scheduled to commence in December 1999. Each of the five Incumbent Trustees resigned on a permanent basis prior to the commencement of trial, as follows:

	Resignation Date	Date of Court Order Accepting Resignation
Gerard Aulama Jervis	August 19, 1999	November 19, 1999
Oswald Kofoad Stender	September 27, 1999	January 4, 2000
Richard Sung Hung Wong	December 9, 1999	March 7, 2000
Henry Haalilio Peters	December 13, 1999	February 10, 2000
Marion Mae Lokelani Lindsey	December 16, 1999	February 1, 2000

STATUS: Completed (no further action required).

A.1.B. INCUMBENT TRUSTEES RESIGNATION FROM DIRECTORSHIPS

To the extent the Incumbent Trustees continue to hold offices, directorships, memberships, consultative relationships, perquisites, or retain ex-officio status by virtue of their prior status as Trustees of KSBE, or by virtue of KSBE's ownership, investment, control, or voting power with respect to any entity or organization, or with respect to any position within the KSBE Organizations, the Interim Trustees or their successors will seek the resignation or removal of the Incumbent Trustees from such offices, directorships, memberships, consultative relationships, perquisites, or ex-officio status immediately upon discovery of said position.

To the best of KS' knowledge, the Incumbent Trustees have either resigned or been removed from ***all*** positions obtained by virtue of their status as Incumbent Trustees of KS, or by virtue of KS' ownership, investment, control or voting power with respect to any entity or organization. In the event that KS subsequently discovers that an Incumbent Trustee occupies any such positions, KS will seek the resignation or removal of the Incumbent Trustee(s) from such offices, directorships, memberships, consultative relationships, perquisites, or ex-officio status immediately upon discovery of said position.

STATUS: Completed (no further action required).

A.1.C. COMMUNICATIONS AMONG TRUSTEES

[1] ***Any business meetings regarding KSBE Organizations' business between either the Interim Trustees or Top Executives and the Incumbent Trustees must be documented in writing by the current KSBE official in attendance at said meeting, detailing the purpose of the meeting, the substance of the matters discussed, and the persons who attended said meeting, for the term of this Closing Agreement.*** **[2]** ***The term "Top Executive" is defined herein as an "Organization Manager" within the meaning of IRC Section 4958(f)(2).*** **[3]** ***The Interim Trustee or Top Executive will notify the IRS and AG of the meeting within 30 days of said meeting.*** **[4]** ***The documentation of any meetings shall be available to the IRS and the AG upon request, within 30 days of said request.***

[1] ***Any business meetings regarding KSBE Organizations' business between either the Interim Trustees or Top Executives and the Incumbent Trustees must be documented in writing by the current KSBE official in attendance at said meeting, detailing the purpose of the meeting, the substance of the matters discussed, and the persons who attended said meeting, for the term of this Closing Agreement.***

All Top Executives have been notified of this requirement. All known business meetings between Top Executives and the Incumbent Trustees have been documented in writing, including all information required above.

STATUS: Ongoing.

[2] ***The term "Top Executive" is defined herein as an "Organization Manager" within the meaning of IRC Section 4958(f)(2).***

Based on discussions with the IRS and Internal Audit, "Top Executive" refers to the Trustees, CEO and Chief Executives of KS, and the officers and directors of all other KS Organizations.

STATUS: No action necessary.

[3] ***The Interim Trustee or Top Executive will notify the IRS and AG of the meeting within 30 days of said meeting.***

Written notification of any and all such meetings have been provided to the IRS and AG within the time period prescribed under this section.

STATUS: Ongoing.

[4] ***The documentation of any meetings shall be available to the IRS and the AG upon request, within 30 days of said request.***

Documentation of such meetings have been made available to the IRS and the AG.

STATUS: Ongoing.

A.1.D. ROLE OF TRUSTEES

[1] ***KSBE agrees that the Trustees shall act as fiduciaries and exercise general oversight over the activities of the KSBE Organizations, but will not be involved in management of the day-to-day operations of the KSBE Organizations.*** **[2]** ***The Trustees' primary focus is the furtherance of the educational purposes of KSBE, as set forth in Attachment 5.***

[1] ***KSBE agrees that the Trustees shall act as fiduciaries and exercise general oversight over the activities of the KSBE Organizations, but will not be involved in management of the day-to-day operations of the KSBE Organizations.***

Pursuant to the Governance Policy described below in Section A.1.F., the Trustees are no longer involved in the management of the day-to-day operations of KS. Effective February 1, 2000, the Interim Trustees engaged a CEO to manage the day-to-day operations of KS. With respect to the KS Organizations, the Trustees are no longer involved in the management of the day-to-day operations of those organizations. The KS Organizations are managed by individuals who are not the Trustees of KS.

STATUS: Ongoing.

[2] ***The Trustees' primary focus is the furtherance of the educational purposes of KSBE, as set forth in Attachment 5.***

Attachment 5 of the Closing Agreement is taken from the KS Governance Policy and the Trustees have acted in accordance with their duties as set forth therein.

STATUS: Ongoing.

A.1.E. SUSPENSION OR REMOVAL OF TRUSTEES

KSBE will follow the procedures established by the State of Hawai'i for suspension or removal of trustees in the event a trustee fails to fulfill his or her duties and responsibilities. KSBE agrees that in the event that a Trustee engages in one or more activities listed in Attachment 6, the other Trustees will initiate suspension or removal proceedings in accordance with Hawai'i law.

There are no known instances of any Trustees engaging in any of the activities listed in Attachment 6 of the Closing Agreement, or any other activity which would constitute grounds for suspension or removal of a Trustee. The Trustees will continue to monitor diligently each others actions. In the event that a Trustee engages in one or more activities in Attachment 6, or any other activity that would constitute grounds for suspension or removal, the other co-Trustees will initiate suspension or removal proceedings in accordance with Hawaii law. KS further asserts, as evidence of implementation of this section:

- In July 1999, the Interim Trustees requested the resignation of all five Incumbent Trustees. Trustees Jervis and Stender voluntarily resigned. Trustees Peters, Wong and Lindsey did not resign.

- On August 24, 1999, the Interim Trustees petitioned the Probate Court for the permanent removal of three remaining Incumbent Trustees in order to preserve the Trust Estate's tax exempt status. As a result, the remaining three Incumbent Trustees also submitted their resignations.

- KS' Governance Policy, revised and restated on November 22, 2000, dictates that the Board of Trustees must conduct itself in a manner which complies with all relevant laws and regulations and shall collectively perform and fulfill its duties in accordance with standards of trust laws and the Will.

- The Interim Trustees arranged for noted authorities in the area of Trust law to give presentations to the Interim Trustees, the CEO and Chief Executives on issues relating to governance and trustee duties and obligations. Master Benjamin Matsubara attended both presentations and found them to be instructive and served to impress upon the attendees the importance of their respective roles. In finding these presentations to be beneficial, Master Matsubara recommended that future trustees of the Trust Estate, including the CEO and Chief Executives, should arrange for similar annual presentations by noted trust experts on issues relating to governance, including trustee duties and obligations, in order to be kept apprised of the latest developments relating to charitable institutions. KS has agreed to do this on an annual basis.

STATUS: Ongoing.

A.1.F. CEO MANAGEMENT STRUCTURE

[1] ***The management structure of KSBE will initially be organized around a Chief Executive Officer. See Attachment 7 for current structure.***

[2] ***The Trustees will primarily establish the policies of KSBE and will exercise a fiduciary oversight role, consistent with the requirements of the Will, Probate Court orders regarding the administration of the Trust, and State of Hawai'i Trust law.***

[3] ***The policies established by the Trustees will ensure that education is the primary focus of KSBE.***

[4] ***The Chief Executive Officer will independently carry out the policy decisions of the Board of Trustees.***

[5] ***KSBE agrees that the duties and responsibilities of the Chief Executive Officer are clearly defined and the individual(s) hired to fill this position will be person(s) with extensive experience in similar positions as enumerated in Attachment 8.*** **[6]** ***The Trustees will perform annual performance reviews of the Chief Executive Officer.*** **[7]** ***The CEO will review the performance of other Top Executives.*** **[8]** ***These performance reviews will be made available to the Internal Auditor.***

[9] ***The IRS agrees that if, as a result of the strategic planning process described in paragraph I, an alternative management structure is recommended, the alternative management structure may be implemented by KSBE, with notice to the AG and prior approval by the Probate Court.*** **[10]** ***KSBE will provide the IRS with a copy of any petition seeking the Probate Court's permission to effectuate such structural or management changes.*** **[11]** ***KSBE will notify the IRS, in writing, of any such changes approved by the Probate Court within 30 days of issuance of the Court approval.***

[1] ***The management structure of KSBE will initially be organized around a Chief Executive Officer. See Attachment 7 for current structure.***

The management structure of KS is organized around a CEO as set forth in the KS Governance Policy approved by Court Order dated August 27, 1999, which policy was further amended by Court Orders dated June 1, 2000 and November 22, 2000. (Copies of the Court Orders and related Petitions, which included copies of the Governance Policy, were previously provided to the Masters, AG and the IRS.) Pursuant to this management structure, the CEO manages the day-to-day operations of the Trust Estate and the Trustees develop strategic policies and oversee the activities of the Trust Estate in furtherance of KS' educational purposes. Attached as Exhibit D is the current KS organization chart, approved by Court Order dated November 22, 2000.

The CEO based management system has been structured to ensure that the CEO is properly supported to manage the primary purpose of KS – education. To assist the CEO in his primary responsibilities of developing and managing the KS educational system, a Chief Education Officer (CEdO) position has been approved and will be filled within the next few months. The CEdO will be delegated the responsibilities of developing, managing and administering the KS educational system on a day-to-day basis under the supervision of the CEO. Four other Chief Executive positions that report directly to the CEO were created to support the educational purpose of KS. These include: The Chief Financial Officer (CFO) who manages the financial planning, accounting and reporting functions of KS; the Chief Investment Officer (CIO) who manages the endowment of KS; the Chief Legal Officer (CLO) who manages and coordinates all legal affairs at KS; and the Chief Administrative Officer (CAO) who coordinates and administers staff and service functions to support efficient operations at KS.

STATUS: Completed (no further action required).

[2] ***The Trustees will primarily establish the policies of KSBE and will exercise a fiduciary oversight role, consistent with the requirements of the Will, Probate Court orders regarding the administration of the Trust, and State of Hawai'i Trust law.***

See Section A.1.D. above. In addition, the Trustees have developed and approved several policies, including, for example, policies on governance, spending, investing, conflicts of interest, anti-tampering, lobbying, procurement and delegation of authority. The Interim Trustees also reinstituted the internal audit function to assist monitoring the administration and operations of the Trust Estate.

STATUS: Ongoing.

[3] ***The policies established by the Trustees will ensure that education is the primary focus of KSBE.***

The policies established by the Trustees are designed to ensure that education is the primary focus of KS. The recently adopted Strategic Plan is being integrated with the KS Investment

Policy and Spending Policy. The Investment Policy migrates the Trust's resources toward passive investments and away from actively managed investments, other than its Hawaii core real estate. The Strategic Plan will be implemented as funds are made available through the Spending Policy. See Section A.1.K. Spending Policy.

STATUS: Ongoing.

[4] ***The Chief Executive Officer will independently carry out the policy decisions of the Board of Trustees.***

The CEO carries out the policies of the Trustees and manages the day-to-day operations of KS as set forth in the Governance Policy, as amended. The CEO attends meetings of the Trustees and meets regularly with the Chairman of the Board of Trustees in order to report on the activities of the Trust Estate, seeks Trustees' approval for action, if necessary, and discusses implementation of policies. The CEO then holds weekly meetings with the Chief Executives and meets with specific Chief Executives as necessary in order to fulfill his responsibilities and carry out the policies and decisions of the Trustees.

STATUS: Ongoing.

[5] ***KSBE agrees that the duties and responsibilities of the Chief Executive Officer are clearly defined and the individual(s) hired to fill this position will be person(s) with extensive experience in similar positions as enumerated in Attachment 8.***

The Interim Trustees engaged Dr. Hamilton McCubbin as the CEO of KS. Dr. McCubbin has the requisite experience and qualifications to perform the responsibilities set forth in Attachment 8 to the Closing Agreement and attached as Appendix B to the Governance Policy. Attached hereto as Exhibit C is a copy of Dr. McCubbin's resume. As a result of the Trustees' development of a policy on the delegation of authority, the Trustees have identified additional day-to-day responsibilities that the CEO is expected to perform. The CEO and Interim Trustees hired qualified individuals for the other Chief Executive positions set forth in the Governance Policy, as amended.

STATUS: Completed (Trustees to continue to monitor).

[6] ***The Trustees will perform annual performance reviews of the Chief Executive Officer.***

Pursuant to the Governance Policy, the Trustees review the performance of the CEO on an annual basis for fiscal year ending June 30. The CEO's first annual review was completed and covered the short period for February 1, 2000 (hire date) to June 30, 2000.

STATUS: Completed for first annual review requirement.

[7] ***The CEO will review the performance of other Top Executives.***

The CEO is responsible to review the performance of the Chief Executives on an annual basis.

STATUS: Completed for first annual review requirement.

[8] ***These performance reviews will be made available to the Internal Auditor.***

The results of the Interim Trustees' annual written performance review of the CEO was and will continue to be made available to the Internal Auditor. In addition, the annual written performance reviews of the Chief Executives were and will continue to be made available to the Internal Auditor.

STATUS: Completed for first annual review requirement.

[9] ***The IRS agrees that if, as a result of the strategic planning process described in paragraph I, an alternative management structure is recommended, the alternative management structure may be implemented by KSBE, with notice to the AG and prior approval by the Probate Court.***

The Interim Trustees completed a Strategic Plan (described below in Section A.1.I.), which did not result in the creation of an alternative management structure. The CEO-based management structure remains in effect at KS.

STATUS: No action necessary.

[10] ***KSBE will provide the IRS with a copy of any petition seeking the Probate Court's permission to effectuate such structural or management changes.***

As described above, no petition is necessary since an alternative structure has not been adopted.

STATUS: No action necessary.

[11] ***KSBE will notify the IRS, in writing, of any such changes approved by the Probate Court within 30 days of issuance of the Court approval.***

As described above, no such changes in the management structure have been adopted.

STATUS: No action necessary.

<u>A.1.G. SYSTEM OF CHECKS, BALANCES & AFFIRMATIVE DISCLOSURE REQUIREMENTS</u>

> **[1]** ***KSBE agrees that the revised organizational structure of the KSBE Organizations referred to in paragraph F above, ensures that an adequate system of checks, balances, and affirmative disclosure requirements exists within the KSBE Organizations to provide safeguards against any abuse of power by the Trustees, individually or collectively, and any abuse of power by any Top Executives on the KSBE Organizations' staff, individually or collectively.*** **[2]** ***Additionally, KSBE agrees to implement an adequate system of checks, balances, and affirmative disclosure requirements to provide safeguards against the mismanagement of Trust assets by the Trustees, or by any individuals or entities given access to said assets by the KSBE Organizations.*** **[3]** ***The Trustees of KSBE in their capacity as Directors of any KSBE Organization will not actively participate in the day-to-day management or have effective management control over any of the KSBE Organizations.*** **[4]** ***The KSBE Organizations agree to submit a report to the IRS and the AG within twelve months of the date of this Closing Agreement outlining the implementation of the above stated safeguards.***

[1] ***KSBE agrees that the revised organizational structure of the KSBE Organizations referred to in paragraph F above, ensures that an adequate system of checks, balances, and affirmative disclosure requirements exists within the KSBE Organizations to provide safeguards against any abuse of power by the Trustees, individually or collectively, and any abuse of power by any Top Executives on the KSBE Organizations' staff, individually or collectively.***

In August 1999, the Interim Trustees adopted a Governance Policy as described above in Section A.1.F. The Governance Policy was developed to provide a framework within which the Board of Trustees would be guided in the execution of their fiduciary duties. It provides for a CEO-based management system in which "the Board or individual Trustees will never be engaged in the day-to-day management of the Estate, which is the responsibility of the CEO."

STATUS: Completed (no further action required).

[2] ***Additionally, KSBE agrees to implement an adequate system of checks, balances, and affirmative disclosure requirements to provide safeguards against the mismanagement of Trust assets by the Trustees, or by any individuals or entities given access to said assets by the KSBE Organizations.***

Since the Interim Trustees took office on May 7, 1999, there have been a number of significant policy and procedural changes implemented at KS to provide safeguards against any abuse of power by the Trustees, Top Executives or staff of KS and KS Organizations, collectively and individually, and to ensure that a system of checks, balances, and affirmative disclosure requirements exist to establish safeguards against mismanagement of Trust assets. Most significant of these safeguards, adopted over the past year, are described below:

- Conflicts of Interest Policy. Attachment 9 of the Closing Agreement is a Conflicts of Interest Policy which was adopted by the Interim Trustees on June 24, 1999. The policy applies to the Trustees, CEO and Chief Executives and requires an annual disclosure of financial interests and external activities. A separate Conflicts of Interest Policy applies to all staff members of KS. A Conflicts of Interest Policy has been adopted by each KS Organization and requires similar annual disclosure statements of each respective Officers and Directors. All such disclosure statements are available to the AG and Master. For a more detailed discussion on this subject, see Section A.1.H. below.

- Employment Policy. The KS Organizations (that have employees) have each adopted new or stricter employment policies to ensure that employment relationships are necessary and appropriate and that compensation levels are commensurate with the services provided. For a more detailed discussion on this subject, see Section A.1.S. below.

- Re-Implementation of Internal Audit. KS re-implemented an independent Internal Audit function in February, 2000. This function provides an important and independent safeguard and internal control to ensure against any abuse of power or mismanagement by Top Executives. The Internal Auditor reports to the Audit Committee (comprised of the Trustees) and the incumbent Master and the AG are invited to attend all meetings of the Audit Committee. For a more detailed discussion on this subject, see Section A.1.O. below.

- Anti-Retaliation Policy. The KS Organizations have each adopted an Anti-Retaliation Policy to ensure that any staff member providing information to the Internal Auditor will not be subject to intimidation or detrimental retaliatory actions as a result of their activities. Any staff member having knowledge that there has been a violation of this policy is to report immediately such actions to the AG, the IRS and the Master. KS has announced this policy to all staff members of KS and KS Organizations and will do so on an annual basis. The Internal Auditor has access to all records and employees within the KS Organizations. For a more detailed discussion on this subject, see Section A.1.O.1. below.

- Anti-Tampering Policy. KS adopted an Anti-Tampering Policy which prohibits any tampering or undue influence by staff or Trustees on any internal competitive selection process. This would include, without limitation, such processes as student admissions, financial aid, scholarships, hiring, procurement of goods and services and tryouts for athletic teams. Staff members are to report promptly any attempts to tamper with such selection process to their supervisor and to the Internal Auditor. Any persons found to have tampered with a selection process will be appropriately disciplined.

- Lobbying Policy. The KS Organizations have each adopted a Lobbying Policy which includes requirements for documenting communications (which constitute lobbying) with government officials/legislators or their assistants/associates, directors/board/ committee members or heads of governmental departments/agencies on matters relating to the financial, administrative, business or educational affairs of the KS Organizations. Training on the new policy has been completed with key KS staff members and will be provided to the KS Organizations in the coming year. For a more detailed discussion on this subject, see Section A.1.W. below.

- Prohibited Political Activities. The KS Organizations have each adopted a policy on Political Activities. The policy prohibits any political intervention as defined in IRC Section 501(c)(3) and the implementing regulations. Training on the implementation of this policy has been completed for key KS staff members and will be provided to the KS Organizations in the coming year. For a more detailed discussion on this subject, see Section A.1.V. below.

- Prohibition Against Hiring/Retaining Elected/Appointed Officials. The KS Organizations have each adopted a policy of not employing, reimbursing or paying for the services of an elected or appointed member of the legislative, judicial or executive branches of government, whether federal, state or local. This policy is important in that it safeguards against any actual, potential or perceived political intervention or payback by the KS Organizations. For a more detailed discussion of this subject, see Section A.1.T. below.

- Trustee Compensation. By Order filed May 23, 2000, the Probate Court established a new compensation structure for the Trustees. Under this new structure, the Chair of the Board of Trustees may receive a maximum of $120,000 per year and the other Trustees a maximum of $97,500 per year. This change in the Trustees' compensation is significant in that commissions are no longer based on a percentage of revenues or the fair market value of the Trust Estate. For a more detailed discussion on this subject, see Section A.1.L. below.

- Trustee Selection. On August 5, 1999, the Interim Trustees petitioned the Probate Court to establish a new selection procedure for future Trustees. The Court appointed a Master, Benjamin Matsubara, to review community and stakeholder-based recommendations on a screening process, and to propose a process for selection of future trustees. Master Benjamin Matsubara submitted a proposed trustee screening process, which the Probate Court subsequently approved. The process involves a court-appointed screening committee to undertake the screening and interviewing of all applicants, a set of objective criteria for selecting and screening of applicants, publication of the list of finalists, a 30-day public comment period, and a hearing on the final selection at which time the Trustees and AG would have opportunity to comment. The Screening Committee, consisting of community leaders, reviewed over 200 applications, which they narrowed down to seven finalists after extensive interviews and reference checks. From the seven finalists, the Court selected five trustees. The establishment of this procedure represents a significant change from the past trustee selection process established under the Will, which provided that "vacancies shall be filled by the choice of a majority of the Justices of the Supreme Court…" acting in their individual capacity. The past procedure had been the subject of considerable attack and criticism by commentators as being a politicized process and pay-back for political favors. The new screening process provides an objective process and public forum for screening and selecting trustees and avoids the perception of politics and abuse.

- Business Courtesies Policy. KS adopted a Business Courtesies Policy to require disclosure by all staff members of all gifts, meals, entertainment received from persons or entities who have or maintain a business relationship with KS. The policy also prohibits staff from accepting any gifts, meals or entertainment which exceed $50 per year. The adoption of this policy safeguards against any actual, potential or perceived undue influence or tampering with contracting for goods or services.

- Financial Controls. In addition to the items noted above, KS has established a number of additional financial controls to safeguard against mismanagement of Trust Estate assets, including, among others:

  - Establishing stringent cash disbursement guidelines requiring the CFO to sign-off and approve all payments greater than $1,000 and the CEO sign-off and approve amounts greater than $10,000

  - Development of a comprehensive Financial and Investment Performance Report beginning with September 30, 2000 (1st Quarter for fiscal 2001)

  - Establishment of a policy development framework, with the emphasis on developing a full set of policies that reflect KS' renewed organizational focus, aligned with the recently adopted Strategic Plan

  - Development of an enhanced budgeting process with partial implementation in fiscal 2001 for the fiscal 2002 budget, with full implementation in fiscal 2002 for the fiscal 2003 budget

- Procurement Policy. KS and KS Organizations have each adopted a Procurement Policy consistent with the guiding principles set forth in Attachment 13 of the Closing Agreement. The policy requires a competitive bid process above threshold dollar amounts and that all exceptions be approved pursuant to a system that ensures appropriate internal controls. The purpose of this policy is to ensure that the KS Organizations obtain goods and services at the most reasonable and competitive prices following best practices. For a more detailed discussion on this subject, see Section A.1.R. below.

STATUS: Ongoing.

[3] ***The Trustees of KSBE in their capacity as Directors of any KSBE Organization will not actively participate in the day-to-day management or have effective management control over any of the KSBE Organizations.***

The Governance Policy requires that "Trustees will not serve as Directors of any of the taxable subsidiaries of KS." Accordingly, no Trustee serves as an officer or director of any taxable subsidiary. KS is in the process of establishing a Compliance Program which will include staff training on maintaining a proper arm's length with taxable subsidiaries.

STATUS: Completed (no further action required).

[4] ***The KSBE Organizations agree to submit a report to the IRS and the AG within twelve months of the date of this Closing Agreement outlining the implementation of the above stated safeguards.***

KS intends that this Report constitutes the report required on the implementation of the above stated safeguards. Since this Report is also being submitted to the Masters, AG and Probate Court, it is intended to satisfy the reporting requirement to them.

STATUS: Completed (no further action required).

A.1.H. CONFLICT OF INTEREST POLICY; FINANCIAL DISCLOSURE STATEMENT

[1] ***KSBE agrees that its Trustees and Top Executives are subject to a new Conflict of Interest Policy (see Attachment 9) to ensure appropriate compliance with fiduciary standards.*** **[2]** ***The required financial disclosure statements will be made available to the AG and to the Master.***

[1] ***KSBE agrees that its Trustees and Top Executives are subject to a new Conflict of Interest Policy (see Attachment 9) to ensure appropriate compliance with fiduciary standards.***

KS adopted the Conflicts of Interest Policy included as Attachment 9 to the Closing Agreement. On April 14, 2000, KS amended its Conflicts of Interest Policy to be applicable not only to the Trustees, but also to the CEO and Chief Executives. All other KS Organizations have also adopted Conflicts of Interests Policies and related disclosure requirements, to ensure that their Top Executives adhere to the highest standards of integrity, ethics and business morals.

STATUS: Completed (no further action required).

[2] ***The required financial disclosure statements will be made available to the AG and to the Master.***

Compliance with the Conflicts of Interests Policy includes annual representations and financial disclosures from the Top Executives. As of the filing of this Report, the KS Organizations received all representations and financial disclosures from these individuals.

All annual representations and financial disclosures received by the KS Organizations are available to the AG and the Master upon request.

STATUS: Completed regarding first annual requirement.

A.1.I. COMPREHENSIVE EDUCATIONAL AND STRATEGIC PLAN

[1] ***The KSBE Organizations have agreed to develop and implement a comprehensive educational and financial strategic plan, as ordered by the Probate Court on October 2, 1998, including investment policies. The strategic planning process will include an educational plan developed in conjunction with an investment plan, the principal focus of which is the furtherance of the educational mission of KSBE.*** **[2]** ***The KSBE Organizations agree that this plan will be finalized and submitted to the IRS, to the AG and the Master no later than eighteen months from the date of this Closing Agreement.*** **[3]** ***A copy of said plan shall also be filed by KSBE in the Probate Court.***

[1] ***The KSBE Organizations have agreed to develop and implement a comprehensive educational and financial strategic plan, as ordered by the Probate Court on October 2, 1998, including investment policies. The strategic planning process will include an educational plan developed in conjunction with an investment plan, the principal focus of which is the furtherance of the educational mission of KSBE.***

The Interim Trustees approved a comprehensive educational and financial strategic plan in September 2000 and submitted a copy of the KS Strategic Plan 2000-2015 ("Strategic Plan") and a report on the completion and implementation of the Strategic Plan to the Probate Court on October 24, 2000. Examples of the affirmative acts taken by the Interim Trustees to implement the Strategic Plan are set forth in the Interim Trustees' report.

STATUS: Strategic Plan completed, implementation ongoing.

[2] ***The KSBE Organizations agree that this plan will be finalized and submitted to the IRS, to the AG and the Master no later than eighteen months from the date of this Closing Agreement.***

Under the Closing Agreement, KS is required to finalize a Strategic Plan by August 2001. As previously noted, the Strategic Plan was adopted in September 2000. The Interim Trustees made the creation of the Strategic Plan a priority as it is a vital component to the long term accomplishment of the educational mission of KS. Copies of the Strategic Plan and the Interim Trustees' report were previously provided to the IRS, AG, and the Masters in October 2000.

STATUS: Completed (no further action required).

[3] ***A copy of said plan shall also be filed by KSBE in the Probate Court.***

Copies of the Strategic Plan and the Interim Trustees' report were provided to the Probate Court on October 24, 2000.

STATUS: Completed (no further action required).

A.1.J . INVESTMENT POLICY AND INVESTMENT PERFORMANCE REPORTS

[1] ***The Interim Trustees have adopted an initial Investment Policy.*** **[2]** ***KSBE agrees that its Investment Policy will be regularly updated by the KSBE Organizations, as warranted, to ensure that the investment objectives and vehicles are consistent with the educational objectives of KSBE, and*** **[3]** ***will be incorporated as supplemental schedules to the KSBE Organizations' financial statements.*** **[4]** ***Investment performance reports will be prepared and submitted by KSBE to the Probate Court with KSBE 's Annual Account.*** **[5]** ***Such schedules will also be provided by KSBE to the IRS during the term of this Closing Agreement.*** **[6]** ***A copy of said schedules shall be submitted by KSBE to the Probate Court, and to the Hawai'i Attorney General.***

[1] ***The Interim Trustees have adopted an initial Investment Policy.***

KS adopted an Investment Policy on August 18, 1999 which reflects investment objectives and vehicles consistent with KS' educational objectives. This policy was provided to the IRS as a part of the Reaffirmation Submission. No changes to the Investment Policy have been made to date.

STATUS: Completed (no further action required).

[2] ***KSBE agrees that its Investment Policy will be regularly updated by the KSBE Organizations, as warranted, to ensure that the investment objectives and vehicles are consistent with the educational objectives of KSBE . . .***

No updates to the Investment Policy have been made to date. Because of the recent development and approval of the Strategic Plan, management will evaluate its current Investment Policy and determine if any changes are warranted.

STATUS: Progressing pursuant to the Closing Agreement.

[3] ***. . . will be incorporated as supplemental schedules to the KSBE Organizations' financial statements.***

KS has interpreted this provision to require that investment performance reports (rather than the actual Investment Policy or updates to the Investment Policy) be included as supplemental schedules to the KS Organizations' financial statements. A Schedule of Total Return and Schedule of Trust Distributions and Spending were included as supplemental schedules to the KS Organizations' financial statements for June 30, 2000.

While not required under the Closing Agreement, additional enhanced investment reporting, monitoring and evaluation, including identifying and reporting "underperforming" investments, additional investment performance schedules, disclosure of unusually high or low returns, review of the investment benchmarks and others, will commence with the 115th Annual Account filing (fiscal 2000) with full implementation with the filing of the 117th Annual Account filing (fiscal 2002).

STATUS: Completed with regard to June 30, 2000 financial statements.

[4] ***Investment performance reports will be prepared and submitted by KSBE to the Probate Court with KSBE 's Annual Account.***

KS will submit the investment performance reports commencing with its 115th Annual Account, which KS must file with the Probate Court on or before May 15 of each year.

STATUS: Progressing pursuant to the Closing Agreement.

[5] ***Such schedules will also be provided by KSBE to the IRS during the term of this Closing Agreement.***

The schedules for June 30, 2000 are being provided to the IRS as part of this Report. See supplemental schedules to the financial statements for June 30, 2000 attached as Exhibit B.

STATUS: Completed with regard to the June 30, 2000 financial statements.

[6] ***A copy of said schedules shall be submitted by KSBE to the Probate Court, and to the Hawai'i Attorney General.***

The schedules for June 30, 2000 are being provided as part of this Report, a copy of which will be filed with the Probate Court and provided to the AG , thus satisfying this provision of the Closing Agreement.

STATUS: Progressing pursuant to the Closing Agreement.

A.1.K. SPENDING POLICY

[1] ***KSBE and the KSBE Organizations have developed and agree to follow a spending policy that focuses on the educational purpose of KSBE, as set forth in Attachment 10.*** **[2]** ***The IRS agrees that KSBE may increase spending to directly serve the educational needs of children consistent with the Will and Probate Court orders regarding the administration of the Trust.*** **[3]** ***At least annually, KSBE will publicly solicit written comments from the Hawaiian community concerning the developmental and educational needs of native Hawaiian children.***

[1] ***KSBE and the KSBE Organizations have developed and agree to follow a spending policy that focuses on the educational purpose of KSBE, as set forth in Attachment 10.***

KS adopted a Spending Policy on August 18, 1999, included as Attachment 10 to the Closing Agreement. This Spending Policy has not been changed or amended since its adoption.

As disclosed in the audited financial statements for June 30, 2000 the Spending Policy targets annual trust distributions at 4% of the average market value of the endowment plus the net income (loss) generated from KS' Agriculture and Conservation lands. The Spending Policy also provides for actual trust distributions to vary annually in a range of 2.5 to 6%. Since this is a newly adopted policy, KS anticipates that it will take time to increase trust distributions responsibly to the targeted 4% level. Beginning with fiscal year 2000, a Schedule of Trust Distributions and Spending is provided as part of the supplemental schedules to KS' financial statements. These supplemental schedules are subject to auditing procedures by KS' independent external auditor. The Schedule of Trust Distributions and Spending reflects a spending rate for fiscal year June 30, 2000 of 2.76%.

KS plans to expand the reporting as it relates to the Spending Policy to include: (1) a schedule showing the computation of the annual target spending amount, based on the average market value of the Trust Estate's Endowment, (2) a schedule showing the comparison of the actual spending amount with the targeted spending amount, with an explanation of significant variances, and (3) a schedule showing the actual and projected spending amount over the most recent 5-year period. This new reporting will commence with the 116th Annual Accounts filing (fiscal 2001) for items (1) and (2) and will commence with the 120th Annual Accounts filing (fiscal 2005) for item (3).

STATUS: Completed with regard to June 30, 2000 financial statements. Full implementation ongoing.

[2] ***The IRS agrees that KSBE may increase spending to directly serve the educational needs of children consistent with the Will and Probate Court orders regarding the administration of the Trust.***

Pursuant to the Strategic Plan, KS contemplates expanding existing and creating new programs consistent with the intention to increase spending for educational purposes in future years.

STATUS: Progressing pursuant to Closing Agreement.

[3] ***At least annually, KSBE will publicly solicit written comments from the Hawaiian community concerning the developmental and educational needs of native Hawaiian children.***

As part of the strategic planning process, a wide spectrum of KS staff members and individuals in the Hawaiian community provided input concerning the developmental and educational needs of native Hawaiian children. These individuals included teachers and administrators, asset managers and attorneys, neighbor islanders and O'ahu residents, alumni and students, parents of current beneficiaries and of potential beneficiaries, staff of Hawaiian organizations and members of the larger community.

KS plans to annually solicit written comments from the Hawaiian community concerning the developmental and educational needs of native Hawaiian children. This will be done through a combination of written and/or telephone surveys, and requests for comments in the annual newspaper publication of KS' inventory of property and in KS' Annual Report.

STATUS: Completed for fiscal year 2000. Ongoing.

A.1.L. TRUSTEE COMPENSATION COMMITTEE

KSBE agrees that it will comply with the program approved by the Probate Court for setting Trustee compensation. See Attachment 11.

The Probate Court entered an Order on May 23, 2000 (effective February 1, 2000), in which the Court approved the recommendation of the Independent Compensation Committee on the compensation to be paid to the Trustees. The Independent Compensation Committee recommended in their Report filed in the Probate Court on October 1, 1999, that each Trustee be paid $30,000 per year, plus $2,000 per meeting of the Board of Trustees or any committee thereof for the chair of the Board of Trustees and $1,500 per meeting of the Board of Trustees or any committee thereof for each Trustee other than the chair; provided, that the additional compensation for meetings shall be limited to a maximum of 45 meetings per 12-month period. The May 23, 2000 Order further provided that the Trustees could be reimbursed for reasonable business-related expenses, but that the Trustees shall be treated as independent contractors and not employees. The Trustees are not eligible to receive fringe-benefits typically provided to employees and receive no other form of compensation from KS Organizations.

Within the next year, in accordance with Attachment 11 to the Closing Agreement, the Trustees will submit a Ruling Request to the IRS for approval of the method determining the Trustees' compensation for future years.

STATUS: Progressing pursuant to the Closing Agreement.

A.1.M. CEO COMPENSATION

KSBE agrees to follow the methodology for determining the compensation of the Chief Executive Officer, as set forth in Attachment 12.

The compensation of the CEO was set by the Interim Trustees in consultation with an independent nationally recognized compensation consultant, Strategic Compensation Associates ("SCA"). SCA provided benchmarks of executive compensation for not-for-profit organizations, private foundations, as well as market pay data for presidents of the National Association of Independent Schools and small private colleges. Based upon this information, and good faith negotiations with the CEO candidate, in January 2000 the Interim Trustees set the annual compensation for the CEO, who commenced employment at KS on February 1, 2000. For the first year of employment, from February 1, 2000 to January 31, 2001, the CEO will receive an annual salary of $300,000. For the second and third years of employment (i.e., February 1, 2001 to January 31, 2002 and February 1, 2002 to January 31, 2003), the CEO will receive an annual salary of $350,000. In addition, the CEO is provided with a residential dwelling, an automobile leased by KS, moving expenses, membership at a luncheon club and other employee benefits comparable to those available to all KS employees. There is no incentive or other bonus plan for the CEO.

STATUS: Completed (no further action required).

A.1.N. AUDITED FINANCIAL STATEMENTS

[1]*The KSBE Organizations will ensure that certified financial audits are prepared and filed annually with the Probate Court with the Annual Accounts of the KSBE Organizations.* [2] *For the term of this Closing Agreement, these financial statements, including all supplemental schedules, will also be provided to the IRS, to the Hawai'i Attorney General, and* [3] *made available to the general public upon request and by posting them on KSBE's Internet Web-site.* [4] *These statements will be prepared in conformity with GAAP, unless otherwise approved in Court Orders and Stipulations by the Probate Court.*

[1] ***The KSBE Organizations will ensure that certified financial audits are prepared and filed annually with the Probate Court with the Annual Accounts of the KSBE Organizations.***

The KS Organizations have engaged independent CPA firms as external auditors to opine on the fair presentation of the respective audited financial statements and supplemental schedules. The financial statements for June 30, 2000 will be filed with KS' annual filing with the Probate Court of its Annual Account for the June 30, 2000 year-end, which will be filed on or before May 15, 2001.

STATUS: Progressing pursuant to the Closing Agreement.

[2] ***For the term of this Closing Agreement, these financial statements, including all supplemental schedules, will also be provided to the IRS, to the Hawai'i Attorney General . . .***

The audited financial statements and supplemental schedules are attached to this Report as Exhibit B. Since a copy of this Report will be provided to the AG, the requirements of this section will be satisfied.

STATUS: Completed with regard to the June 30, 2000 year end.

[3] ***. . . and made available to the general public upon request and by posting them on KSBE's Internet Web-site.***

KS will also make available the audited financial statements for fiscal year end 2000 to the public by posting them on KS' website and by providing copies to members of the public who request copies. For fiscal year end 1999, KS made its audited financial statements available through its publication of an Annual Report which was mailed out to parents, alumni, staff members, stakeholders, members of the Hawaiian community and made available to the public upon request.

STATUS: Progressing pursuant to Closing Agreement.

[4] ***These statements will be prepared in conformity with GAAP, unless otherwise approved in Court Orders and Stipulations by the Probate Court.***

Audited financial statements and supplemental schedules have been and will continue to be prepared in accordance with GAAP.

STATUS: Completed with regard to June 30, 2000 year end.

A.1.O. INTERNAL AUDITOR FUNCTION & RELATED POLICIES & PRIVILEGES

[1] ***An independent internal audit function has been reimplemented within KSBE, as described in Attachment 8.*** **[2]** ***In addition to its other functions, the independent Internal Auditor including the Auditor's staff members (hereinafter "Internal Auditor") will monitor the KSBE Organizations' compliance with the terms of this Closing Agreement, all Court orders and stipulations relevant to this Agreement, and adherence to the Conflict of Interest Policy set forth in Attachment 9.*** **[3]** ***The Internal Auditor will annually report the results of his/her monitoring of KSBE's compliance with this Closing Agreement, all Court orders and stipulations relevant to this Agreement, and adherence to the Conflict of Interest Policy to the IRS as "Special Filings" during the term of this Closing Agreement.*** **[4]** ***The Special Filings will be signed by the Internal Auditor under the penalties of perjury.*** **[5]** ***The Special Filings will also be submitted by KSBE to the Master, and the Attorney General of the State of Hawai'i.***

[6] ***The KSBE Organizations have established procedures to ensure that the Internal Auditor and any individuals within the KSBE Organizations providing information to the Internal Auditor will not be subject to intimidation, or detrimental or retaliatory actions as a result of their activities.*** **[7]** ***Such protections will be announced and affirmed in a resolution of the Board of Trustees and communicated to all employees on an annual basis.*** **[8]** ***The Internal Auditor or any other employee having knowledge that there has been a violation of this policy shall immediately report to the AG, the IRS and the Master any actions that violate this policy by KSBE, its Trustees, the KSBE Organizations, and their agents and employees.***

[9] ***The Internal Auditor will have immediate and unrestricted access to all records irrespective of their physical form and will be able to interview all employees of KSBE***

and the KSBE Organizations at the Auditor's request.* [10] *The attorney/client privilege and/or other privileges will not be asserted by KSBE or the KSBE Organizations to prevent disclosure of any records to the Internal Auditor or access to any individuals by the Internal Auditor.

[11] *The Internal Auditor will be paid an annual salary set by the Board of Trustees, and* [12] *may be removed or reassigned only for just cause by a majority of the Board of Trustees;*
[13] *In the event the Internal Auditor finds that a trustee or Top Executive has failed to comply with the Conflict of Interest policy, the Internal Auditor will report any apparent conflicts to the Board of Trustees for appropriate action.* [14] *The Board of Trustees will communicate in writing to the Internal Auditor the action or actions resulting from the Internal Auditor's report to the Board of Trustees, within 30 days of the action.* [15] *The Internal Auditor will also include in the Special Filing provided for in Paragraph O, above, the actions taken by the Board of Trustees, if any, in response to the Internal Auditor's report to the Board of Trustees of an apparent or actual conflict of interest.*

[1] *An independent internal audit function has been reimplemented within KSBE, as described in Attachment 8.*

On or about the time that the Closing Agreement was executed, KS reestablished the function of Internal Audit within KS. The Internal Audit function has the following primary objectives (as set forth in the Governance Policy):

- The terms of the Will of Bernice Pauahi Bishop are fulfilled in perpetuity
- The assets of the Trust Estate are properly safeguarded and used primarily for educational purposes.
- Policies and procedures established by the Board of Trustees are being adhered to by the Trust Estate.
- Compliance with applicable state and federal laws and regulations.
- Compliance with the terms of the Closing Agreement is monitored and maintained throughout the duration of the Closing Agreement.

On February 15, 2000, the Interim Trustees executed an agreement, as amended, with the Honolulu office of Arthur Andersen LLP ("Andersen" or "AA") to provide Internal Audit services beginning February 15, 2000 ("Andersen Agreement"). Prior to execution, the Andersen Agreement was submitted to the IRS. The Internal Audit function will start to be transitioned to internal staff members after 18 months.

The Andersen Agreement further clarifies that it is KS' responsibility to establish and maintain an effective internal control system, recordkeeping, management, decision-making and other management functions. Internal Audit Services do not include or substitute for management's responsibilities.

STATUS: Completed (no further action required).

[2] ***In addition to its other functions, the independent Internal Auditor including the Auditor's staff members (hereinafter "Internal Auditor") will monitor the KSBE Organizations' compliance with the terms of this Closing Agreement, all Court orders and stipulations relevant to this Agreement, and adherence to the Conflict of Interest Policy set forth in Attachment 9.***

Internal Audit continually monitors the KS Organizations' compliance with the terms of the Closing Agreement, all Court orders and stipulations relevant to the Closing Agreement, and adherence to the Conflict of Interest Policy. Such monitoring is accomplished through:

- Discussions with management on matters of interpretation
- Attendance at monthly Closing Agreement status meetings, conducted by management
- Reviewing policies and performing compliance tests across the KS Organizations to ensure adherence to the specific terms of the Closing Agreement
- Assisting KS in developing this Report to fulfill reporting requirements
- Obtaining Conflict of Interest representations and disclosures from Top Executives to ensure compliance with the Conflict of Interest Policies

STATUS: Ongoing.

[3] ***The Internal Auditor will annually report the results of his/her monitoring of KSBE's compliance with this Closing Agreement, all Court orders and stipulations relevant to this Agreement, and adherence to the Conflict of Interest Policy to the IRS as "Special Filings" during the term of this Closing Agreement.***

Concurrent with the filing of this Report, the Internal Auditor will submit to the IRS the Special Filing with regard to the monitoring of KS' compliance with the Closing Agreement, all Court orders and stipulations relevant to the Closing Agreement, and adherence to the Conflict of Interest Policy.

STATUS: Completed for the first year.

[4] ***The Special Filings will be signed by the Internal Auditor under the penalties of perjury.***

The Special Filing is signed by the Internal Auditor, currently Arthur Andersen, under penalties of perjury.

STATUS: Completed for the first year.

[5] ***The Special Filings will also be submitted by KSBE to the Master, and the Attorney General of the State of Hawai'i.***
The Special Filing will be submitted to the Master and the AG contemporaneous with the date of submission to the IRS.

STATUS: Completed for the first year.

[6] ***The KSBE Organizations have established procedures to ensure that the Internal Auditor and any individuals within the KSBE Organizations providing information to the Internal Auditor will not be subject to intimidation, or detrimental or retaliatory actions as a result of their activities.***

As further discussed in Section A.1.G., KS Organizations adopted and implemented an Anti-Retaliation Policy that ensures the Internal Auditor and any individuals within the KS Organizations providing information to the Internal Auditor will not be subject to intimidation, or detrimental or retaliatory actions as a result of their activities. KS Organizations have established procedures for reporting violations of this policy through a prescribed form to the Internal Auditor. In addition, this information may also be directly reported to the AG, IRS and/or the Court-Appointed Master.

STATUS: Completed for the first year.

[7] ***Such protections will be announced and affirmed in a resolution of the Board of Trustees and communicated to all employees on an annual basis.***

The Anti-Retaliation Policy was announced and affirmed by the Interim Trustees pursuant to a resolution on June 29, 2000. All KS Organizations also have adopted this policy. The policy was communicated to employees of all KS organizations on July 24, 2000 by written correspondence from the CEO. KS Organizations intend to communicate the policy organization-wide to all employees annually.

STATUS: Completed for first requirement year .

[8] ***The Internal Auditor or any other employee having knowledge that there has been a violation of this policy shall immediately report to the AG, the IRS and the Master any actions that violate this policy by KSBE, its Trustees, the KSBE Organizations, and their agents and employees.***

There have been no known violations of this Anti-Retaliation Policy.

STATUS: Ongoing.

[9] ***The Internal Auditor will have immediate and unrestricted access to all records irrespective of their physical form and will be able to interview all employees of KSBE and the KSBE Organizations at the Auditor's request.***

The Internal Auditor has been and will continue to be provided immediate and unrestricted access to all records, as well as the ability to interview all employees of the KS Organizations at the Auditor's request.

STATUS: Ongoing.

[10] ***The attorney/client privilege and/or other privileges will not be asserted by KSBE or the KSBE Organizations to prevent disclosure of any records to the Internal Auditor or access to any individuals by the Internal Auditor.***
Attorney/client privilege and/or other privileges have not been and will not be asserted by the KS Organizations to prevent disclosure of any records to the Internal Auditor, or access to any individuals by the Internal Auditor. The Internal Auditor has been allowed access to all records and employees of the KS Organizations.

STATUS: Ongoing.

[11] ***The Internal Auditor will be paid an annual salary set by the Board of Trustees . . .***

As provided in the Andersen Agreement submitted to the IRS and entered into on behalf of KS by the Interim Trustees, the current annual salary for the Internal Auditor is in the form of a consulting fee based on a blended rate per hour.

STATUS: Ongoing.

[12] ***. . . may be removed or reassigned only for just cause by a majority of the Board of Trustees;***

KS decided that the most beneficial and efficient means to re-implement the internal audit function was to enter into an outsourcing arrangement. As is true with many outsourcing arrangements and as further defined in the Andersen Agreement, KS has the right to terminate the arrangement at any time, with or without cause, upon 30 days prior written notice. If termination is without cause, KS is required to pay AA a termination fee pursuant to the Andersen Agreement. Once KS fills the Internal Audit position with an individual employee as opposed to an outsourcing arrangement, KS intends that such employee will not be removed or reassigned unless for just cause by a majority of the Trustees.

STATUS: Ongoing.

[13] ***In the event the Internal Auditor finds that a trustee or Top Executive has failed to comply with the Conflict of Interest policy, the Internal Auditor will report any apparent conflicts to the Board of Trustees for appropriate action.***

There have been no known violations of the Conflict of Interest Policy by Top Executives. Section A.1.H. discusses compliance with the Conflict of Interest Policy in greater detail.

STATUS: Ongoing.

[14] ***The Board of Trustees will communicate in writing to the Internal Auditor the action or actions resulting from the Internal Auditor's report to the Board of Trustees, within 30 days of the action.***

Since no known violations have occurred, no such report has been required.

STATUS: Ongoing.

[15] ***The Internal Auditor will also include in the Special Filing provided for in Paragraph O, above, the actions taken by the Board of Trustees, if any, in response to the Internal Auditor's report to the Board of Trustees of an apparent or actual conflict of interest.***

Since no known violations have occurred, no such report has been required.

STATUS: Ongoing.

A.1.P. REVIEW OF CONTRACTUAL RELATIONSHIPS

[1] ***KSBE has undertaken a review of existing contractual, consultative, employment, and professional service relationships in existence as of June 30, 1999 to ensure that the services provided under such contracts or through such relationships are necessary to the operation of the KSBE Organizations, that the prices and/or compensation paid for such services are reasonable and commensurate with services rendered, and that they are not in violation of any of the terms of this Closing Agreement.*** **[2]** ***Retainer fees were subject to special scrutiny for propriety.*** **[3]** ***KSBE shall report the results of this review to the IRS, the Master, and the AG within twelve months of the date of this Closing Agreement.*** **[4]** ***A copy of said report shall also be filed with the Probate Court.***

[1] ***KSBE has undertaken a review of existing contractual, consultative, employment, and professional service relationships in existence as of June 30, 1999 to ensure that the services provided under such contracts or through such relationships are necessary to the operation of the KSBE Organizations, that the prices and/or compensation paid for such services are reasonable and commensurate with services rendered, and that they are not in violation of any of the terms of this Closing Agreement.***

KS Organizations performed an extensive review of contractual, consultative and professional service relationships in existence as of June 30, 1999, to ensure that the services provided under such contracts or through such relationships are necessary to the operation of KS Organizations, that the prices and/or compensation paid for such services are reasonable and commensurate with services rendered, and that they are not in violation of any of the terms of the Closing Agreement.

"Violation of any of the terms of the Closing Agreement" was interpreted by KS to represent a violation of the Conflict of Interest Policy with respect to "Top Executives" (as defined in

A.1.C.) and the employment and retention of appointed or elected government officials as described in Section A.1.T.

KS Organizations identified vendors where contractual relationships existed as of June 30, 1999. Lists of those vendors to whom the KS Organizations had paid over $1,000 during fiscal years 1999 and 2000 were provided to Internal Audit for their review. From the latter vendor list, Internal Audit selected contractual relationships based on (1) amounts greater than $25,000, (2) contracts identified by management as being influenced by the Incumbent Trustees or members of management, and (3) judgmental and random selections, which included a significant number of vendors that were paid less than $25,000. Internal Audit provided the list of vendors that it selected for review based on the foregoing criteria to the KS Organizations with a request to answer the following questions:

- What was the nature of goods/services provided?
- Was there a contract? Was the contract put out for bid?
- Were the goods/services necessary to the operations of the entity?
- Were prices paid reasonable and commensurate with what was provided?
- Were there any known conflict of interest violations with respect to engaging this vendor?
- If conflicts existed, what was management's course of action taken to resolve the issue?

Responses were subject to Internal Audit's review and testing. A total of approximately 1,300 contractual/consultative and professional service relationships were evaluated as part of this review.

The following is a summary of findings resulting from the review:

- All significant contractual relationships (including retainer agreements) identified as being either unnecessary, where prices were not reasonable or commensurate with services rendered or where retention was possibly in violation of Conflicts of Interest (with respect to the Incumbent Trustees) were terminated or discontinued prior to the review.

- There were no ongoing significant improper contractual relationships identified during the review.

- Issues raised by Internal Audit were brought to the attention of the affected KS Organizations for further evaluation and/or consideration and steps have been taken to resolve issues identified.

- Vendors identified during the IRS Audit were given heightened scrutiny and steps have been taken to ensure that any such alleged improprieties of the past are discontinued.

- In connection with this extensive review, several procurement issues were identified which are discussed further at Section A.1.R.

  STATUS: Completed (no further action required).

[2] ***Retainer fees were subject to special scrutiny for propriety.***

During the review, retainer fees were subject to special scrutiny for propriety and all inappropriate retainer fees were terminated.

STATUS: Completed (no further action required).

[3] ***KSBE shall report the results of this review to the IRS, the Master, and the AG within twelve months of the date of this Closing Agreement.***

KS intends that this Report constitutes the report required on the results of the review of service relationships to the IRS. Since this Report is also being submitted to the Master and the AG, it is intended to satisfy the requirement to report on the results of KS' review of service relationships.

STATUS: Completed (no further action required).

[4] ***A copy of said report shall also be filed with the Probate Court.***

Since this Report is also being filed with the Probate Court, it is intended to satisfy the requirement to report on the results of KS' review of service relationships.

STATUS: Completed (no further action required).

A.1.Q. REVIEW OF SIGNIFICANT JOB CLASSIFICATIONS

> **[1]** ***KSBE and the KSBE Organizations have reviewed all significant job classifications in existence as of June 30, 1999 to ensure that the job positions and compensation for such positions are appropriate for the accomplishment of KSBE's exempt purpose and that the individuals occupying such positions are qualified to perform the responsibilities of the position.*** **[2]** ***KSBE shall report the results of this review to the IRS, the Master, and the AG within twelve months of the date of this Closing Agreement.*** **[3]** ***A copy of said report shall also be filed with the Probate Court.***

[1] ***KSBE and the KSBE Organizations have reviewed all significant job classifications in existence as of June 30, 1999 to ensure that the job positions and compensation for such positions are appropriate for the accomplishment of KSBE's exempt purpose and that the individuals occupying such positions are qualified to perform the responsibilities of the position.***

KS Organizations performed a review of all significant job classifications in existence as of June 30, 1999 to ensure that the job positions and compensation for such positions are appropriate for the accomplishment of KS' exempt purpose and that the individuals occupying such positions are qualified to perform the responsibilities of the position.

"Significant job classifications" were interpreted to include the following:

- KS – Principal Executives and Senior Management (terms used as of June 30, 1999)
- Pauahi Management Company (PMC) - President, Vice President of Finance and General Counsel
- Kamehameha Investment Company (KIC) - President and Vice President (vacant)
- KUKUI, Inc. and KUKUI Operating Company - President

Also included in the position review were selected employees whose employment management determined was influenced by one or more of the Incumbent Trustees.

Standard questions were created for purposes of this evaluation:

- Is the position necessary to the Organization's mission?
- Is the individual qualified for the position?
- Is compensation commensurate with experience?

Responses were subject to Internal Audit's review.

The following summarizes the results of the position review:

<u>KS</u>

- KS' Human Resources Director conducted a review of 42 positions, of which 26 positions were senior management and above and 16 positions were filled by individuals whose hiring was influenced by an Incumbent Trustee.

- Of the 26 Senior Management and above positions, one exception was noted, and appropriate action is being taken.

- Of the 16 positions identified as influenced by an Incumbent Trustee, one exception was noted and the position was eliminated.

- While all other influenced positions met the three standards noted above, 6 positions were eliminated.

<u>KS Organizations (with Employees)</u>

- Each KS Organization conducted its review consistent with the standard questions as noted above.
- For all subsidiaries excluding PMC, no exceptions were noted.

- PMC's evaluation resulted in one position being deemed not necessary to the organization's mission and another position where compensation was not commensurate with job responsibilities. Management has taken action to resolve these issues.
- The Director of Internal Audit interviewed the outside Directors of each subsidiary, to understand the process and objectivity for evaluating the position of the President.

STATUS: Completed (no further action required).

[2] ***KSBE shall report the results of this review to the IRS, the Master, and the AG within twelve months of the date of this Closing Agreement.***

KS intends that this Report constitutes the report required on the results of the review of significant job classifications to the IRS. Since this document is also being submitted to the Master and the AG, it is intended to satisfy the requirement to report on the results of KS' review of significant job classifications.

STATUS: Completed (no further action required).

[3] ***A copy of said report shall also be filed with the Probate Court.***

Since this Report is also being submitted to the Probate Court, it is intended to satisfy the requirement to report on the results of KS' review of significant job classifications.

STATUS: Completed (no further action required).

A.1.R. PROCUREMENT POLICY

KSBE and the KSBE Organizations agree to follow their standard procurement practices policy, attached as Attachment 13, to ensure that contracts for goods and services will be awarded on the basis of open and competitive bidding, and that exceptions to competitive bidding will be specifically defined, as set forth in Attachment 13.

KS Organizations have agreed to follow their standard procurement practices policy under guidelines set forth in the "KS and KS Organizations Procurement Guiding Principles," Attachment 13 to the Closing Agreement. Each KS Organization adopted its own Procurement Policy consistent with the Guiding Principles, to ensure that contracts for goods and services will be awarded on the basis of open and competitive bidding, and that exceptions to competitive bidding will be specifically defined.

Implementation of the policy throughout the KS Organizations is in process, as effective communications of the policy, as well as efficient implementation continue to be a challenge. KS Organizations have identified, in part, based on Internal Audit's reviews conducted under Section A.1.P., that certain contract vendor files lack the appropriate documentation that is required under the standard procurement policy, and exceptions to the bidding process are, at times, not adequately documented nor justified.

Significant efforts to transition into full compliance with the standard procurement policies are underway. For example:

- KS hired a Purchasing Manager, who is responsible for the training program and for migrating towards coordinating a centralized procurement function.

- KS held a training seminar with the Purchasing Department staff discussing the importance of the procurement policy and the purchasing function, staff's role in implementation of the policy, policy enforcement and the performance measures that will be incorporated into staff's evaluation.

- KS Organizations instituted a procurement training program to educate individuals who are actively involved in the procurement process to ensure awareness and proper execution.

- For added internal control at KS, the CFO currently approves all cash disbursements greater than $1,000 and the CEO reviews and approves all disbursements greater than $10,000 to mitigate risk of improprieties.

- KS is also evaluating the feasibility of migrating towards electronic procurement, or "e-procurement."

- To the extent practicable, KS Organizations have utilized best practice guidelines to assist in procurement implementation, and have developed formal checklists covering purchasing procedures and pre-approval of vendors.

STATUS: Progressing pursuant to the Closing Agreement.

A.1.S. EMPLOYMENT AND CONTRACT POLICIES AND PROCEDURES

[1] ***KSBE and the KSBE Organizations will establish employment and contractual procedures ensuring, prospectively, that contractual and employment relationships are necessary and appropriate and that the prices and/or compensation paid for services are reasonable.*** **[2]** ***A report of said procedures shall be submitted by KSBE to the IRS and the AG within twelve months of the date of this Closing Agreement.*** **[3]** ***A copy of said report shall be filed by KSBE with the Probate Court.***

[1] ***KSBE and the KSBE Organizations will establish employment and contractual procedures ensuring, prospectively, that contractual and employment relationships are necessary and appropriate and that the prices and/or compensation paid for services are reasonable.***

KS' employment procedures, including both documentation of the reason for a request for hire and a process for position evaluation to ensure that compensation is reasonable, is as follows:

- Three standard KS forms have been revised to assist supervisors in considering various options to meet operational requirements, and in performing assessments for filling vacant positions or requesting temporary hires.

- Modifications to KS' Employment Practices Policy will assist supervisors with guidelines for performing personnel assessments.

- KS' Position Evaluation Policy assures that compensation paid to employees is reasonable and commensurate with the position.
- Effective September 2000, all requests to hire using the standard KS personnel form must be submitted to the CEO for final review and approval.

The KS Organizations have adopted policies consistent with the policy adopted by KS. Procedures for contractual relationships are covered under the Procurement Policy. For a more detailed discussion on this subject, see Section A.1.R.

STATUS: Completed (no further action required).

[2] ***A report of said procedures shall be submitted by KSBE to the IRS and the AG within twelve months of the date of this Closing Agreement.***

KS intends that this Report constitute the report required to the IRS on established employment and contractual procedures. Since this Report is being submitted to the AG, the requirement to submit this Report to the AG will be satisfied.

STATUS: Completed (no further action required).

[3] ***A copy of said report shall be filed by KSBE with the Probate Court.***

Since this document is also being submitted to the Probate Court, it is intended to satisfy the requirement to report on the establishment of employment and contractual procedures.

STATUS: Completed (no further action required).

A.1.T. EMPLOYMENT OF GOVERNMENT OFFICIALS

[1] ***KSBE and the KSBE Organizations agree that they will follow the policy of not employing, reimbursing, or paying for the services of (including office expenses of), an elected or appointed member of the legislative, judicial, or executive branches of government, whether state, federal, or local. (This provision does not apply to non-compensated positions on advisory commissions or boards unless service on such a***

board or commission would violate KSBE's Conflict of Interest policy.)* [2] *In no case shall KSBE or the KSBE Organizations employ such an individual, until a period of three years has passed since the individual's status as an appointee or elected official with the governmental entity has terminated, unless KSBE has received the express approval of the Probate Court.* [3] *Notwithstanding the above, Robert Herkes, an incumbent legislator employed by KSBE may serve the remainder of his term in the Hawaii legislature which expires November, 2000, but will not thereafter serve in the legislature while employed by KSBE or the KSBE Organizations and will otherwise be subject to the foregoing paragraph.

[1] ***KSBE and the KSBE Organizations agree that they will follow the policy of not employing, reimbursing, or paying for the services of (including office expenses of), an elected or appointed member of the legislative, judicial, or executive branches of government, whether state, federal, or local. (This provision does not apply to non-compensated positions on advisory commissions or boards unless service on such a board or commission would violate KSBE's Conflict of Interest policy.)***

The KS Organizations have adopted and implemented a stringent policy applicable to all employees which addresses the continued employment, reimbursement, or payment for services of persons who seek or become an elected or appointed member of the legislative, judicial, or executive branches of government, whether state, federal, or local. The pertinent provisions of KS' policy (which policy has been adopted by the KS Organizations in substantially similar terms) provide as follows:

- It is the policy of KS to not employ, reimburse, or pay for services of (including office expenses of), an elected or appointed member of the legislative, judicial, or executive branches of government, whether state, federal or local. (This provision does not apply to non-compensated positions on advisory commissions or boards unless service on such a board or commission creates an actual or potential conflict of interest with KS.) In no case shall KS employ such an individual, until a period of three (3) years has passed since the individual's status as an appointee or elected official with the governmental entity has terminated, unless KS has received the express approval of the Probate Court.

- If an employee accepts a position on a public commission or board, or registers to run for public office, employment will be terminated. This provision does not apply to non-compensated positions on advisory commissions or boards unless service on such a board or commission creates an actual or potential conflict of interest with KS. In all cases the employee must notify his or her supervisor prior to accepting such position or registering to run for public office.

The KS Organizations agree that all employment, reimbursement and service payment situations covered by their respective policy will be resolved in a manner that is consistent with the terms of the policy and applicable law.

No known elected or appointed member of the legislative, judicial, or executive branches of government, whether state, federal or local, is currently employed, receiving reimbursements, or receiving payments for services by the KS Organizations.

STATUS: Ongoing.

[2] ***In no case shall KSBE or the KSBE Organizations employ such an individual, until a period of three years has passed since the individual's status as an appointee or elected official with the governmental entity has terminated, unless KSBE has received the express approval of the Probate Court.***

KS does not employ, reimburse, or pay for services of (including office expenses of), an elected or appointed member of the legislative, judicial, or executive branch of government, whether state, federal or local, unless a period of 3 years has passed since the individual's status as an appointee or elected official with the governmental entity has terminated.

STATUS: Ongoing.

[3] ***Notwithstanding the above, Robert Herkes, an incumbent legislator employed by KSBE may serve the remainder of his term in the Hawaii legislature which expires November, 2000, but will not thereafter serve in the legislature while employed by KSBE or the KSBE Organizations and will otherwise be subject to the foregoing paragraph.***

This provision of the Closing Agreement has been satisfied.

STATUS: Completed (no further action required).

A.1.U. DOCUMENTATION OF TRUSTEE AND TOP EXECUTIVE DECISIONS

[1] ***The KSBE Organizations have established procedures which will ensure the proper and complete documentation of all educational, investment and management decisions made by the Board of Trustees and by the Top Executives, and retention of said documentation.*** **[2]** ***The Board of Trustees' minutes will contain documentation to indicate the Trustees present at the meeting and will contain a record of the matters voted on, in addition to the acceptance or rejection of the particular matter.*** **[3]** ***Any staff reports presented prior to or during a meeting of the Board will be attached and filed with the appropriate minutes.*** **[4]** ***Any Resolutions passed will be attached and filed with the appropriate minutes.*** **[5]** ***In all instances in which these documents concern matters relating to the administration of the Trust, or a Trustee's fiduciary obligations or duties, or the Trustees' fiduciary responsibilities as Trustees, these documents will be readily available upon request for inspection and copying by IRS personnel, by the Hawai'i Attorney General's office, as parens patriae, or by the Probate Court, without assertion of privileges.***

[1] ***The KSBE Organizations have established procedures which will ensure the proper and complete documentation of all educational, investment and management decisions made by the Board of Trustees and by the Top Executives, and retention of said documentation.***

Management of KS Organizations have strengthened the procedures and guidelines to ensure that there is proper and complete documentation and retention of all educational, investment and management decisions made by the Top Executives.

STATUS: Completed (no further action required).

[2] ***The Board of Trustees' minutes will contain documentation to indicate the Trustees present at the meeting and will contain a record of the matters voted on, in addition to the acceptance or rejection of the particular matter.***

The Trustees' meeting minutes indicate the individuals present, including Trustees, Chief Executives, staff, guests and the designated meeting secretary.

Decisions voted on, as provided in the minutes, indicate acceptance or rejection of the particular matter, including whether or not there was unanimous approval. Dissenting votes are also indicated in the minutes.

STATUS: Ongoing.

[3] ***Any staff reports presented prior to or during a meeting of the Board will be attached and filed with the appropriate minutes.***

Staff reports presented to the Trustees to facilitate discussion and to aid with the decision making process have been and will continue to be attached and filed with the respective minutes.

STATUS: Ongoing.

[4] ***Any Resolutions passed will be attached and filed with the appropriate minutes.***

Resolutions have been and will continue to be attached and filed with the respective minutes.

STATUS: Ongoing.

[5] ***In all instances in which these documents concern matters relating to the administration of the Trust, or a Trustee's fiduciary obligations or duties, or the Trustees' fiduciary responsibilities as Trustees, these documents will be readily available upon request for inspection and copying by IRS personnel, by the Hawai'i Attorney General's office, as parens patriae, or by the Probate Court, without assertion of privileges***.

All of the minutes from the Trustees' meetings and related staff reports relating to the administration of the Trust Estate, or a Trustee's fiduciary obligations or duties, or the

Trustees' fiduciary responsibility as Trustees, are available upon request for inspection and copying by IRS, the AG, or the Probate Court, without assertion of privileges consistent with Court Orders.

STATUS: Ongoing.

A.1.V. PROHIBITED POLITICAL INTERVENTION POLICY

The KSBE Organizations will not engage in any prohibited political intervention, as defined in the IRC Section 501(c)(3) and the implementing Regulations.

KS has not engaged in any prohibited political intervention. KS previously adopted a Political Activities Policy which prohibits participation in or intervention in any political campaign on behalf (or in opposition to) any candidate for public office. The policy was re-evaluated for its applicability during this reporting period. This policy is consistent with the requirements of an "action organization" as set forth in IRC Section 501(c)(3).

Although this policy applies to the tax-exempt subsidiaries of KS under IRC Section 501(c)(3), KS has elected to apply this requirement to all KS Organizations, who have adopted similar policies prohibiting political intervention.

There have been no known instances of any violations of this policy with respect to KS and KS Organizations.

STATUS: Ongoing.

A.1.W. LOBBYING POLICY

[1] ***KSBE agrees that within 6 months of the date of this Closing Agreement, KSBE will adopt a lobbying policy that will include requirements for documenting communications with state and federal legislators, legislative offices and committees on matters relating to the financial, administrative, business, or educational affairs of KSBE or the KSBE Organizations.*** **[2]** ***Documentation of any such communications will be made available to the Master, the AG, and the IRS.***

[1] ***KSBE agrees that within 6 months of the date of this Closing Agreement, KSBE will adopt a lobbying policy that will include requirements for documenting communications with state and federal legislators, legislative offices and committees on matters relating to the financial, administrative, business, or educational affairs of KSBE or the KSBE Organizations.***

In December 1999, KS adopted a Lobbying Policy, which was subsequently amended in August 2000, to provide that:

- The highest level of ethical standards is maintained
- Thorough and accurate records of all lobbying activities and expenses are maintained through detailed documentation
- Compliance with reporting requirements

The policy also establishes a Lobbying Compliance Committee to guide the focus of the Organization's lobbying efforts. The Committee is made up of the CEO, Chief Executives and staff members from various departments.

In addition, KS instituted a lobbying and political intervention training program to educate and inform key staff members who are or may be potentially engaged in lobbying activities. This program was designed to ensure organization-wide compliance as part of the policy implementation plan.

Although IRS lobbying requirements apply to tax-exempt organizations under IRC Section 501(c)(3), all KS Organizations have adopted lobbying policies similar to that adopted by KS.

STATUS: Completed (no further action required).

[2] ***Documentation of any such communications will be made available to the Master, the AG, and the IRS.***

The documentation generated under the Lobbying Policy is available to the Master, the AG, and the IRS upon request.

STATUS: Ongoing.

<u>A.1.X. CONTROLLING INTEREST</u>

[1] ***Any entity in which KSBE has or acquires an ownership interest of more than 50 percent, or any controlling interest in any organization, whether taxable or tax exempt, shall be considered a part of the KSBE Organizations for purposes of this Agreement. This includes any subsidiary or related organization organized under foreign law. Any passive investments, for example a passive investment in a limited partnership, will not be considered a part of the KSBE Organizations for purposes of this Closing Agreement, with the following exceptions:***

[2] ***Any compensation paid to Trustees or Top Executives by an entity that is involved in a passive investment of KSBE or the KSBE Organizations must be reported to the IRS and the AG in the annual Internal Auditor's Special Filing referenced in Paragraph O of this Closing Agreement;***

[1] *Any entity in which KSBE has or acquires an ownership interest of more than 50 percent, or any controlling interest in any organization, whether taxable or tax exempt, shall be considered a part of the KSBE Organizations for purposes of this Agreement. This includes any subsidiary or related organization organized under foreign law. Any passive investments, for example a passive investment in a limited partnership, will not be considered a part of the KSBE Organizations for purposes of this Closing Agreement, with the following exceptions:*

Subsequent to the Effective Date, KS has added three other entities to the list of KS Organizations. These include:

1. Konia, Inc. This is a Delaware for-profit corporation wholly-owned by KS, established in 1994 for the purpose of investing in securities and other business investments.

2. Sino Finance Group LLC. This is a Delaware limited liability company established in 1995 for the purpose of holding an equity interest in Xiamen International Bank in the People's Republic of China.

3. Keauhou Kona Resort Company. This is a Hawaii general partnership established in 1981 for the purpose of investing in real estate. Kamehameha Investment Corporation (KIC) is a 75% general partner, and Paki, Inc. is a 25% general partner. Both KIC and Paki, Inc. are included as KS Organizations.

See Exhibit A for a complete list of the KS Organizations.

The three entities noted are included within the definition of the KS Organizations for purposes of the Closing Agreement and this Report.

STATUS: Ongoing.

[2] *Any compensation paid to Trustees or Top Executives by an entity that is involved in a passive investment of KSBE or the KSBE Organizations must be reported to the IRS and the AG in the annual Internal Auditor's Special Filing referenced in Paragraph O of this Closing Agreement;*

No Trustees or Top Executives have received compensation from an entity that is involved in a passive investment of KS or KS Organizations.

STATUS: Ongoing.

[3] *Any passive investments must be included in the FMV of the Trust Endowment for purposes of the annual Trust Spending Rate.*

All of the Endowment Assets of the KS Organizations, including all passive investments, have been included in determining the FMV of the Endowment for purposes of calculating the annual Trust Spending Rate.

STATUS: Ongoing.

B.1. SETTLEMENT OF TAX AND UBIT ISSUES

KSBE agrees to a settlement of Nine Million Dollars for payment in lieu of Federal taxes or deficiencies thereof, additions to tax, and penalties for the tax years ended June 30, 1992, through June 30, 1996. KSBE agrees to a payment of Four Million Nine Hundred Ninety-Two Thousand, Five Hundred Dollars ($4,992,500) for interest on the above stated settlement, calculated as of the date of execution of this Closing Agreement. This settlement includes the tax liability with respect to the "credit enhancements issue" through June 30, 1998. The "credit enhancements issue" relates to all fees paid or accrued during 1997 and 1998 under agreements similar in nature to those in issue in the Forms 5701 Issue No. B-IA and Issue No. B-IC , by which KSBE agreed to extend its creditworthiness to third parties, such arrangements including, but not limited to, note repurchase agreements, securing letters of credit, and otherwise providing guarantees of payment. This settlement amount will be paid in full within five working days of the date on which this Closing Agreement is executed. Payment will be by wire transfer to an account to be specified by the IRS.

KS paid the settlement amount of $9,000,000 plus interest in the amount of $4,992,500 for a total of $13,992,500 by check no. B169501 made payable to the Internal Revenue Service on December 30, 1999.

STATUS: Completed (no further action required).

C.2. CLOSING AGREEMENT AVAILABLE TO THE PUBLIC

This Closing Agreement and Attachments will be made available to the public by KSBE in the KSBE Office located at Kawaiaha'o Plaza, 567 South King Street, Suite 200, Honolulu, Hawai'i, 96813, and on the KSBE Internet Web-site upon the signing of said Agreement.

On September 8, 1999, KS made available on its Internet website (www.ksbe.edu) a copy of the Closing Agreement with attachments. KS also made available on its website its Reaffirmation Submission (added to the website on September 8, 1999) and the letter dated February 23, 2000, from the IRS reaffirming KS' tax-exempt status (added to the website on April 4, 2000). The Closing Agreement and the other documents remain posted and available for public inspection on KS' website and are available at the KS offices located at 567 South King Street, Honolulu, Hawaii 96813.

STATUS: Completed (no further action required).

CONCLUSION

The statements made in this Report are true and correct to the best of my knowledge.

Respectfully submitted:

KAMEHAMEHA SCHOOLS

Dated: February 22, 2001

By______________________________
Hamilton I. McCubbin
Chief Executive Officer

COLLEEN I. WONG 3270-0
ERIC H. SONNENBERG 4024-0
Kamehameha Schools
567 South King Street, Suite 310
Honolulu, Hawaii 96813
Telephone No. (808) 523-6364

Attorneys for the Trustees under the Will
and of the Estate of Bernice Pauahi Bishop,
Deceased

IN THE CIRCUIT COURT OF THE FIRST CIRCUIT

STATE OF HAWAII

In the Matter of the Estate	)	EQUITY NO. 2048
	)	
Of	)	
	)	TRUSTEES' SUBMITTAL OF
	)	COPIES OF REPORTS REQUIRED
	)	UNDER THE IRS CLOSING
BERNICE P. BISHOP,	)	AGREEMENT DATED
	)	FEBRUARY 23, 2000; EXHIBIT "1";
Deceased.	)	CERTIFICATE OF SERVICE
	)	

TRUSTEES' SUBMITTAL OF COPIES OF REPORTS REQUIRED
UNDER THE IRS CLOSING AGREEMENT DATED FEBRUARY 23, 2001

Come now ROBERT KALANI UICHI KIHUNE (Chairman of the Board of Trustees), JAMES DOUGLAS KEAUHOU ING, CONSTANCE HEE LAU, DIANE JOYCE PLOTTS, and CHARLES NAINOA THOMPSON, the duly appointed, qualified and acting Trustees (the "Trustees") under the Will and of the Estate of Bernice Pauahi Bishop, Deceased (hereafter "Kamehameha Schools"), by and through their attorneys, and respectfully state as follows:

1. This filing is based on the reporting requirements set forth in that Closing Agreement (the "Closing Agreement") between Kamehameha Schools and the Internal Revenue

Service (a copy of which was filed herein on August 24, 1999, as Exhibit "A" to that Petition for Approval of Settlement of IRS Audit Issues, and subsequently approved by this Court by its Order Approving Petition For Approval of Settlement of IRS Audit Issues entered herein on December 1, 1999). Pursuant to the terms of the Closing Agreement, the Trustees are to file in this Court copies of certain reports and other documents that have been provided to the Attorney General of the State of Hawaii, as *parens patriae* (the "Attorney General"), the court appointed Master(s) and/or the Internal Revenue Service ("IRS"). The provisions[1] specifically provide as follows:

> a. Section A.1.I: "The KSBE Organizations have agreed to develop and implement a comprehensive educational and financial strategic plan, as ordered by the Probate Court on October 2, 1998, including investment policies. The strategic planning process will include an educational plan developed in conjunction with an investment plan, the principal focus of which is the furtherance of the educational mission of KSBE. The KSBE Organizations agree that this plan will be finalized and submitted to the IRS, to the AG and the Master no later than eighteen months from the date of this Closing Agreement. A copy of said plan shall also be filed by KSBE in the Probate Court."
>
> b. Section A.1.J: "The Interim Trustees have adopted an initial Investment Policy. KSBE agrees that its Investment Policy will be regularly updated by the KSBE Organizations, as warranted, to ensure that the investment objectives and vehicles are consistent with the educational objectives of KSBE, and will be incorporated as supplemental schedules to the KSBE Organizations' financial statements. Investment performance reports will be prepared and submitted by KSBE to the Probate Court with KSBE's Annual Account. Such schedules will also be provided by KSBE to the IRS during the term of this Closing Agreement. A copy of said schedules shall be submitted by KSBE to the Probate Court, and to the Hawai'i Attorney General."
>
> c. Section A.1.N: "The KSBE Organizations will ensure that certified financial audits are prepared and filed annually with the Probate Court with the Annual Accounts of the KSBE Organizations. For the term of this Closing Agreement, these financial statements, including all supplemental schedules, will also be provided to the IRS, to the Hawai'i Attorney General, and made available to the general public upon request and by posting them on KSBE's Internet Web-site. These statements will be

[1] The provisions of the Closing Agreement use the terms "KSBE" and "KSBE Organizations." KSBE refers to Kamehameha Schools and KSBE Organizations refers to Kamehameha Schools and entities wholly-owned or controlled by Kamehameha Schools.

prepared in conformity with GAAP, unless otherwise approved in Court Orders and Stipulations by the Probate Court."

d. Section A.1.P: "KSBE has undertaken a review of existing contractual, consultative, employment, and professional service relationships in existence as of June 30, 1999 to ensure that the services provided under such contracts or through such relationships are necessary to the operation of the KSBE Organizations, that the prices and/or compensation paid for such services are reasonable and commensurate with services rendered, and that they are not in violation of any of the terms of this Closing Agreement. Retainer fees were subject to special scrutiny for propriety. KSBE shall report the results of this review to the IRS, the Master, and the AG within twelve months of the date of this Closing Agreement. A copy of said report shall also be filed with the Probate Court."

e. Section A.1.Q: "KSBE and the KSBE Organizations have reviewed all significant job classifications in existence as of June 30, 1999 to ensure that the job positions and compensation for such positions are appropriate for the accomplishment of KSBE's exempt purpose and that the individuals occupying such positions are qualified to perform the responsibilities of the position. KSBE shall report the results of this review to the IRS, the Master, and the AG within twelve months of the date of this Closing Agreement. A copy of said report shall also be filed with the Probate Court."

f. Section A.1.S: "KSBE and the KSBE Organizations will establish employment and contractual procedures ensuring, prospectively, that contractual and employment relationships are necessary and appropriate and that the prices and/or compensation paid for services are reasonable. A report of said procedures shall be submitted by KSBE to the IRS and the AG within twelve months of the date of this Closing Agreement. A copy of said report shall be filed by KSBE with the Probate Court."

2. With respect to Item 1.a. above (Section A.1.I. of the Closing Agreement), the Interim Trustees (as defined in the Closing Agreement) satisfied this reporting requirement on October 24, 2000, by their filing in this Court of the <u>Trustees' Report on Completion of Strategic Plan in Compliance with Stipulation 13</u> (the "Strategic Plan Report"). The Strategic Plan Report described the Interim Trustees' completion and initial implementation of the Kamehameha Schools Strategic Plan 2000-2015 (the "Strategic Plan") and included a copy of the Strategic Plan as Exhibit B.

3. With respect to Item 1.b. above (Section A.1.J. of the Closing Agreement), the Trustees will submit a copy of the investment performance reports and schedules to its financial statements to this Court in conjunction with the Trustees' petition for approval of their annual accounts for the period July 1, 1999 to June 30, 2000. The foregoing petition will be filed on or before May 15, 2001, in compliance with the annual account filing date set forth in Section B.2. of the Exhibit A attached to that Stipulation for Amendment and Restatement of Amended Guidelines filed in this Court on October 4, 1995. Section B.2. states that "The Trustees shall submit their Account for the fiscal year ending June 30 on or before May 15 of the following calendar year."

4. With respect to Items 1.d., 1.e. and 1.f. above (Sections A.1.P., A.1.Q and A.1.S. of the Closing Agreement), the Trustees, through the Chief Executive Officer of Kamehameha Schools, Dr. Hamilton I. McCubbin, prepared and provided to the Attorney General, the court appointed Masters COLBERT M. MATSUMOTO, ESQ. and BENJAMIN M. MATSUBARA, ESQ., and the IRS, a copy of the Kamehameha Schools Closing Agreement Compliance Report dated February 22, 2001 (the "Compliance Report"), attached hereto as Exhibit "1." The Compliance Report includes the Trustees' report on Sections A.1.P., A.1.Q and A.1.S. of the Closing Agreement and provides a general summary of the Interim Trustees' and the Trustees' efforts to comply with the other terms and conditions of the Closing Agreement from February 23, 2000 through February 22, 2001.

5. A copy of this filing will be served upon the Attorney General and the above mentioned court Masters, with a courtesy copy to the IRS.

DATED: Honolulu, Hawai'i, this ______ day of _________________, 2001.

____
COLLEEN I. WONG
ERIC H. SONNENBERG
Attorneys for the Trustees under the Will and of the Estate of Bernice Pauahi Bishop, Deceased

KS AND KS ORGANIZATIONS

Kamehameha Schools

Ke Ali'i Pauahi Scholarship Fund

Kamehameha Activities Association

Bishop Holdings Corporation

Kamehameha Investment Corporation

P&C Insurance Company, Inc.

Pauahi Management Corporation

Paki, Inc.

Water Works, Inc.

Keauhou Community Services, Inc.

Kukui, Inc.

VCI, Inc.

KDP Limited

KBH, Inc.

RTJ Limited Liability Company

Gwinnett Associates Limited Liability Company

Lake Manassas Limited Liability Company

Shelter Bay Limited Liability Company

Horton Grove Limited Liability Company

Treyburn Limited Liability Company

Paradise Petroleum, Inc.

Kukui Operating Company

Konia, Inc.

Sino Finance Group LLC

Keauhou Kona Resort Company

EXHIBIT A

KPMG

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

Consolidated Financial Statements and Supplemental Schedules

June 30, 2000

(With Independent Auditors' Report Thereon)

EXHIBIT B

KPMG

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

Independent Auditors' Report

The Trustees
Kamehameha Schools:

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

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

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

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

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

KPMG LLP

January 24, 2001

KAMEHAMEHA SCHOOLS
AND SUBSIDIARIES

Consolidated Balance Sheet

June 30, 2000

(in thousands)

Assets		
Cash and cash equivalents	$	473,608
Marketable debt and equity securities (note 2)		1,789,711
Privately placed debt and equity securities (note 3)		767,680
Receivables (note 4)		69,583
Property and equipment (notes 5 and 7)		570,342
Real estate held for development and sale (note 6)		56,033
Deferred charges and other		32,311
Deferred income taxes (note 8)		3,012
Total assets	$	3,762,280
Liabilities and Net Assets		
Notes payable (note 7)	$	252,844
Accounts payable and accrued expenses		37,131
Income taxes payable (note 8)		48,196
Accrued pension liability (note 9)		29,529
Accrued postretirement benefits (note 9)		18,767
Deferred compensation payable (note 10)		13,965
Deferred income and other		15,003
Total liabilities		415,435
Net assets – unrestricted (note 16)		3,346,845
Commitments and contingencies (notes 7, 8, 9, 10, 13 and 15)		
Total liabilities and net assets	$	3,762,280

See accompanying notes to consolidated financial statements.

KAMEHAMEHA SCHOOLS
AND SUBSIDIARIES

Consolidated Statement of Activities

Year ended June 30, 2000

(in thousands)

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

See accompanying notes to consolidated financial statements.

KAMEHAMEHA SCHOOLS AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended June 30, 2000

(in thousands)

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

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies and Practices

(a) Description of the Organization

Kamehameha Schools (the Schools) is a charitable trust established under Hawaii law and operates under the terms of the Will of Bernice Pauahi Bishop, deceased (the Will). The Schools are governed by a Board of Trustees (the Trustees) and subject to jurisdiction of the First Circuit Court of the State of Hawaii (the Court). The primary assets of the Schools are land and properties located in the State of Hawaii and debt and equity investments.

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

(b) Principles of Consolidation

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

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

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

(Continued)

(c) ***Basis of Financial Statement Presentation***

The Schools' consolidated financial statements have been prepared on the accrual basis of accounting, and are presented in conformity with accounting principles generally accepted in the United States of America. Net assets, revenues, gains and other support and expenses are classified based on the existence or absence of donor-imposed restrictions. All net assets of the Schools and changes therein are classified and reported as unrestricted net assets.

(d) ***Cash Equivalents***

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

(e) ***Investments***

Marketable Debt and Equity Securities – The Schools and KAA

Equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized gains and losses included in the consolidated statement of activities. Fair value is based on quoted market prices and, if applicable, discounted for restrictions on the sale of shares.

Marketable Debt and Equity Securities – BHC

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

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

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

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

(f) Derivative Financial Instruments

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

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

(g) ***Receivables***

Notes receivable consist primarily of receivables from the sale of residential leasehold lots to lessees under the single-family and multi-family residential land sales program, mortgage agreements from the sale of real estate to developers and interest earned. The residential leasehold interests were sold under various collateralized financing arrangements with five to fifteen year terms and monthly payments of both principal and interest or interest only. Annual interest rates range from 5% to 11.5% with a weighted average interest rate of approximately 7% at June 30, 2000. The sale of leasehold lots under the financing arrangements are accounted for using the cost recovery method whereby no profit is recognized until cash payments are received.

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

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

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

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

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

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

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

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

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

(j) ***Vacation***

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

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

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

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

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

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

(l) ***Deferred Income***

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

(m) ***Income Taxes***

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

Income taxes for BHC and KAA are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

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

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

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

(p) ***Commitments and Contingencies***

Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

(2) Marketable Debt and Equity Securities

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

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

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

(3) Privately Placed Debt and Equity Securities

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

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

(a) Equity Investments

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

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

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

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

(b) Investment Banking Firm

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

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

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

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

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

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

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

(e) ***Investment Income***

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

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

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

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

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

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

(4) Receivables

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

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

(5) Property and Equipment

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

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

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

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

(6) Real Estate Held for Development and Sale

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

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

(7) Notes Payable

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

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

Notes payable under $13,000,000 credit term loan; interest (7.21% at June 30, 2000) payable quarterly or more frequently depending on the interest rate options based on the bank's prime rate, a certificate of deposit rate plus 77.5 basis points, or eurodollar rate plus 43 basis points. A portion of real estate sales proceeds is used to repay principal, with the balance due July 2, 2001.	$	5,704
Note payable under a $6,500,000 revolving credit agreement with interest (9.5%) due monthly and principal due March 2, 2002; collateralized by a development agreement		573
Other		35
	$	252,844

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

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

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

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

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

(8) Income Taxes

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

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

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

The valuation allowance for deferred tax assets as of July 1, 1999 was $25,509,000. The net change in the total valuation allowance for the year ended June 30, 2000 was a decrease of $760,000. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that BHC will realize the benefits of these deductible differences, net of the existing valuation allowances at June 30, 2000. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Internal Revenue Service Audit

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

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

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

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

(9) Pension and Other Postretirement Benefits

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

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

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

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

		Pension	Post retirement
Benefit cost	$	4,717	177
Employer contribution		—	464
Benefits paid		3,064	464

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

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

(10) Deferred Compensation Plan

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

(11) Net Loss on Property Sales

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

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

(12) Other Revenues, Net

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

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

(13) Derivative Financial Instruments

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

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

Period	Volume in MMBtus per day		Swap Contract Price per MMBtu	Fair Value (1)
November 1999 – October 2000	5,000	$	2.61	(977)
March 2000 – February 2001	5,000		2.48	(2,062)
April 2000 – March 2001	3,000		2.63	(1,139)

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

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

(14) Fair Value of Financial Instruments

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

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

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

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

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

Privately placed debt and equity investments: Different techniques and many factors were considered in deriving the fair value of these investments. Several investments have been valued based on the underlying asset value. Financial instruments with determinable cash flows were valued on the basis of their future principal and earnings distributions discounted at prevailing interest rates for similar investments. In addition, shares with quoted market prices with restrictions on the sale of shares were valued at market prices and discounted for time restrictions.

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

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

(15) Commitments and Contingencies

(a) Rental Income

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

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

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

(b) Capital Commitments

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

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

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

(c) Litigation

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

(d) Environmental Issues

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

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

(e) Trustee Matters

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

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

(f) Attorney General

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

(16) Prior Period Adjustments

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

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

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

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

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

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

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

Schedule 1

KAMEHAMEHA SCHOOLS

Schedule of Trust Distributions and Spending

Year ended June 30, 2000

(in thousands)

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

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

KAMEHAMEHA SCHOOLS

Notes to Schedule of Trust Distributions and Spending

June 30, 2000

(1) Background and Purpose

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

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

(2) Trust Distributions

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

(3) Trust Spending and Trust Spending Rate

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

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

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

(Continued)

(4) Endowment and Average Market Value of the Endowment

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

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

Schedule II

KAMEHAMEHA SCHOOLS

Schedule of Total Return

As of and for the year ended June 30, 2000

Asset Class and Benchmarks		Market value at June 30, 2000 (in thousands)	Total Return % – Year ended June 30, 2000
Hawaii Real Estate	$	1,881,977	9.03
CPI+5%			8.90
U.S. Equity		2,010,796	26.38
Russell 3000			9.59
Non-U.S. Equity		127,346	24.65
MSCI EAFE Index			21.18
MSCI Emerging Markets Free Index			9.48
Fixed Income		871,237	6.02
Lehman Brothers Aggregate			4.56
Alternative Investments:			
Venture & Private Equity		283,166	23.40
CPI+10%			14.07
Absolute Return		33,992	8.25
CPI+8%			12.01
Energy		52,964	24.76
CPI+5%			8.90
Real Estate (Mainland)		391,284	6.79
NCREIF Total Property Index			14.78
Total Portfolio	$	5,652,762	14.69
CPI+5%			8.90
Cambridge Associates Large Endowment Fund Median			9.74
Policy Portfolio			9.66

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

KAMEHAMEHA SCHOOLS

Notes to Schedule of Total Return

June 30, 2000

(1) Background and Purpose

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

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

(a) Hawaii Real Estate

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

(b) U.S. Equity

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

(c) Non-U.S. Equity

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

(d) Fixed Income

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

(e) Venture and Private Equity

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

(f) ***Absolute Return***

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

(g) ***Energy***

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

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

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

(2) Market values

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

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

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

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

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

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

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

(b) ***U.S. Equity***

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

(Continued)

(c) ***Non-U.S. Equity***

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

(d) ***Fixed Income***

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

(e) ***Venture and Private Equity***

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

(f) ***Absolute Return***

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

(g) ***Energy***

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

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

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

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

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

(3) Total Return

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

KAMEHAMEHA SCHOOLS

Notes to Schedule of Total Return

June 30, 2000

(4) Benchmark Indices

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

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

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

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

Curriculum Vitae

Kamehameha Schools
Honolulu, Hawaii

Hamilton I. McCubbin, Ph.D.

Chief Executive Officer
Kamehameha Schools
567 South King Street, Suite 200
Honolulu, Hawaii 96813

I. Personal Background

A. Birth date: July 20, 1941, Honolulu, Hawaii
B. Race: Native Aboriginal Hawaiian, Japanese
C. Family:

Spouse: Marilyn Ann McCubbin, R.N., M.S., A.N.P., Ph.D., FAAN
Professor (tenured), School of Nursing
University of Wisconsin - Madison
Graduate: University of Minnesota (M.S. and Ph.D.)
University of Nebraska (B.S.)

Children:

Todd (May 15, 1964)
1987 Graduate–B.S. Mechanical Engineering
University of Wisconsin-Madison
Captain, United States Air Force, Pilot

Wendy(December 30, 1968)
1992 Graduate–B.S. Marketing & Marketing Education
University of Wisconsin-Stout

Laurie (July 16, 1970)
1993 Honors Graduate–B.A. Psychology and Art History
University of Wisconsin-Madison
MA, Boston College, Counseling Psychology
Ph.D. program, University of Wisconsin-Madison, Counseling Psychology

II. Academic and Clinical Training

A. Education:

Post Doctoral Education and Experiences

1982 - Stanford University, Palo Alto, California: Center for Advanced Study in the Behavioral Sciences, Ethnic Studies, Stigmatism, Racism, Andrew Mellon Fellow

1977 - University of Minnesota, Minneapolis, Minnesota: Early Childhood Education, Bush Fellow

1970 - 1971 - Yale University, New Haven, Connecticut: Drug and Alcohol Prevention Medical Center

Graduate and Undergraduate Education

1970 - University of Wisconsin-Madison, Madison, Wisconsin-Ph.D.

1966 - University of Wisconsin-Madison, Madison, Wisconsin-M.S.

1964 - University of Wisconsin-Madison, Madison, Wisconsin-B.S.

High School

1959 - Kamehameha Schools (Children of Aboriginal Native American Hawaiian ancestry), Honolulu, Hawaii–Diploma

B. Clinical Training:

Family Treatment, Drug & Alcohol Treatment Center, 1971–1972, Presidio of San Francisco

Child and Family Therapy, 1964–1966, Children's Treatment Center

Family Therapy and Child Therapy, 1965–1966, Dane County Mental Health Center

Family Counseling, Mental Retardation, 1964–1965, Central Wisconsin Colony

III. Major Professional and Academic Administrative Appointments

A. Current Positions:

Chief Executive Officer, Kamehameha Schools, Honolulu, Hawaii, 2000-present

Dean, College of Family Science, Zayad University, United Arab Emeritus, 1999-2000

Dean, School of Human Ecology, University of Wisconsin-Madison, Madison, Wisconsin, 1985-1999

Professor, Child and Family Studies, School of Human Ecology and School of Social Work, University of Wisconsin-Madison, Madison, Wisconsin, Retired

Assistant Director, Agricultural Experiment Station, College of Agriculture and Life Science, University of Wisconsin-Madison, Madison, Wisconsin , 1985–1999

Director, Center for Excellence in Family Studies, UW System Approved Center of Excellence, 1990–1999

Director, Family Stress, Coping and Health Project, School of Human Ecology, University of Wisconsin-Madison,

Madison, Wisconsin, 1985–1999
Director, Institute for the Study of Resiliency in Families, University of Wisconsin-Madison, Madison, Wisconsin, 1994–1999

B. Board of Directorships and Advisory Boards, National and International:

Board of Advisors, University of Hawaii at Manoa, College of Education, Honolulu, Hawaii, 2000-present
Board of Advisors, University of Hawaii at Manoa, Center for Hawaiian Studies, Honolulu, Hawaii, 2000-present
Board of Directors, The Chamber of Commerce of Hawaii, Honolulu, Hawaii, 2000-present
Board of Directors, Malama Hawaii, Honolulu, Hawaii, 2000-present
Member, Good Beginnings Alliance, Honolulu, Hawaii, 2000-present
Member, Prince Kuhio Hawaiian Civic Club, Honolulu, Hawaii, 2000-present
Member, Rotary Club of Honolulu, Honolulu, Hawaii, 2000-present
Board of Directors, National Nonprofit Leadership and Management Institute, Kellogg Foundation, The Learning Institute for non-profits, University of Wisconsin-Madison, 1997-present
Board of Directors, Maui Pacific Economic Development Board, Maui, Hawaii, 1995-present
Board of Advisors, National Research Advisory Committee, Boysville of Michigan, Ann Arbor, Michigan, 1986–present
Scientific Review Board, Military Family Institute, Marywood College, Pennsylvania, 1994–present
Board of Directors, Meriter Health Services Inc., 1992–1997
(Operating Budget $160 Million, Investments $112 Million, Land Investments $460 Million)
Personnel Committee (Labor Unions, Quality Improvement, Policies, Benefits)
Public Affairs Committee (Chair)
Research and Institutional Review Board
Board of Directors, Meriter Hospital, 1992–1997
Board of Directors, Meriter Management Services, 1992–1997
Board of Directors, Meriter Health Enterprises, 1992–1997
Board of Directors, State of Wisconsin Council on Human Concerns and Services, 1992–present
Board of Directors, National Parenting Association, New York, NY, 1993–present
Kuwait International Advisory Committee of the Higher Organization Committee, Government of Kuwait, 1993–present

United Arab Emirates Advisory Board, University of the
United Arab Emirates, Al Ain, United Arab Emirates,
1993-present

Qatar University, Qatar, 1997-present

Board of Advisors, Center for the Study of Trauma, University of
California, San Francisco, 1987–1996

Board of Directors, Journal of Family Systems Medicine, New York,
New York, 1984–1994

Chairperson, Multicultural Advisory Board, CASEY
Foundation, Seattle, Washington, 1989–1993

C. Prior Administrative and Leadership Experiences:

Dean, School of Human Ecology, University of Wisconsin-Madison,
1985-1999

Head and Professor, Family Social Science Department,
University of Minnesota, St. Paul, Minnesota, 1980–1985

Chair and Professor, Family Social Science Department,
University of Minnesota, St. Paul, Minnesota, 1978–1980

President, National Council on Family Relations, 1987–1988

Vice President, National Council on Family Relations, 1986–1987

Appointed Executive Committee, Native Hawaiian Education
Assessment Review Washington, D.C. (Federal Congressional
Appointment), 1982–1984

Appointed Member, Governor's Committee, Children's Trust Fund
on Child Abuse and Neglect, State of Wisconsin, 1985–1988

Chairperson, Governor's Task Force on Family Stress (Minnesota
Governor's Appointee), 1981

Chairperson, Governor's White House Conference on Children,
Youth and Parents, St. Paul, Minnesota (Minnesota Governor
Appointee), 1981

Member, Governor's Task Force on Family and Work (Minnesota
Governor Appointee), 1981–1982

Member, Governor's Advisory Committee on Family Policy
(Minnesota Governor Appointee), 1981–1982
Chair, Governor's Committee on Work and Family, State of
Minnesota, 1983–1984

Director/Head, Family Studies Branch, Naval Health
Research Center, San Diego, California, 1972–1976

Director/Head, Drug and Alcohol Rehabilitation Program,
Presidio of San Francisco, California, 1971–1972

Director/Chief, Research and Evaluation Division, Military
Deviance, Department of the Army, Fort Riley, Kansas,
1969–1971

Faculty, International, College of Human Ecology, University of
Malaysia, Malaysia, 1994-1996

Select University or System Level Committees:

Search Committee, Director of Admissions, University of Wisconsin-Madison

Search Committee, Dean, College of Agriculture and Life Sciences, University of Wisconsin-Madison

Search Committee, Director of Affirmative Action and Equal Opportunity Office, University of Wisconsin-Madison

Honorary Degree Committee, Social Sciences and Academic Administration subcommittee, University of Wisconsin-Madison

Executive Committee, Institute on Aging, University of Wisconsin-Madison

Member, Chancellor's Advisory Council, University of Wisconsin-Madison

Member, University Arts Consortium, University of Wisconsin-Madison

Member, University Committee on Outreach in Health and Human Services, University of Wisconsin-Madison

Member, Asian American Studies Program, University of Wisconsin-Madison

Member, Nursing Prenatal Training Advisory Committee

Member, Wisconsin System Budget Planning in Telecommunications

Select College/School Committees:

Chair, Board of Visitors

Chair, Academic Planning Council

Chair, Executive Committee

Chair, Dean's Administrative Advisory Council

Chair, School–UW Foundation Fund Raising and Capital Campaign

D. Prior Academic Positions:

Professor and Head, Family Social Science, University of Minnesota, 1978–1985

Professor, Center for Early Education and Development, Institute of Child Development, University of Minnesota, 1980–1985

Associate Professor, Family Impact Analysis Program, Department of Sociology, Family Study Center, University of Minnesota, 1977–1978

Associate Professor, Interdisciplinary Program Joint Degree Public Health and Social Work, School of Public Health, Health Sciences, University of Minnesota, 1977–1978

Associate Professor, Department of Sociology, Family Study Center and School of Social Work University of Minnesota, Minneapolis, Minnesota, 1976–1978 and Research Fellow, Family Study Center, University of Minnesota, Minneapolis, Minnesota, 1976–1985

Visiting Professor, Department of Child and Family Studies, University of Wisconsin-Madison, Madison, Wisconsin, Summer 1976 and 1978

Lecturer, United States Air Force Academy, Colorado Springs, 1976

Adjunct Assistant Professor, School of Social Work, San Diego State University, San Diego, California, 1975–1976 and Department of Sociology, Kansas State University, Manhattan, Kansas,1970–1971

Lecturer, University of Wisconsin, Department of Extension and Outreach, Madison, Wisconsin, 1966–1969

IV. Academic Administrative Assignments and Experiences

A. Select Academic/Research Committees and Review Appointments:

Radcliffe College, Fellow, Public Policy Institute, New Economic Equation, 1995–1997

Faculty, International College of Human Ecology, University of Malaysia, Malaysia, 1994-1996

Total Quality Management Training, TQM in Higher Education, Proctor and Gamble, Cincinnati, Ohio, 1992

Member, Honors Faculty, College of Liberal Arts, University of Minnesota, 1984–1985

External Graduate School Reviewer, Graduate School, Department of Child and Family Development, University of Georgia, 1984–1985

Member, Task Force for Budget Review and Long Range Planning for General College, University of Minnesota, 1984–1985

Member, University Senate, University of Minnesota, 1980–1985

Member, Graduate Faculty, Family Social Science, University of Minnesota, 1978–1986

Member, Graduate Faculty, School of Social Work and Sociology University of Minnesota, 1976–1985

Member, Advisory Committee, Family Study Center, College of Liberal Arts, University of Minnesota, 1980–1985

External Academic and Research Review Team, Department of Agriculture, United States Department of Agriculture, 1978

V. Professional Honors and Notes of Recognition

Marie Peters Award, National Council on Family Relations, University of Wisconsin-Madison, 2000

Commemorative Lecture Award, National Association of Family and Consumer Sciences, Washington D.C., June 1997
Camilla Eyring Kimball Chair in Family Sciences, Brigham Young University, Provo, Utah, 1997
Minority Scholars Lecturer, Inaugural Lecture, Waisman Center, University of Wisconsin-Madison, 1995
Bernice M. Wright Lecturer, Syracuse University, Syracuse, New York, 1993
Diane Huber Lecturer, Miami of Ohio University, Oxford, Ohio, 1991
Faculty Professional Excellence Award, University of Wisconsin-Madison, 1990
Distinguished Service Award, Institute of Agriculture, Forestry and Human Ecology, University of Minnesota, 1985
Elected President, National Council on Family Relations, 1987–1988
Elected Vice President, National Council on Family Relations, 1986–1987
Elected President, Minnesota Council on Family Relations, St. Paul, Minnesota, 1984–1985
Ruth Hoeflin Lecturer, Kansas State University, Manhattan, Kansas, 1985
Empey Lecturer, University of Alberta, Edmonton, Alberta, Canada, 1985
James D. Moran Memorial National Research Award for Child and Family Research, 1984
Margaret Mangel Lecturer, University of Missouri, Columbia, Missouri, 1984
Bernice M. Wright Lecturer, Syracuse University, Syracuse, New York, 1984
A. Mellon Fellow, Stanford University, Palo Alto, California, 1983
Vice President of Publications, National Council on Family Relations, 1982–1984
Scholar/Fellow Center for Advanced Studies in the Behavioral Sciences, Stanford University, Palo Alto, California, 1982
Who's Who in America, 1982–1997
Who's Who Among Intellectuals (International), 1981–1982
Men of Achievement, 1981–1982
Who's Who in the Midwest, 1981–1984
Sigma Gamma Delta Honorary Society, 1981–present
Phi Kappa Phi Honorary Society, 1980–present
Omicron Nu Honorary Society, 1980–present
Bush Fellow in Early Childhood Education, University of Minnesota, Minneapolis, Minnesota, 1977
Meritorious Service Medal for Family Research, Department of the Army and the Navy, 1976
Meritorious Service Medal for Research on Deviance, Department of the Army, 1971

VI. Professional Credentials, Editorships, and Memberships

A. Professional Certifications:

American Family Therapy Association, 1984–present
Certified Family Life Educator, 1987–present
National Academy of Certified Social Workers, 1971–present

B. Professional Associations: Membership

American Association of University Professors, 1985–present
American Association for the Advancement of Science, 1985–present
AFTA–American Family Therapy Association, 1984–present
Groves Congress on the Family, 1983–present
International Society of Family Studies, 1976–present
National Council of Family Relations, 1973–present
American Sociological Association, 1974–present

National Association of Social Workers, 1969–present
National Education Association, 1985–1996
Society for Research in Child Development, 1985–1996

C. Professional Editorial and Scholarly Editorial Board Memberships:

Editor, Resiliency in Families Series, 1997–present,
Sage Publishing Company
Associate Editor, Families and Social Work, 1993–present
Associate Editor, Families in Society, 1991–present
Associate Editor, American Journal of Family Therapy, 1987–present
Associate Editor, Family Science Review, 1987–present
Associate Editor, Marriage and Family Review, 1987–present
Associate Editor, Psychosocial Stress Series, 1987–1996
Board of Editors, Family Systems Medicine, 1984–1996
Associate Editor, Primary Prevention, 1984–1997
Associate Editor, Lifestyles: Family and Economic Issues, 1987–1994
Associate Editor, Journal of Human Relations, 1980–1990
Associate Editor, Journal of Wellness Perspective, 1983–1990
Associate Editor, Family Relations, 1985–1987
Associate Editor, Journal of Marriage and Family, 1977–1987
Co-Editor, Journal of Family Relations Special Issue on Family Health,
Minneapolis, NCFR publications, 1983–1985
Associate Editor, Family Studies Review Yearbook, Sage Publishing,
1982–1985
Associate Editor, Journal of Family Issues, 1979–1985
Co-Editor, Marriage and Family Review Advances in Family Stress
Theory and Research, Haworth Press, 1982–1983
Associate Editor, Journal of Military and Political Sociology, 1977–1982

Co-Editor, Journal of Family Relations Special Issue on Family Stress and Coping, Minneapolis, NCFR publication, 1980
Reviewer, Child Development
Reviewer, Journal of Health and Social Behavior
Reviewer, Journal of Rural Mental Health
Reviewer, National Science Foundation
Reviewer, Canadian Research Council
Reviewer, W.T. Grant Foundation

D. Curriculum Taught in University Settings:

Sociology:

Social Deviance, Kansas State University (Undergraduate)
Family Impact and Policy Analysis, Theory and Methodology, University of Minnesota (Pre and Post Doctorate)

Research:

Research Methods and Statistics, University of Wisconsin (Graduate Social Work)
Research Design, University of Minnesota (Ph.D. Program)
Research Method: Measurement and Instrument Construction, University of Minnesota (Ph.D. Program)
Program Evaluation, University of Minnesota (Ph.D. Program)
Research Methods, Design and Analysis, University of Minnesota (MSW Program)
Family Research Methodology, University of Wisconsin, Child and Family Studies Direct Practice
Family Therapy: Strategies of Intervention, University of Minnesota (MSW Program)
Human Behavior and Social Environment
Human Development Over the Life Cycle, University of Minnesota
Family Stress: Coping and Adaptation, University of Minnesota
Psychology of Stress and Coping, University of Minnesota
Family Relationships, University of Minnesota

Family Studies:

Family Theories and Research, University of Wisconsin (Ph.D. Program)
Family Research and Methodology, University of Wisconsin (Ph.D. Program)
Family Research Design, University of Minnesota (M.S. and

Ph.D. Program)
Family Stress and Coping (Honors), University of Minnesota
(Liberal Arts)
Family Stress and Coping (Graduate), University of Minnesota
Psychology of Stress and Coping (TV Course), University of
Minnesota (Independent Study)
Psychology of Stress and Coping (Video Course), University of
Minnesota (Independent Study)
Family Stress, Coping and Health, University of Wisconsin-Madison
Ethnic Families Under Stress: Resiliency and Adaptation,
University of Wisconsin-Madison

VII. Professional State, Federal and Foundation Activities

Consultant, Center for Health Services, Outcome Roundtable for Children
and Families, 1998-present
Reviewer, Juvenile Justice, Washington D.C., 1998-present
Consultant, Department of the Navy, Center for Naval Analysis,
Washington D.C.,1998-present
Consultant, Department of the Air Force, Readiness and Families,
Washington D.C., 1998-present
Consultant, United Arab Emirates, Zayed University, 1998-present
Reviewer, National Science Foundation, 1996
Consultant, National Institute on Alcohol Abuse and Alcoholism, NIAAA,
National Institute of Health, 1996
Reviewer, National Institute of Children, Health and Development,
National Institute of Health, 1993
Consultant, Office of Social Development, Kuwait, 1993–1996
Consultant, Center for Trauma Studies, University of California, San
Francisco, California, 1990–1994
Consultant, United States Veterans Administration (Western Region) on
Post-Traumatic Stress for Soldiers and Families (Operation Desert
Storm), 1991–1995
Member, Advisory Panel, Johnson Foundation on Family Issues, 1990
Member, Research Review Panel, Minority Research, NIMH, 1989
Member, United States Department of Agriculture, ESCOP Task Force on
Research Initiatives in Rural Revitalization and the Farm Family,
1987–1989
Member, Governor's Task Force on the Feasibility of a Treatment Center
for Victims of Torture (Minnesota Governor Appointee),
1985–1986
Member, National Advisory Committee on Child and Family Research,
University of Georgia, 1985–1989
Member, National Advisory Committee on Research, Boysville of
Michigan,1985–present
Member, Social Science Review Panel, Canadian Government,

1985–1996

Member, Advisory Committee on Prevention, National Institute of Drug Abuse, Bethesda, Maryland, 1983–1984

Member, National Institute of Drug Abuse, Review Committee on Alcohol Research Centers, 1981–1982

Member, Advisory Committee, Family Process Branch, National Institute of Mental Health, Bethesda, Maryland

Member, Family Process Branch, Advisory Committee, National Institute of Mental Health, 1981–1983

Member, Advisory Committee, W.T. Grant Foundation, New York, 1981–1996

Board of Directors, Minnesota Chapter (Elected), National Association of Social Workers, 1981–1982

Member, United States Department of Agriculture, Research Review Committee, 1979–1980

VIII. Military Experience

Major, United States Army Reserves, 1976–1990

Major, Active Duty, United States Army Research Institute, Director, Family Competencies Project, Alexandria, Virginia, 1982–1984

Major, Active Duty, United States Army Liaison to the Center for Prisoner of War Studies and Director, Family Studies Branch, Naval Health Research Center, San Diego, California, 1971–1976

Captain, Active Duty, Medical Service, Director, Drug and Alcohol Program, Letterman Army Medical Center, 1971–1972

Captain, Active Duty, Medical Service, Director, Research and Evaluation, Fort Riley, Kansas, 1969–1971

First Lieutenant, Medical Service Corps, United States Army Reserve Officer, 1966–1969

Second Lieutenant, Medical Service Officer, United States Army Reserve Officer, 1964–1966

IX. Major Research Grants/Projects, Principal and Co-Investigator

Principal Investigator: New Partnership for Children and Youth, Department of Health and Human Services, 1999-2001 ($1.2 million)

Principal Investigator: Family adaptation to prolonged separation--a 26 year follow-up study, pilot project 1999-2000 ($6,000)

Principal Investigator: Child Welfare Training Title IV-E, 1999-2000 ($400,000)

Principal Investigator: Critical Risk, Protective and Recovery Factors in Family Adaptation following prolonged war induced separation: a twenty five year follow-up of repatriated prisoners of war, their families and a matched comparative cohort of aviators and their families, Center for Naval Analyses, 1999-2000 ($ 37,000)

Co-Investigator: Processes of Family, adaptation and Resiliency: A qualitative investigation of families of Repatriated American Prisoner of war and their Families, Center for Naval Analyses, Alexandria, Virginia, 1999-2000 ($ 20,800)

Co-Investigator: Family Intervention Program (FAST) for Youth At Risk—Intervention and Assessment, National Institute for Drug Abuse, 1996–2001, ($7.5 Million)

Principal Investigator: Longitudinal Study of the Impact of Work and Family on the Health Risk of Men and Women, Agricultural Experiment Station, USDA, ($100,000)

Principal Investigator: Farm Family Coping and Adaptation to Environmental and Economic Stress, U.S. Department of Agriculture, submitted January 1994, ($70,000)

Principal Investigator, Family Strengths and Coping with the Farm Crisis, Longitudinal Study: Baseline Phase, Agricultural Experiment State, 1990–1994 ($60,000)

Principal Investigator, National Conference on Resiliency in Families: Research and Prevention, Private Sector Funding, 1991–1999 $30,000)

Principal Investigator, Native Hawaiian Family Assessment Project, Bishop Estate/Kamehameha Schools, 1991, Department of Education, ($6,000)

Principal Investigator, Ethnically Sensitive Family Functioning Measures, Private Sector Funding, 1991 ($6,000)

Principal Investigator, Agency for International Development and Georgetown University, Caribbean Project on Graduate Degree Program, 1990–1992 ($580,000)

Principal Investigator, Family Functioning, Health Risk and Health Outcomes, Longitudinal Study: Baseline Phase, Private Sector Funding, 1990–1995 ($40,000 startup funds)

Principal Investigator, Ethnic Families in Hawaii, Stress and Coping, Private Sector Funding, 1990–1991, ($15,000)

Principal Investigator, Family Stress and Coping in Rural Communities, Private Sector Funding, 1988–1989 ($40,000)

Principal Investigator, Family Coping with Economic Distress in the Stock Market, Private Sector Funding, 1991 and 1987–1988 ($30,000)

Principal Investigator, Family Types and Strengths Over the Life Cycle, Private Sector Funding, 1987 ($15,000)

Principal Investigator, Family Stress and Coping: Balancing Work and Family Life, Agricultural Experiment Station, 1985–1988 ($60,000)

Co-Principal Investigator, Longitudinal Follow-up Study of Adolescents and Families: Risk of Substance Abuse, National Institute of Drug Abuse, 1985–1988 ($280,000)

Principal Investigator, Adolescent Stress and Coping, Agency: The University of Minnesota Graduate School, 1985 ($8,000)

Co-Principal Investigator, Adolescent Substance Use and Clinical Intervention, Agency: Drug and Alcohol Program, University of Minnesota, 1985 ($14,000)

Principal Investigator, Family Competencies: Coping with Overseas Assignments, Agency: Department of the Army and University of Minnesota, 1982–1983 ($500,000+)

Co-Principal Investigator, Longitudinal Study of Adolescents and Families: Risk of Substance Abuse, National Institute of Drug Abuse, 1982–1985 ($280,000)

Principal Investigator, Family Stress, Resources and Coping in the Care of the Myelomeningocele Child: Study of Family Factors in the Long Term Care of Chronically Ill Children-Myelomeningocele Children, Private Sector Funding, 1981–1982 ($35,000)

Principal Investigator, Family Stress, Resources and Coping in the Care of the Cerebral Palsy Child: Study of Family Factors in the Long Term Care of Chronically Ill Children—Cerebral Palsy Children, Private Sector Funding, 1981–1982 ($35,000)

Principal Investigator, Family Stress, Resources and Coping in the Care of the Cystic Fibrosis Child: Study of Family Factors in the Long Term Care of Chronically Ill Children—Cystic Fibrosis Children, Agency: Agricultural Experiment Station, 1981–1985 ($75,000)

Co-Investigator, Longitudinal Follow-up Study of Alcohol Abusers Treated in Residential Program: Secondary Data Analysis Study of Predictors Associated with the 3, 6 and 12-month Follow-up Adjustment of Alcoholic Persons Treated in a Minnesota Residential Treatment Program, 1978–1979 ($6,000)

Principal Investigator, Family Stress, Coping and Health Project, University of Minnesota, Agricultural Experiment Station, 1978–1985 ($720,000)

Co-Investigator, Experimental Evaluation of a Residential Treatment Program for Schizophrenic Young Adults: An Experimental Evaluation Study of the Effects of a Residential Program Designed to Treat Schizophrenic Young Adults. The study involved random assignment of subjects with a 6-month post-treatment follow-up of both controls, completer and non-completers, Agency: State of Minnesota and Agricultural Experiment Station, 1979–1980 ($15,000)

Principal Investigator, Family Stress: Study of Family Adjustment to Routine Separation and Reunion, Prospective study of family preparation, for, adjustment to, and coping behaviors associated with routine separation in the Navy, Agency: Department of the Navy, 1975–1978 ($350,000)

Co-Principal Investigator, Longitudinal Study of Families of Returned Prisoners of War, Prospective Study of Families and Children, Their Adjustment to Prolonged Separation and Reunion, Agency: Department of the Army and Navy, 1971–1980 ($900,000)

Co-Principal Investigator, Longitudinal Study of Families of Men Accounted for in the Vietnam Conflict, Prospective study of families and children, their adjustment to prolonged separation, Agency: Department of the Army and Navy, 1971–1980 ($900,000)

Principal Investigator, Predictors of Military Deviance, Nationwide Study of Factors Associated with Deviance in the Armed Forces, Agency: Department of the Army Provost Marshal General, 1969–1971 ($700,000)

X. Consultation: Research, Policy and Clinical (select list)

United States Navy, Center for Prisoner of War studies, Naval Medical Aerospace Research Center, Pensacola, Florida, 1998-present

Center for Naval Analysis, Department of the Navy, Washington DC. 1998-present

Battel Corporation, Alexandria, Virginia, 1998-present

United States Air Force, Office of Prevention and Health Services Assessment, Brooks AFB, 1998-present

National Institute on Alcohol Abuse and Alcoholism (NIAAA), National Institute of Health, 1996

National Institute of Child Health and Development, Minority Research, NICHD, December 1993

North Central Administrators, US Department of Agriculture, 1985–1994

Liliuokalanai Children Foundation, State of Hawaii, Honolulu, Hawaii, 1991

Schizophrenia and Family Functioning, National Institute of Mental Health Grant, Department of Psychiatry, University of Wisconsin-Madison, Madison, Wisconsin, 1990–1993

Minority Research, National Institute of Mental Health, Bethesda, Maryland,1989–1990

State of Hawaii, Department of Health, Honolulu, Hawaii, 1989

State of Hawaii, Department of Human Services, Honolulu, Hawaii, 1988

Department of Child Health and Development, National Institute of Mental Health, Bethesda, Maryland, 1987

Maternal and Child Health, University of Minnesota, Minneapolis, Minnesota, 1986–1987

Division of Children and Youth, National Institute of Mental Health, Washington, D.C., 1985–1986

Task Force on Families of Hostages, Purdue University, West Lafayette, Indiana, 1985

Veterans' Administration (Vietnam Veterans), Post-Traumatic Stress, 1985

University of Nebraska Medical Center, Early Referral and Follow-up Project, Omaha, Nebraska, 1984–1986

University of Oklahoma, Department of Family Medicine, Oklahoma City, Oklahoma, 1984–1985

National Institute of Mental Health, Research Scientist Award Committee, Washington, D.C., 1984

National Institute of Drug Abuse, Prevention Branch, Bethesda, Maryland, 1984–1985

Department of the Army, Office of the Deputy Chief of Staff for Personnel, Pentagon, Washington, D.C., 1982–1983

National Institute of Alcohol Abuse, Alcohol Research Center Grant, Honolulu, Hawaii, 1981

W.T. Grant Foundation, Family Stress and Coping, New York, New York, 1981–1996

Family Process Branch, National Institute of Mental Health, Bethesda, Maryland, 1981–1983

Department of the Navy, Office of Naval Research, Washington, D.C., 1981

National Institute of Drug Abuse, Alcoholism and Mental Health on Family Research and Policy Studies, Washington, D.C., 1981

Department of the Army, Family Treatment of Alcoholism Program, El Paso, Texas, 1981

Parent’s Magazine, Inc., New York, New York, 1981–1985

Task Force on Families of Catastrophe, Purdue University, West Lafayette, Indiana, 1980

Family Research Consultant, Neonatal Department, Pediatrics, University of California Medical School, San Diego, California, 1976

Research Consultant, Ramsey County Training Project, Department of Public Welfare, St. Paul, Minnesota, 1976–1985

Social Work Consultant, Mental Health Programs for Vietnamese and Cambodian Refugees, Interdisciplinary Consultant Team, Naval Health Research Center, Camp Pendleton, Oceanside, California, 1975

Research Consultant, Bendix Corporation: Army Research Institute Project, Ann Arbor, Michigan, 1975

United States Naval Aerospace and Regional Medical Center, Research and Family Studies, Pensacola, Florida, 1973–1976

Bureau of Medicine and Surgery, Department of the Navy, Department of Psychiatry Research, Family Research and Policy Consultant, Washington, D.C., 1972–1976

Office of the Surgeon General, Plans and Operations Directorate, Family Research and Policy Consultant, Washington, D.C., 1972–1976

Western Regional Consultation Team, Behavioral Science Consultant, Western Drug and Alcohol Programs (Alaska, Hawaii, Colorado, Seattle, California, and Arizona), Office of the Surgeon General, Department of the Army, Washington, D.C., 1972

Research and Program Consultant, VI United States Army Command Headquarters, Presidio of San Francisco, California (California, Colorado, Seattle, and Arizona), 1971–1972

Discipline Policies Directorate, Research and Program Consultant, Continental Army Command, Department of the Army, Fort Monroe, Virginia, 1970

Office of the Provost Marshal General, Military Correctional Directorate, Department of the Army, Research Consultant, 1969–1971

Department of Education Communication, University of Wisconsin Extension, University of Wisconsin, Madison, Wisconsin, 1968-1969

Multipurpose Training Center, Research Consultant, University of Missouri, Kansas City, Missouri, 1968

XI. Professional Presentations and Keynote Addresses

Available upon request. Keynote addresses and professional presentations. In 1998, 15 Keynote Addresses were delivered

XII. Publications: Books, chapters and Journal Articles

A. Books

McCubbin, H., Thompson, A., Futrell, J. & McCubbin, L. (Eds.)
2000 Promoting resiliency in families and children at risk: Interdisciplinary perspectives. Thousand Oaks, CA: Sage.

McCubbin, H., Thompson, E., Thompson, A., & Futrell, J. (Eds.)
1999 The dynamics of resilient families. Thousand Oaks, CA: Sage.

McCubbin, H., Thompson, E., Thompson, A., & Fromer, J. (Eds.)
1998 Resiliency in ethnic minority families: Native and immigrant American families. Thousand Oaks, CA: Sage

McCubbin, H., Thompson, E., & Thompson, A., & Futrell, J. (Eds.)
1998 Resiliency in ethnic minority families: African-American families, Volume 2. Thousand Oaks, CA: Sage.

McCubbin, H., Thompson, E., Thompson, A., & Fromer, J. (Eds.)
1998 Sense of coherence and resiliency: Stress, coping & health. Thousand Oaks, CA: Sage.

McCubbin, H., Thompson, A., & McCubbin, M.
1996 Family assessment : Resiliency, coping and adaptation—Inventories for research and practice. Madison: University of Wisconsin System.

McCubbin, H., & Thompson, A. (Eds.)
1991 Family assessment inventories for research and practice (FAIRP), (2nd ed.). Madison: University of Wisconsin.

McCubbin, H., & Thompson, A.
1989 Balancing work and family life on Wall Street: Stockbrokers and families coping with economic instability. Edina, MN: Burgess.

McCubbin, H., & Thompson, A.
1988 Resilient families in rural communities: Trapped in the wake of the farm crisis. Madison: University of Wisconsin, Research Monograph.

McCubbin, H., Thompson, A., Pirner, P., & McCubbin, M.
1988 Family types and strengths: A life cycle and ecological perspective. Edina, MN: Burgess International.

McCubbin, H., & Thompson, A. (Eds.)
1987 Family assessment inventories for research and practice (FAIRP). Madison: University of Wisconsin.

McCubbin, H., & Dahl, B.
1985 Marriage and family: Individuals and life cycles. New York: John Wiley.

Olson, D., McCubbin, H., Barnes, H., Larsen, A., Muxen, A., & Wilson, M.
1984 Families: What makes them work. Beverly Hills: Sage. Figley, C., & McCubbin, H. (Eds.)

Figley, C., & McCubbin, H. (Eds.)
1983 Stress and the family: Coping with catastrophes, Volume II.

McCubbin, H., & Figley, C. (Eds.)
1983 Stress and the family: Coping with normative transitions, Volume I. New York: Brunner/Mazel.

McCubbin, H., Patterson, J., & Lavee, Y. (Eds.)
1983 One thousand army families: Strengths, coping and supports. St. Paul, Minnesota: University of Minnesota, Family Social Science.

McCubbin, H., Sussman, M., & Patterson, J. (Eds.)
1983 Social stress and the family: Advances and developments in family stress theory and research. New York: Haworth Press.

McCubbin, H., Cauble, A., & Patterson, J. (Eds.)
1982 Family stress, coping and social support. Springfield, IL: C.C. Thomas.

McCubbin, H., Pitzer, R., Comeau, J., & Davidson, C.
1982 Stress and work. Governor's White House Conference Proceedings. Minneapolis: Minnesota.

Olson, D., McCubbin, H., Barnes, H., Larsen, A., Muxen, A., & Wilson, M.
1982 Family inventories. St. Paul, Minnesota: Family Social Science, University of Minnesota

McCubbin, H., & Patterson, J.
1981 Systematic assessment of family stress, resources and coping: Tools for research, education and clinical intervention. St. Paul, Minnesota: Family Social Science, University of Minnesota.

Nevin, R., McCubbin, H., Comeau, J., Patterson, J., Cauble, A., & Schoonmaker, L.
1981 Families coping with myelomenigocele. St. Paul, Minnesota: Family Social Science, University of Minnesota.

McCubbin, H., & Boss, P. (Eds.)
1980 Family stress and coping. Minneapolis: National Council on Family Relations.

McCubbin, H., Dahl, B., & Hunter, E. (Eds.)
1976 Families in the military system. Beverly Hills: Sage.

McCubbin, H., Dahl, B., Metres, Jr., P., Hunter, E., & Plag, J. (Eds.)
1974 Family separation and reunion: Families of prisoners of war and servicemen missing in action. Washington, D.C.: U.S. Government Printing Office.

B. Journal Articles and Book Chapters:

McCubbin, H.I., Thompson, A.I., Elver, K., Futrell, J., & Allen, C.T.
1998 Family risk factors for alcoholism and alcohol abuse: The American family in transition. Journal of Studies on Alcohol.

McCubbin, H.

1998 Resiliency in African-American families: Military families
in foreign environments. In H. McCubbin, E. Thompson,
A. Thompson, & J. Futrell (Eds.), Resiliency in ethnic
minority families: African-American families, Volume 2.
(pp. 67–97). Thousand Oaks, CA: Sage.

McCubbin, H., Fleming, W.M., Thompson, A., Neitman, P., Elver, K.,
& Savas S.A.
1998 Resiliency and coping in “at-risk” African-American youth
and their families. In H. McCubbin, E. Thompson,
A. Thompson, & J. Futrell (Eds.), Resiliency in ethnic
minority families: African-American families, Volume 2.
(pp. 287–328). Thousand Oaks, CA: Sage.

McCubbin, H., Futrell, J., Thompson, E., & Thompson, A.
1998 Resilient families in an ethnic and cultural context. In
H. McCubbin, E. Thompson, A. Thompson, & J. Futrel
(Eds.), Resiliency in ethnic minority families: African-
American families, Volume 2. (pp. 329–351). Thousand Oaks,
CA: Sage.

McCubbin, H., McCubbin, M., Thompson, A., & Thompson, E.
1998 Resiliency in ethnic families: A conceptual model for
predicting family adjustment and adaptation. In
H. McCubbin, E. Thompson, A. Thompson, & J. Fromer
(Eds.), Resiliency in ethnic minority families: Native and
immigrant American families, Volume 1. (pp. 3–48).
Thousand Oaks, CA: Sage.

McCubbin, H., Thompson, A., Thompson, E., Elver, K., & McCubbin, M.
1998 Ethnicity, schema, and coherence: Appraisal processes for
families in crisis. In H. McCubbin, E. Thompson,
A. Thompson, & J. Fromer (Eds.), Sense of coherence and
resiliency: Stress, coping and health. (pp. 41–67).
Thousand Oaks, CA: Sage.

Thompson, E., McCubbin, H., Thompson, A., & Elver, K.
1998 Vulnerability and resiliency in Native Hawaiian families
under stress. In H. McCubbin, E. Thompson, A. Thompson,
& J. Fromer (Eds.), Resiliency in ethnic minority families:
Native and immigrant American families, Volume 1.
(pp. 115–131). Thousand Oaks, CA: Sage.

McCubbin, H.I., McCubbin, M.A., Thompson, A.I., Han, S., & Allen, C.
1997 Families under stress: What makes them resilient.
Journal of Family and Consumer Sciences.,
November, Fall, 3-15.

McCubbin, H., & McCubbin, L.
1997 Hawaiian American families. In DeGenova, M.K. (Ed.),
Families in a cultural context. Mountain View, CA: Mayfield
Publishing.

McCubbin, H., & Hoyt, A.
1995 Community based economic development through
cooperatives: Strategies for sustained development,
cultural preservation, conservation and job creation.
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XIII. Copyrighted Research Instruments

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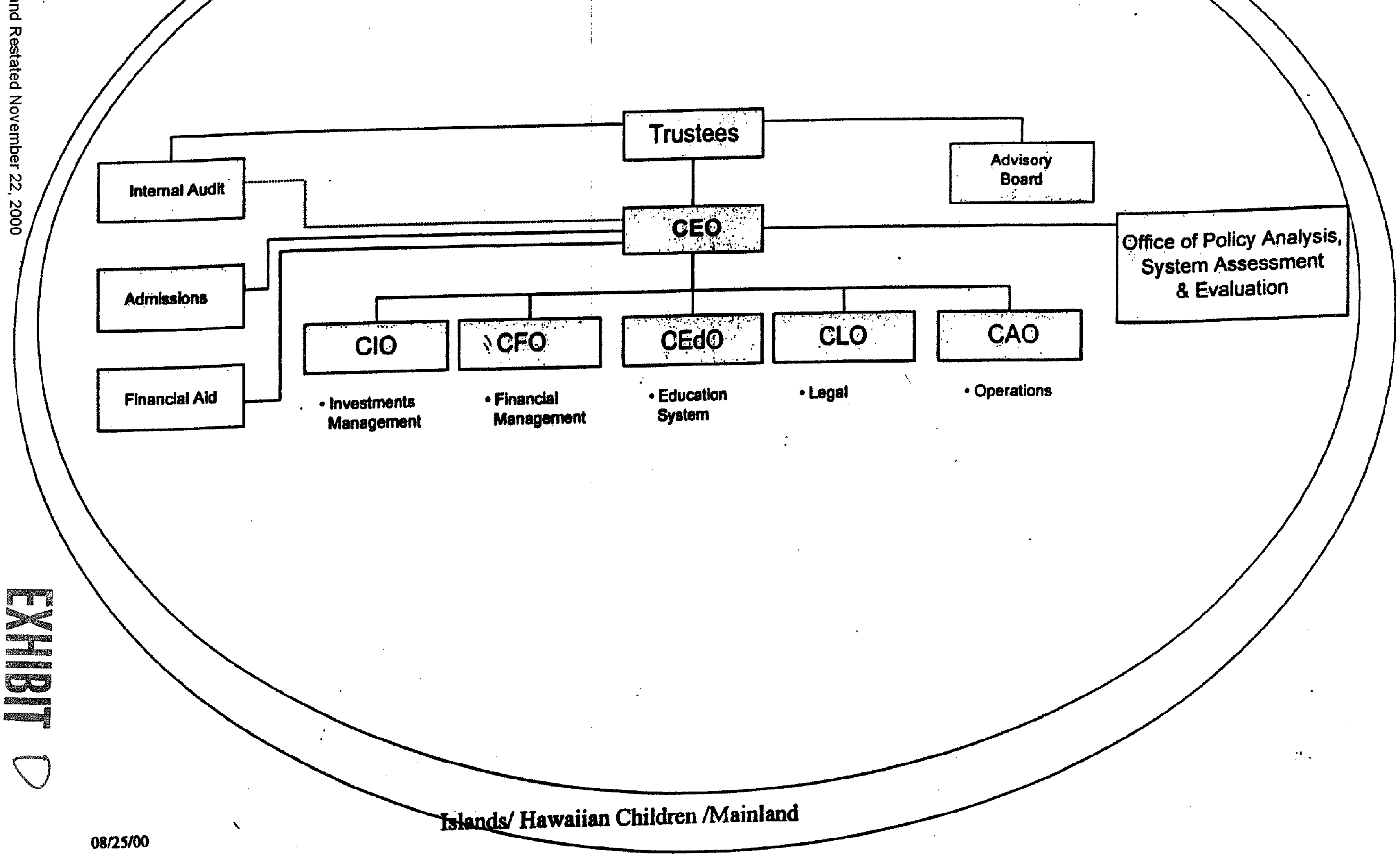
Kamehameha Schools Organization Chart
Trustees Approved



Revised and Restated November 22, 2000

EXHIBIT D

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