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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<sup>1</sup> 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

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<sup>1</sup> 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 Trustees’ Report on Completion of Strategic Plan in Compliance with Stipulation 13 (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.

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