



Her vision...our mission

KAMEHAMEHA SCHOOLS
ANNUAL REPORT



JULY 1, 2002 – JUNE 30, 2003

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HER VISION...OUR MISSION



Princess Bernice Pauahi Bishop was the great-granddaughter and last direct royal descendant of Kamehameha I. During her lifetime, she witnessed a rapid decline of the Hawaiian population. With that decline came a loss of Hawaiian language, religion, customs and most of all...spirit.

Despite the dire condition of her homeland and its people, the princess envisioned a brighter future for Hawaiians. With the support of her husband Charles Reed Bishop, Princess Pauahi articulated her vision in her last will and testament.

The legacy of a princess

She placed more than 375,000 acres of inherited Kamehameha lands in a perpetual endowment with one purpose: *To improve the capability and well-being of Hawaiians through education.*

In 1887, three years after her death, Princess Pauahi's vision became reality with the opening of the Kamehameha School for Boys. Seven years later, the Kamehameha School for Girls was established. In the years that followed, students acquired the skills and knowledge necessary to weather the changes brought about by western civilization, helping Hawaiians find their place in the new society.

Today, 116 years since its founding, Kamehameha Schools (KS) has grown into a statewide educational system supported by a \$5.5 billion endowment. The system includes the largest private K-12 school in the nation, the largest private preschool system in the state, and a growing number of community outreach programs.



Colleen I. Wong

A MESSAGE FROM OUR ACTING CHIEF EXECUTIVE OFFICER

Aloha mai kākou,

Princess Bernice Pauahi Bishop countered adversity with *ho‘omau* (perseverance) to carve out a vision that would save her people. Her vision was to improve the capability and well-being of Hawaiians through education. That dream became reality after her passing with the establishment of the Kamehameha Schools.

It is with this same perseverance that Kamehameha Schools countered the challenges and embraced the opportunities of fiscal year 2003. With generous support from our employees, parents, students, alumni and the community, we have continued to provide quality education through campus-based and community outreach programs. We have also continued to strengthen the financial foundation of our organization, remaining *onipa‘a* (steadfast) in our mission to keep Pauahi’s vision alive.

2003 Fiscal Year Highlights

A STRONG FINANCIAL FOUNDATION

Kamehameha Schools is an educational trust supported by an endowment. In fiscal year 2003, the market value of that endowment increased by more than \$100 million over the previous year, to \$5.5 billion. Revenue for the trust increased by \$390 million, with an increase in net income of \$393 million. KS invested \$289 million in educational programs, including the financing of \$70 million in capital projects – an increase of about \$47 million over fiscal year 2002. Educational spending for campus-based programs and capital projects increased by \$16 million and \$11 million respectively, primarily due to the continued expansion of our Maui and Hawai‘i campuses.

FULFILLING OUR EDUCATIONAL MISSION

Kamehameha Schools extended its educational reach to more students than ever before during the 2002-2003 school year. Combined enrollment for preschool and K-12 programs was 5,710 –

an increase of 18.1 percent over the previous year. The increase was largely due to the planned growth of our neighbor island campuses and the opening of four preschool classrooms. In addition to our full-time programs, more than 145,000 learners were touched through our Extension Education Division. Five new programs were added to the division, allowing for an expansion of services. KS also made it possible for 3,109 learners to pursue college and vocational educational opportunities by awarding more than \$15 million in post-high school scholarships.

PHILOSOPHY OF EDUCATION

A task force composed of Kamehameha Schools faculty and staff members developed the institution’s first formal Philosophy of Education, which provides a foundation upon which we can continue to build strong educational services. The task force gathered input from KS stakeholders including employees, parents and students. The KS Philosophy of Education applies to all KS learners, from early childhood through adult. It is comprised of eight core beliefs, each backed by guiding principles.

REVIEW OF ADMISSIONS CRITERIA

In August 2002, we initiated a year-long community discussion about whom KS should serve. Community advisory meetings were held statewide and in selected mainland cities to gather input on Kamehameha’s role in educating Hawaiians and who should be served. This information is being used to help align admissions criteria and procedures with our Strategic Plan.

Our fiscal year 2003 Executive Leadership Team: Interim Vice President for Community Relations and Communications Kekoa Paulsen, Interim Vice President for Legal Affairs Jack Wong, Interim Vice President for Education Charlene Hoe, Vice President for Endowment Kirk Belsby and Vice President for Finance and Administration Michael Loo.



DEFENDING OUR LANDOWNER RIGHTS

Starting in October 2002, KS defended its landowner rights at hearings before the Honolulu City Council on the city's condemnation of its Kāhala Beach Apartments property. Lessees sought condemnation for a "public purpose" under the city's Chapter 38 multi-family condemnation law. Kamehameha leaders and many others testified that KS' ownership of the land serves a greater public purpose by generating income to fund educational programs. Despite overwhelming opposition, the council passed a resolution that clears the way for condemnation of the land. The resolution will attempt to force KS to sell the land's leased fee interest to 31 lessees. KS is challenging the condemnation in state circuit court.

DOE VS. KAMEHAMEHA SCHOOLS

In June 2003, an anonymous complaint was filed against KS by a student applicant, claiming that he was denied admission to Kamehameha because he was not of Hawaiian ancestry. The complaint, filed in federal court, claimed that KS' admissions preference for Hawaiians illegally discriminates on the basis of race. As we fought to defend our admissions policy, we were heartened to receive an outpouring of support from the

community on the importance of preserving Princess Pauahi's legacy for Hawaiians.

ORGANIZATIONAL REALIGNMENT

In a continuing effort to reinforce our commitment to education, we realigned our organizational structure to support the goals of our Strategic Plan. Among the changes was the formation of the KS Community Relations and Communications Group. The group was created to facilitate interaction with and responsiveness to the communities we serve and to expand proactive issues management.

OUR EXECUTIVE LEADERSHIP TEAM

Kamehameha Schools welcomed two key members to its executive leadership team in fiscal year 2003. In December 2002, real estate consultant Kirk Belsby joined us as vice president for Endowment. In March 2003, KS Controller Michael Loo was promoted to vice president for Finance and Administration. Before joining us, Kirk was a regional managing partner for real estate consulting for Arthur Andersen, LLP, and Michael served as vice president, controller and treasurer for Hawaiian Airlines. KS Treasurer Edwina Clarke took on the interim leadership role of vice president for Finance and Administration until the final selection was made.

At the end of fiscal year 2003, a search was underway for the newly created position of vice president for Community Relations and Communications, while a search to fill the position of vice president for Education was deferred pending the hire of a new chief executive officer. KS Office of Strategic Planning Director Charlene Hoe and Associate Director of Communications Kekoa Paulsen took on roles as interim vice president for Education and interim vice president for Community Relations and Communications during the national search process.

Finally, Endowment Legal Services Division Director Jack Wong accepted the role of interim vice president for Legal Affairs, allowing me to take on my current role at KS. It has been an honor and a privilege to serve as acting chief executive officer following the departure of Dr. Hamilton McCubbin in May, 2003. This is an exciting and dynamic time in the history of Kamehameha Schools. In the spirit of *laulima* (cooperation) we will continue to build on Kamehameha's proud traditions, and nurture new initiatives to extend Pauahi's legacy into the future.

Me ke aloha pumehana,

COLLEEN I. WONG,
ACTING CHIEF EXECUTIVE OFFICER

ORGANIZATIONAL STRUCTURE, FISCAL YEAR 2003



Kamehameha Schools Board of Trustees: (Seated) Diane Plotts and Nainoa Thompson. (Standing) Robert Kihune, Douglas Ing and Constance Lau.

In accordance with the will of Bernice Pauahi Bishop, the governance of Kamehameha Schools rests with a board of five trustees. Each trustee is equally vested with the responsibility of carrying out Princess Pauahi's will consistent with trust law. The primary purpose of the board is to set policy. Trustee nominees are chosen by a court-appointed search committee and appointed by the state Probate Court. The day-to-day management of Kamehameha Schools rests with a board-appointed chief executive officer who heads the executive management team.

BOARD OF TRUSTEES

Constance H. Lau, *Chair*
Nainoa Thompson, *Vice Chair*
Diane J. Plotts, *Secretary/Treasurer*
J. Douglas Ing
Robert K.U. Kihune

EXECUTIVE MANAGEMENT TEAM

Acting Chief Executive Officer

Colleen I. Wong

Vice Presidents

Kirk O. Belsby, *Endowment*
Charlene Hoe, *Interim, Education*
Michael P. Loo, *Finance and Administration*
Kekoa Paulsen, *Interim, Community Relations
and Communications*
Livingston "Jack" S. Wong, *Interim, Legal Affairs*

BOARD OF ADVISORS

The Kamehameha Schools Board of Advisors gives guidance to the chief executive officer and trustees on all matters governing the trust including education, finance and endowment matters. Board members represent a cross-section of KS 'ohana and renown education, civic, cultural and business leaders. The following leaders lent their time, effort and expertise to Kamehameha Schools in fiscal year 2003.

Board of Advisors

Dr. Naleen Andrade
Roy Benham
Dr. William Brown
David Burge
Dr. Elizabeth Lindsey Buyers
Fred Cachola
David Cooper, General (Ret.)
Jan Dill
Carol Eblen, Esq.
William J. Fernandez, Judge (Ret.)
Gail Fujimoto
Dr. Andrew Hashimoto
Dr. Randy Hitz
Dr. Lilikala Kame'eleihiwa
Micah Kane
John Kaulukukui
Eric Martinson
Charles Maxwell
Larry McElheny
Robert Midkiff
Paulette Moore
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Dr. Barry Munitz
Bruce Nakaoka
Dr. Gary A. Okamoto
Terry Plunkett
Debbie Revilla
Crystal Rose, Esq.
Winona Rubin
Pohai Ryan
Ray Schoenke
Dr. James Scott
Dr. Irving Shain
Raynard Soon
Ronald Taketa
Dennis Teranishi
Keith Vieira
Dr. Sue Wesselkamper
Noe Noe Wong-Wilson



*F*ulfilling our educational mission

OUR MISSION

Kamehameha Schools' mission is to fulfill Pauahi's desire to create educational opportunities in perpetuity to improve the capability and well-being of people of Hawaiian ancestry.

OUR VISION

Kamehameha Schools is a dynamic and nurturing learning community committed to educational excellence. We assist people of Hawaiian ancestry to achieve their highest potential as "good and industrious men and women." We do so by contributing to their development as people who are:

- Grounded in spiritual and Christian values
- Intellectually, emotionally, and socially self-reliant
- Resourceful, resilient, lifelong learners
- Equipped with the skills they need to succeed in endeavors of their choosing
- Responsible, ethical, contributing members of their multi-cultural and diverse communities
- Prepared to practice and perpetuate the Hawaiian values and traditions of Ke Ali'i Pauahi.



KAMEHAMEHA SCHOOLS' PHILOSOPHY OF EDUCATION

- We believe that Kamehameha Schools as a Hawaiian institution and its learners have a responsibility to practice and perpetuate *'Ike Hawai'i* (the perpetuation and practice of Hawaiian values, culture and language) as a source of strength and resilience for the future.
- We believe that every learner possesses a unique combination of talents, abilities, interests and needs and that each is able to achieve higher levels of excellence.
- We believe that the earliest years of a child's life are the most critical to development and set the stage for future learning.
- We believe that positive and nurturing relationships are an essential foundation of learning.
- We believe that all learners create meaning by building on prior knowledge, actively using their learning in personally relevant ways and contributing positively to the global community.
- We believe that the quality of instruction is enhanced by collaboration, professional development and the application of research-based practices.
- We believe that education is enhanced by involvement of the learner and all members of the learner's community.
- We believe that the effectiveness of our institution in meeting its mission is enhanced by collaboration and partnerships.

To view the complete KS Philosophy of Education, visit the Kamehameha Schools Web site at: www.ksbe.edu.





OUR EDUCATION SYSTEM



Early Childhood Education

BACKGROUND

Since its inception more than 20 years ago, the Kamehameha Schools Preschool Program has provided more than 10,000 *keiki* with their first school experience. Today, approximately one-quarter of all Hawaiian preschoolers in Hawai'i are directly served by Kamehameha Schools.

CURRICULUM

The Kamehameha early childhood program is based on the belief that children learn best with the help of their parents, teachers and peers and through experience with their physical and social environment.

Because skill in oral and written communication is necessary for success in school, the program emphasizes language and literacy. The curriculum also addresses each child's social, emotional, physical, intellectual, cultural and spiritual needs. Performance goals are developed with the understanding that individual children achieve at different levels.



ECE Leadership Team: (Front row) Assistant Regional Manager for Wai'anae Paula Forsyth, Regional Manager for Maui Suzie Aki, Associate Dean for Early Childhood Education Linda Cunningham, Regional Manager for Ko'olau Loa Heinne Kaaa and Regional Manager for Kaua'i Claire Moki Niheu-Yong. (Back row) Regional Manager for Ko'olau Poko Mahealani McClellan, Regional Manager for East Hawai'i Denise Johnson, Dean of Early Childhood Education Suzanne Ramos, Assistant Regional Manager for West Hawai'i Wallie Kimura-Nobriga and Regional Manager for Honolulu Vivian Murray.

Missing are Regional Manager for Wai'anae Bobbie Ariyoshi, Assistant Regional Manager for Maui Poni Medeiros, Assistant Regional Manager for East Hawai'i Diane Maher and Regional Manager for West Hawai'i Barbara Souza.

PRESCHOOL LOCATIONS

76 classrooms at 32 locations on the islands of Kaua'i, O'ahu, Moloka'i, Maui and Hawai'i.

STUDENTS SERVED, 2002-2003

1,356 three- and four-year-olds statewide.





OUR EDUCATION SYSTEM



Kapālama Campus



Kapālama Campus Leadership Team: (Front row) President and Headmaster Michael Chun, Ph.D.; Director of Program Services Rowena Blaisdell, and Middle School Principal Sandy Young. (Back row) Director of Operations Support Don Kawahakui, High School Principal Tony Ramos and Elementary School Principal Kahele Kukea.

BACKGROUND

In 1887, Princess Pauahi's vision of educating Hawaiians became reality with the opening of the Kamehameha School for Boys on the current site of Bishop Museum. The school had an enrollment of 35 students. Seven years later, the Kamehameha School for Girls opened nearby. Between 1930 and 1955, the schools moved *mauka*, to the current Kamehameha Schools site in the verdant hills of Kapālama Heights. Since the schools' founding, KS has graduated nearly 20,000 young men and women.

CURRICULUM

The Kapālama Campus elementary program emphasizes the development of the whole child through academics, social skills, the arts, and cultural, spiritual and physical education.

Middle school courses of study are designed to provide students with a systematic way to learn, and allow students to practice basic skills that will prepare them for the college preparatory curriculum of high school.

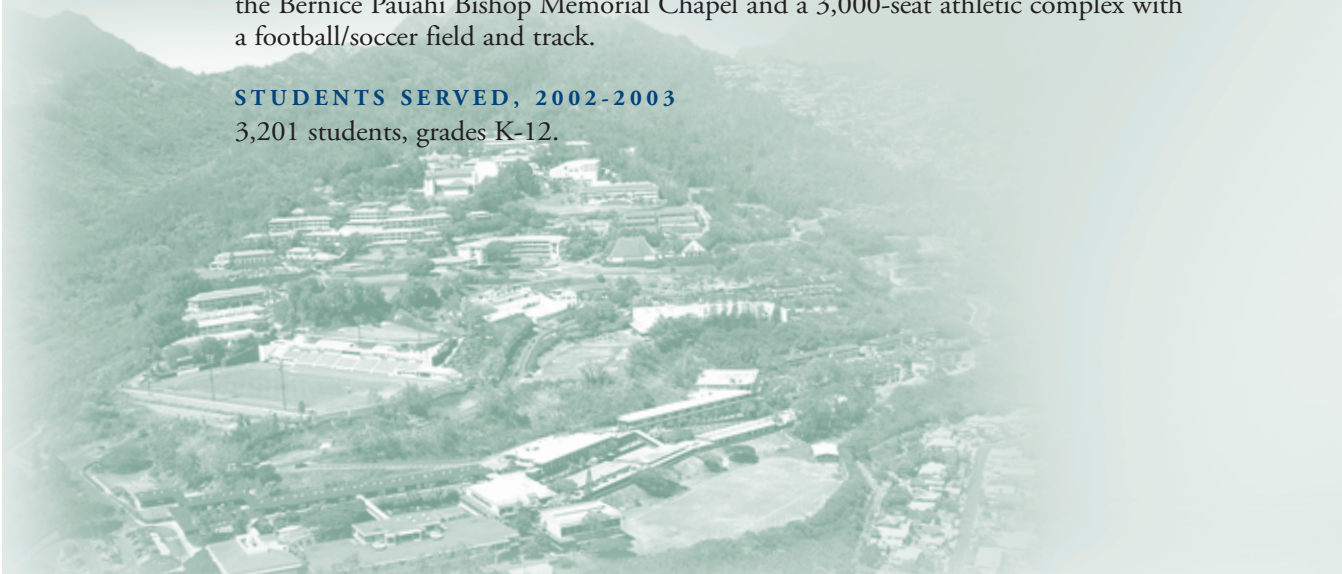
The campus' high school college preparatory program is designed to challenge students to think critically and to prepare them for college. There are high expectations for the academic achievement of every student enrolled in the high school.

CAMPUS DESCRIPTION

The sprawling 600-acre hillside campus has more than 70 major buildings, including the Bernice Pauahi Bishop Memorial Chapel and a 3,000-seat athletic complex with a football/soccer field and track.

STUDENTS SERVED, 2002-2003

3,201 students, grades K-12.





Hawai'i Campus

BACKGROUND

In 1996, the Kamehameha Schools Hawai'i Campus opened its temporary facility in Keaukaha with 128 elementary school students. The permanent Hawai'i Campus opened its doors to 144 elementary school students in 2001.

CURRICULUM

The Hawai'i Campus elementary program balances Christian and Hawaiian cultural values, strengthens academic and physical abilities, and creates opportunities for technical, social and artistic development.

In the middle school years, students flourish in a school environment that offers a balanced curriculum with clear academic and behavioral expectations and prepares students to transition to high school. A solid core curriculum is enhanced by Hawaiian or Spanish as a second language, P.E./health and electives in art, band/orchestra/choir, drama, nutrition, aqua-agriculture and technology.

In addition to a college preparatory curriculum, the Hawai'i Campus will offer its high school students a choice of career academies, which combine liberal arts and technical preparatory studies to provide students with both skill development and career orientation. Academies are being developed which may include: Arts and Communication, Business and Leadership, Engineering and Design, Health and Wellness, Science and Natural Resources, Social and Government Services, and Self Design.

CAMPUS DESCRIPTION

The 312-acre Kamehameha Schools Hawai'i Campus is located in Kea'au, eight miles south of Hilo in a lush, forested area.

STUDENTS SERVED, 2002-2003

640 students, grades K-9.



Hawai'i Campus Leadership Team: (Front row) Director of Operations Darren Ah Chong, HR Manager Karen Hayashida, High School Principal Ninia Aldrich and K-8 Vice Principal Eva Bogue. (Back row) Athletic Director Robert Wagner, Kahu Curt Kekuna, Admissions Manager Lisanne Kekuewa, K-8 Principal Barbara Robertson and Headmaster Stanley Fortuna, Jr., Ed.D.





OUR EDUCATION SYSTEM



Maui Campus



Maui Campus Leadership Team: (Front row) Parent/Community Coordinator Lokelani Patrick, Administrative Assistant Kimberly Thomas and Director of Campus Operations Carl Alexander. (Middle row) Headmaster Rod Chamberlain, Ed.D.; High School Principal Mitchell Kalauli and K-8 Principal Lee Ann DeLima. (Back row) Curriculum, Professional Development and Summer Programs Coordinator Douglas Holt, Kahu Kalani Wong and Athletic Director Kurt Ginoza.

BACKGROUND

In 1996, the Kamehameha Schools Maui Campus opened its temporary facility in Pukalani with 80 elementary school students. The permanent Maui campus opened its doors to 152 elementary school students in 1999.

CURRICULUM

The Kamehameha Schools Maui Campus offers its elementary school students a well-rounded program that includes emphasis on language arts and math. Beginning in kindergarten, students also have classes in Hawaiian language and culture, visual and performing arts, science, technology, and physical education.

Middle school students build their core skills in instructional teams of English, math, science and social studies. Students explore a greater spectrum of arts and athletics while extending

their knowledge of Christian and Hawaiian practices. Co-curricular activities include student government, community service learning and athletics.

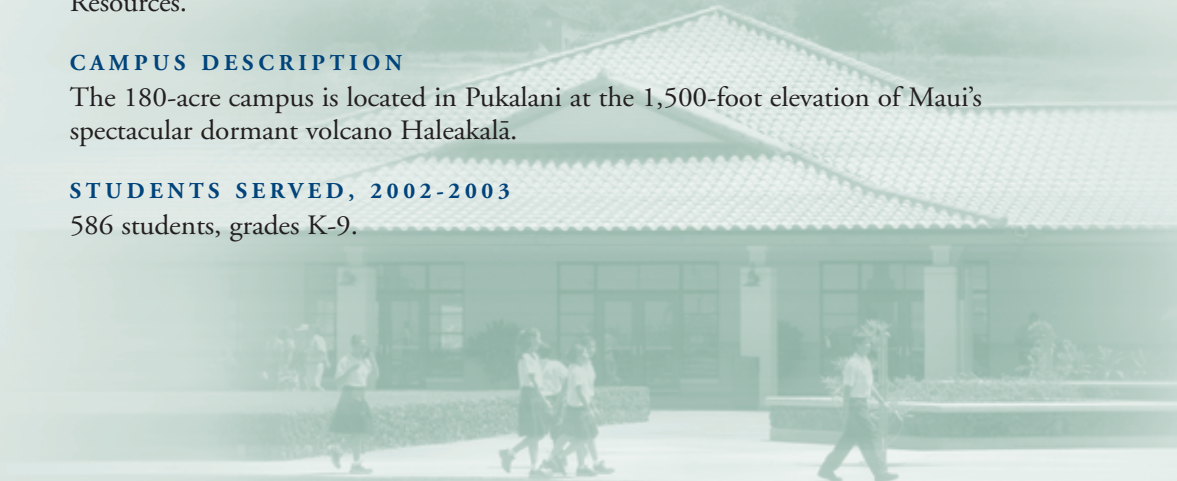
In addition to a college preparatory curriculum, the Maui Campus will offer its high school students a choice of career academies, which combine liberal arts and technical preparatory studies to provide students with both skill development and career orientation. Academies are being developed which may include: Arts and Communication, Business and Leadership, Information and Technology, and Science and Natural Resources.

CAMPUS DESCRIPTION

The 180-acre campus is located in Pukalani at the 1,500-foot elevation of Maui's spectacular dormant volcano Haleakalā.

STUDENTS SERVED, 2002-2003

586 students, grades K-9.





Extension Education

BACKGROUND

Kamehameha Schools' Extension Education Division (EED) is charged with extending KS' educational reach to those not already being served by campus-based programs. The division traces its roots to the late 1960's. EED services include: instruction, curriculum development, training and technical assistance, and resource and referral.

PROGRAMS

Career Education and Lifelong Learning

Provides opportunities for career education and lifelong learning to youth and adults.

Community Learning Center at Nānākuli

Provides a wide range of services to the Leeward community including computer/ technology access and support through KS programs and other service providers.

Distance Learning

Extends the reach of KS through worldwide educational programming using online and broadcast technology.

Enrichment Programs

Provides educational enrichment programs that increase awareness, knowledge and skills in Hawaiian culture, academic achievement, leadership, etc. for Hawaiian youth and adults.

Grants Department

Provides assistance to Hawaiian communities and organizations through grant preparation workshops, informational databases including access to funding resources, and support networks.



Extension Education Leadership Team: (Front row) Director of Career Education and Lifelong Learning Dirk Soma, Director of Grants Assistance Elizabeth Aulsebrook, Director of Kamehameha Scholars Norma Kop, Dean of Extension Education Juvenna Chang, Ed.D.; Associate Dean of Extension Education Terry Kelly and Director of Health, Wellness and Family Education Dan Yahata. (Back row) Director of Distance Learning Henry Meyer, Director of the Hawaiian Studies Institute Kaipo Hale, Director of Literacy Enhancement Anna Sumida, Director of the Community Learning Center at Nānākuli Paula-Ann Burgess-Tauala and Director of Enrichment Tony LeBron.



OUR EDUCATION SYSTEM

Hawaiian Studies Institute

Provides programs and materials to support the preservation and perpetuation of Hawai'i's culture, language and history. Programs include the Heritage Center, located on KS' Kapālama Campus, which offers opportunities for learners to experience historical and cultural aspects of the life of Princess Bernice Pauahi Bishop.

Health, Wellness and Family Education

Provides culturally appropriate educational services and products to increase resiliency, decrease at-risk behaviors and improve the health and well-being of Native Hawaiian families.

Kamehameha Scholars

Provides educational support services, resources and mentoring to enable youth to achieve personal growth and educational success while enhancing post-secondary educational options.

Literacy Enhancement

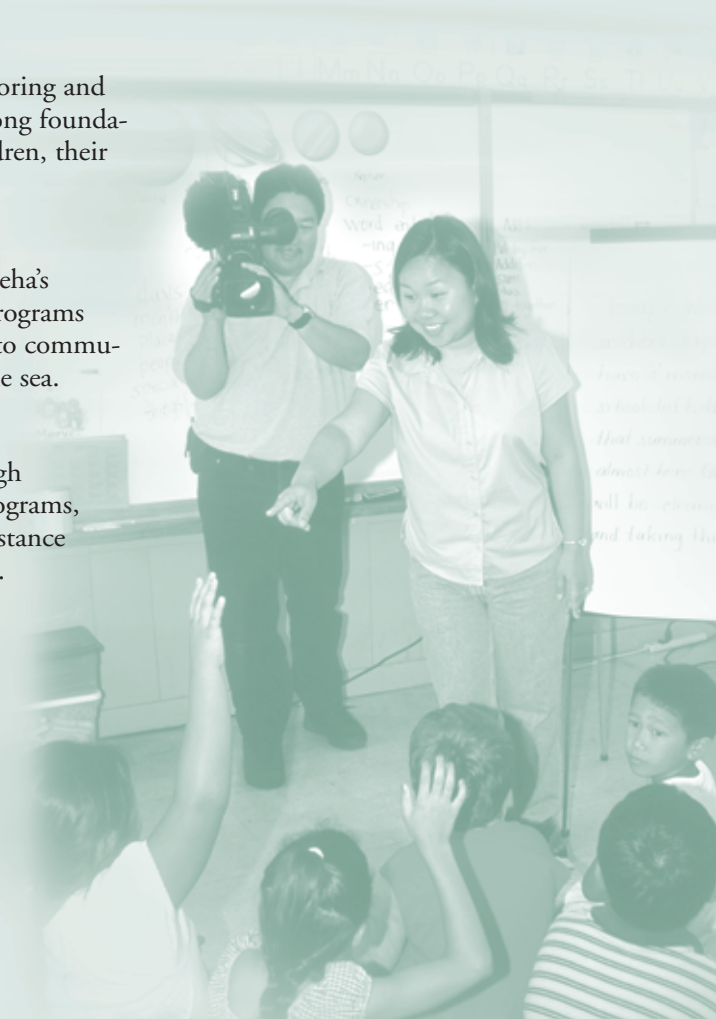
Provides instructional support, tutoring and parent education to establish a strong foundation in literacy for school-age children, their families and communities.

DIVISION HEADQUARTERS

The division is based at Kamehameha's Kapālama Campus. Its outreach programs extend Pauahi's educational reach to communities across the state and across the sea.

LEARNERS SERVED

145,588 learners of all ages, through part-time community outreach programs, conferences, workshops, classes, distance education, tours and presentations.





LEARNERS SERVED

By campus-based and extension education programs

Preschool and K-12 programs

Official enrollment figures for the 2002-2003 school year, taken on September 1, 2002

PROGRAM	LEARNERS SERVED
EARLY CHILDHOOD PROGRAM	1,283*
O'ahu Preschools	596
Hawai'i Preschools	427
Kaua'i Preschools	106
Maui Preschools	134
Moloka'i Preschools	20
CAMPUS-BASED PROGRAMS	
Kapālama Campus	3,201
High School (9-12)	1,809
Middle School (7-8)	641
Elementary School (K-6)	751
Hawai'i Campus	640
High School (Grade 9)	96
Middle School (6-8)	288
Elementary School (K-5)	256
Maui Campus	586
High School (Grade 9)	96
Middle School (6-8)	234
Elementary School (K-5)	256
TOTAL:	5,710

* This number grew to 1,356 after the addition of classrooms on Maui and the Big Island which opened during the 2002-2003 school year.

Extension Education Programs*

PROGRAM	LEARNERS SERVED
Career Education & Lifelong Learning	920
Community Learning Center at Nānākuli	996
Enrichment Programs	4,705
Grants Institute	242
Hawaiian Studies Institute	12,573
Heritage Center	29,765
Health, Wellness & Family Education	2,201
Kamehameha Scholars	72
Literacy Enhancement	4,149
Distance Learning	89,965
TOTAL:	145,588

* Includes part-time community outreach programs, conferences, workshops, classes, distance education programs, tours and presentations.



LEARNERS SERVED

Through financial aid and scholarships

Fulfilling our educational mission includes helping ease the financial burden of the cost of education for needy families. Following is an account of the need-based scholarships administered by Kamehameha Schools' Financial Aid and Scholarship Services department during fiscal year 2003.

PROGRAM	RECIPIENTS	AMOUNT
PRESCHOOL – GRADE 12		
Preschool	528	\$ 341,862
Elementary	679	\$ 902,421
Middle School	701	\$ 1,288,123
High School	1,172	\$ 2,561,111
SUMMER PROGRAMS		
Alu Like Summer School Assistance Program	1,159	\$ 320,160
POST-HIGH SCHOLARSHIPS		
KS Graduates	1,036	\$ 6,509,031
Non-KS Graduates	1,726	\$ 7,743,103
Alu Like, Inc. Vocational Programs	219	\$ 200,000
Hawai'i Technology Institute	123	\$ 465,750
East-West Center	5	\$ 125,000
OTHER PROGRAMS		
Pauahi Keiki Scholars	169	\$ 687,279
TOTAL:	7,517	\$ 21,143,840

Keaukaha Preschool on the Big Island.





Extending our educational reach

OUR STRATEGIC PLAN

In 1999, Kamehameha Schools embarked on a yearlong planning effort that would lay the foundation for the extension of our educational reach to serve more Hawaiians: the creation of a strategic plan.

The planning process was an intense, collaborative effort guided by a 65-member team composed of a cross-section of Kamehameha stakeholders. Their work involved identifying key issues, formulating strategies and gathering input from more than 4,000 members of the greater Hawai'i community. The result of their efforts was a set of goals and strategies that illustrate the kind of educational institution Kamehameha Schools is striving to become.



Our Strategic Plan



OUR 15-YEAR STRATEGIC PLAN GOALS

Goal 1

Kamehameha Schools will provide and facilitate a wide range of integrated, quality educational programs and services to serve more people of Hawaiian ancestry.

Goal 2

Kamehameha Schools will work with families and communities in their efforts to meet the educational needs of people of Hawaiian ancestry.

Goal 3

Kamehameha Schools will cultivate, nurture, perpetuate, and practice *'Ike Hawai'i* (the perpetuation and practice of Hawaiian values, culture and language).

Goal 4

Kamehameha Schools will foster the development of leaders who focus on service to others.

Goal 5

Kamehameha Schools will optimize the value and use of current financial and non-financial resources and actively seek and develop new resources.

Goal 6

Kamehameha Schools will *mālama i ka 'aina*: practice ethical, prudent and culturally appropriate stewardship of lands and resources.

Goal 7

Kamehameha Schools will continue to develop as a dynamic, nurturing, learning community.

Each of the Strategic Plan goals above is supported by a set of sub-strategies. To view the KS Strategic Plan in its entirety, please visit the Kamehameha Schools Web site at: www.ksbe.edu.



IMPLEMENTING OUR STRATEGIC PLAN

“Pauahi’s Legacy Lives”

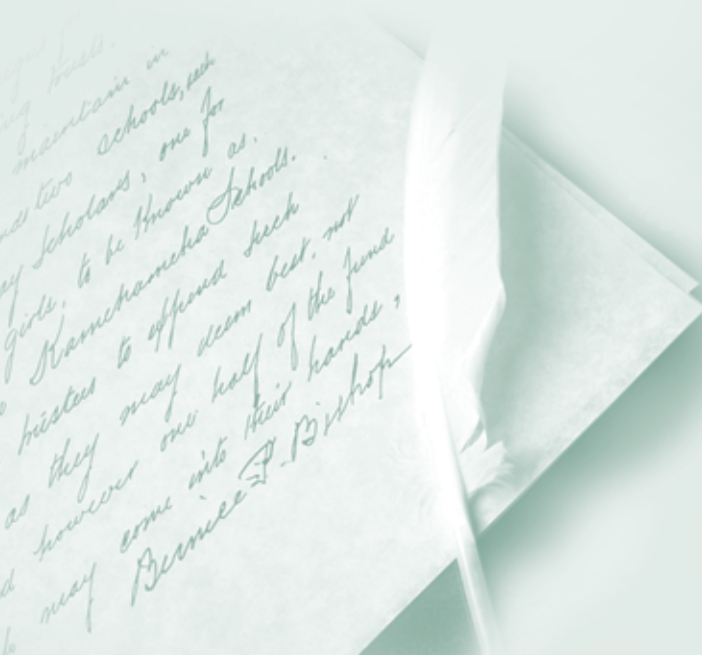
The Kamehameha Schools Strategic Plan laid a foundation for the extension of educational services to more Hawaiians. The KS Strategic Implementation Plan, known as “Pauahi’s Legacy Lives,” builds upon that foundation. Just as its name implies, Pauahi’s Legacy Lives breathes life into the Strategic Plan by detailing what KS will do in the next five years to achieve its goals.

Pauahi’s Legacy Lives is the result of an ongoing planning effort by KS’ leadership and staff. The planning teams prioritize goals and identify financial and educational strategies to help KS reach its Strategic Plan goals. Major progress has been made toward fulfilling the goals through the creation of new initiatives. This section highlights more than 30 programs that are helping keep Pauahi’s vision alive.

Over the next five years, Kamehameha Schools will strive to achieve the following priority goals:

- Extend reach in early childhood education
- Extend reach in kindergarten through 12th grade education
- Extend reach in the area of career opportunities
- Expand lifelong educational options through extension education and eco-cultural collaborations
- Enhance the learning environment and establish a database to extend the reach and support families
- Develop and reallocate resources to support expanded educational reach
- Collaborate with others to support and perpetuate *The Hawai‘i* (the perpetuation and practice of Hawaiian values, culture and language).

Each of the Pauahi’s Legacy Lives goals above is supported by a set of sub-strategies. To view the KS Strategic Implementation Plan in its entirety, please visit the Kamehameha Schools Web site at: www.ksbe.edu.



EXTENDING OUR REACH

In Early Childhood Education

Kamehameha Schools recognizes preschool education as a priority critical to the educational success and well-being of children.

With that in mind, Kamehameha Schools extended its reach in early childhood education in the following ways:

PRESCHOOL ENROLLMENT AT AN ALL-TIME HIGH

At the beginning of the 2002-2003 school year, KS extended its educational reach to 1,283 three- and four-year-olds in 72 classrooms in 33 locations statewide. By the end of the school year, enrollment was up to 1,356 keiki in 76 classrooms at 32 locations – the highest in KS history. The increase in enrollment was due, in part, to the addition of two preschool classrooms at Paukūkalō on Maui, and two classrooms at Keaukaha on the Big Island.

SCHOLARSHIPS SPUR PRESCHOOL ATTENDANCE

KS' Pauahi Keiki Scholars Program awarded more than \$680,000 in need-based preschool scholarships to 169 four-year-olds. The renewable annual scholarships may be used at preschools approved by KS or accredited by the National Association for the Education of Young Children.

ACCREDITATIONS YIELD QUALITY EDUCATION

KS teamed up with the Hawai'i Association for the Education of Young Children (HAEYC) to help 39 non-KS preschools begin the national accreditation process. KS supported HAEYC's Hawai'i Early Childhood Accreditation Project in designing mentor training and providing accreditation resources. More than 1,000 keiki stand to benefit from this partnership when the schools' accreditations are achieved. The collaboration was part of KS' overall efforts to strengthen its community partnerships. In addition to assisting other schools with this process, 19 KS preschools earned national accreditation.

TRAVELING PRESCHOOL ENGAGES 'OHANA IN KEIKI LEARNING

For the second year in a row, KS lent its support to Nā Kamalei, a traveling preschool based at the Queen Lili'uokalani Children's Center in Punalu'u. Nā Kamalei encourages *'ohana* involvement in children's educational experiences. Over 129 *keiki* from the Punalu'u, Hau'ula and Kahuku communities were served through the program during the 2003 fiscal year.

EARLY CHILDHOOD AUTHORITIES SHARE THEIR EXPERTISE

In an effort to improve early childhood education statewide, KS sponsored presentations by nationally renowned early childhood experts Dr. Alice Honig and Dr. Samuel Meisels. More than 200 educators from the State Department of Education, the University of Hawai'i, plus private education providers benefited from the two special events.



Nu'uānuu Baptist Church Preschool student Kawika Zarko was one of 169 keiki to receive preschool scholarships through KS' Pauahi Keiki Scholars program.



Sunshine Preschool in Kailua is on its way to earning national accreditation, thanks to a collaboration between KS and the Hawai'i Association for the Education of Young Children.



Ke Kula 'O Samuel Manaiaikalani Kamakau, a community-based charter school in Kāne'ohe, received start-up funding from KS' Ho'olako Like program.



KS Trustee Nainoa Thompson, navigator and sail master of the Polynesian Voyaging Society's double-hulled canoe Hokule'a, shares his wisdom and experience with students of the Hawai'i Astronomy Institute.

EXTENDING OUR REACH

In K-12th Grade Education

Kamehameha Schools is committed to providing a wide range of educational experiences to prepare children of Hawaiian ancestry to make positive, informed life choices. To that end, KS extended its educational reach to K-12th graders in the following ways:

K-12 ENROLLMENT IS HIGHEST IN KS HISTORY

At the onset of the 2002-2003 school year, Kamehameha's three-campus K-12 program enrollment stood at 4,427 students – 624 more than the previous year. The jump in enrollment was largely due to the phenomenal growth of the Hawai'i and Maui campuses. Both schools added a ninth grade level and grew by 300 and 320 students, respectively.

COLLABORATION SUPPORTS CONVERSION CHARTER SCHOOLS

KS collaborated with Ho'okāko'o Corporation, a non-profit organization that supports selected public schools in their conversion to charter schools. In addition to providing \$280,000 in start-up funding to Ho'okāko'o, KS has pledged to contribute funding to Ho'okāko'o-sponsored conversion charter schools that meet KS criteria, including being located in communities with large Hawaiian student populations.

COMMUNITY-BASED CHARTER SCHOOLS SECURE SUPPORT

Eight community-based start-up charter schools received more than \$663,000 in funding, technical and resource support through KS' Ho'olako Like program. The charter schools, operating at non-DOE locations, served 669 Kaua'i, O'ahu and Big Island students, 95 percent of whom are of Hawaiian ancestry. KS also pledged to contribute value-added funding and training to state monies provided for instructional support.

MENTORING PROGRAM ENHANCES STUDENT ACADEMIC SUCCESS

Over 70 Leeward O'ahu, Kaua'i and West Hawai'i seventh graders of Hawaiian ancestry received an orientation to KS' Kamehameha Scholars program, an initiative that will shepherd them through their senior year. KS will provide them with academic and career counseling, technology training, Hawaiian cultural experiences and more, to help enhance their academic success.

KAPĀLAMA ENRICHMENT PROGRAMS OFFERED TO OUTSIDE LEARNERS

The Hi'ilei Center for Learning launched five initiatives that extended access to the KS Kapālama Campus to more Hawaiian learners. Over 825 students of Hawaiian ancestry took part in the following summer programs: Mele Hawai'i Institute, Exploring Musical Theater, Creative Writing Summer Institute, Summer Forensics, and Hawai'i Astronomy Institute.





Kahuku High School students gained hands-on work experience at a local business through a collaborative internship program developed by KS' Career Education and Lifelong Learning program.

EXTENDING OUR REACH

In the Area of Career Opportunities

Kamehameha Schools is committed to providing quality educational experiences that prepare Hawaiians for a wide range of post-high school educational pursuits and career choices. To that end, KS extended its reach in the following ways:

HAWAIIAN LEARNERS FOCUS ON CAREERS

More than 660 learners nationwide, from grade six through adult, took part in KS' Career Education and Lifelong Learning (CELL) program. CELL develops and supports educational opportunities for Hawaiian youth seeking career preparation, and adults pursuing personal enrichment. The program delivers services in four distinct tracks: career exploration/aspiration, basic skills, career academies and life-long learning.

CAREER-BASED SCHOLARSHIPS ESTABLISHED

KS established scholarships to support post-high school education in the fields of technology and education – fields in which Hawaiians are underrepresented. The awards include: the Career and Technical Education Scholarship for students pursuing certificates in technology, health sciences, agriculture and education; the Kumu Kōkua Scholarship which provides scholarships to DOE educational assistants and other paraprofessionals; and the Pauahi Educator Scholarship which provides scholarships to aspiring teachers. Approximately 175 awards will be made for the 2003-2004 school year.

LEGAL EAGLES LEARN THE ROPES

KS' Legal Group provided two three-month paid internships to law students from the William S. Richardson School of Law at the University of Hawai'i at Mānoa. In addition to doing research and writing, the students had an opportunity to learn about Kamehameha Schools' programs, properties and operations.

University of Hawai'i law student Malia Schreck gains some practical legal experience with the help of KS Senior Counsel Nahoa Lucas.





KS lands serve as classrooms as part of the 'Āina Ulu eco-cultural education program.



Kapālama Campus Elementary School Principal Kahele Kukea teaches students the "Natural Movement Routine" used by members of the Alaka'i Project for centering, grace and power.

EXPANDING LIFELONG EDUCATIONAL OPTIONS

Through Eco-Cultural Collaborations and Extension Education

Kamehameha Schools is committed to forming collaborations that help communities improve the well-being of their families and expand educational options for more Hawaiians. With that in mind, KS extended its educational reach in the following ways:

KAMEHAMEHA LANDS SERVE AS LEARNING ENVIRONMENTS

More than 360,000 acres or 98 percent of KS' Hawai'i lands are zoned for agriculture and conservation. KS' Land Assets Division (LAD) has bridged the management of these lands with Kamehameha's educational mission through its 'Āina Ulu eco-cultural education program. During the 2003 fiscal year, nearly 6,000 learners participated in the programs designed to use KS lands as a classroom for project-based teaching and learning. Through community collaborations, students engaged in hands-on learning experiences at more than 20 island sites. In addition to extending Kamehameha's educational reach, these programs help build communities' capacities to meet the needs of their *ʻohana*.

TRAINING TOMORROW'S LEADERS

KS' Pauahi Leadership Institute provided leadership training to more than 200 learners within KS and the Hawaiian community. Institute programs include Building a Leading Team, which focuses on the skill development and enrichment of KS staff members; Learn to Lead, a specialized curriculum being tested within the KS school system; and Emerging Leaders, a program that enhances the leadership skills of young Hawaiian professionals.

KONA KIDS GET CULTURAL LEARNING EXPERIENCE

In March 2003, more than 40 non-Kamehameha sixth graders took part in Ho'olauna Kona, a pilot program that provides *keiki* with cultural learning experiences using their West Hawai'i home as a classroom. The weeklong boarding program features lessons on Hawaiian culture and traditions, language, history, values, science and geography. The program accepted its first official students in June 2003. Expansion to other sites is planned.

RESOURCE CENTER SERVES LEEWARD O'AHU COMMUNITY

The Community Learning Center at Nānākuli provided services to more than 200 Leeward O'ahu learners. The center offers a wide range of services including computer/technology access and support, KS financial aid workshops and foster parent training.

GRANT-WRITING WORKSHOPS HELD

KS' Grants Institute held 18 workshops and community meetings to provide assistance to 242 Hawaiians and members of Hawaiian community groups to access and successfully bid for both federal and non-federal resources.

PROGRAM IMPROVES HAWAIIAN HEALTH AND WELL-BEING

KS' Health, Wellness and Family Education program is dedicated to improving the health and well-being of Hawaiian families and their communities by providing culturally sensitive programs, services, curricula and training to nearly 1,800 Hawaiian learners.

EDUCATORS FOCUS ON ECO-CULTURAL ENDEAVORS

Nineteen school and community-based teachers teamed up last year to mentor and share information on eco-cultural education as part of KS' Alaka'i Project. The project is dedicated to developing *alaka'i* or leaders who will be prepared to teach and train others to teach in the natural environment.



Native Hawaiians can now access a wealth of research publications and teacher resource materials online thanks to the work of Pauahi Publications.

ENHANCING THE LEARNING ENVIRONMENT AND ESTABLISHING A DATABASE

To Extend Our Reach and Support Families


Kamehameha Schools is committed to improving the learning environment of the Hawaiian community and establishing systems to support data-driven decision-making to enhance the well-being of more Hawaiians. To that end, KS extended its reach in the following ways:

DATA CENTER VERIFIES HAWAIIAN ETHNICITY

KS' Ho'oulu Hawaiian Data Center was developed to eliminate barriers to Kamehameha Schools programs and other programs that target the Hawaiian population by pre-verifying applicants' Hawaiian ancestry. The center facilitates ethnic and birth registry verification through the compilation of a comprehensive database of the Hawaiian population. The 77 participants in the Kamehameha Scholars program were the first students verified by the Data Center.

SCIENCE AND TEACHING RESOURCES NOW MORE ACCESSIBLE TO HAWAIIANS

A wealth of information on educating Hawai'i's children is now available online through the efforts of Pauahi Publications. The purpose of the program is to produce and disseminate research publications and teacher resource materials to native Hawaiians. Pauahi Publications completed its first online posting of over 100 articles from the Kamehameha Schools Journal of Education, originally published from 1990 to 1995. Journal titles include: *Technology in the Classroom* and *Learning Beyond Classroom Walls*. To access the journals, visit www.ksbe.edu/pase.



Data Clerk Trisha Plemer and Documentation Specialist Julie Hugo of the newly formed Ho'oulu Hawaiian Data Center process Hawaiian ancestry registry applications for verification.



Ke Ali'i Pauahi Foundation encourages donors to make contributions in the name of their favorite educator as part of its Inspirational Educator Endowment.



New policies for the wise management and stewardship of KS land and water resources were developed with input from Kamehameha stakeholders.

DEVELOPING AND REALLOCATING RESOURCES

To Support Expanded Educational Reach

Kamehameha Schools is committed to improving cost-effectiveness, efficiency and productivity so more resources can be directed toward the expansion of educational programs. To that end, KS extended its educational reach in the following ways:

FOUNDATION FUNDS SUPPORT EDUCATIONAL PROGRAMS

Ke Ali'i Pauahi Foundation, a non-profit support organization of Kamehameha Schools, raised more than \$1,164,600 in contributions last year in support of KS' educational programs and outreach services. In addition to overseeing several fund-raising programs, the foundation also manages 75 scholarship and endowment funds, including the Inspirational Educator Endowment, which gives donors the opportunity to make a donation in the name of an educator who has impacted their lives.

NEW POLICIES HELP PRESERVE LAND LEGACY

The KS Strategic Plan recognizes the physical, spiritual and cultural importance of *'āina* (land), natural resources, and places of cultural significance. Policies for Hawai'i lands, water resources management and stewardship were developed by KS' Endowment staff with stakeholder input to honor this relationship. The policies mandate that these resources be managed and used in a reasonable, prudent and sustainable manner. Objectives will be balanced to optimize cultural, educational, economic and environmental benefits, as well as the impact on the community.

The KS Strategic Plan recognizes the physical, spiritual and cultural importance of *'āina* (land), natural resources, and places of cultural significance.



Hawaiian language teacher Ekela Kaniaupio-Crozier promotes the learning and appreciation of the Hawaiian language through Nahenahe, a radio Webcast program which explores Hawaiian language through music.



Hawaiian resource specialists Nu'ulani Atkins, Noe Chun and Lloyd Sing staff 'Ike Pono Hawai'i, KS' traveling resource program, done in collaboration with Bishop Museum.

COLLABORATING WITH OTHERS

To Support and Perpetuate *'Ike Hawai'i*

Kamehameha Schools is committed to the perpetuation and practice of Hawaiian values, culture and language – *'Ike Hawai'i*. To that end, KS extended its educational reach in the following ways:

HAWAIIAN CULTURE ON THE MOVE

Over 8,000 learners from grade four through adult benefited from 'Ike Pono Hawai'i, KS' Hawaiian traveling resource program. In collaboration with Bishop Museum, 'Ike Pono Hawai'i offers artifacts, presentations and demonstrations on select aspects of the Hawaiian culture to students and adults throughout Hawai'i and on the mainland. Last fiscal year, the program shared information with learners on O'ahu, Maui, Hawai'i, Kaua'i, Moloka'i and Lāna'i, as well as community groups in Utah, Washington and Oregon.

CULTURAL EVENTS TAKE CENTER STAGE

More than 2,300 learners were served through KS' Hawaiian Cultural Center Project (HCCP), through cultural events such as Life with Kawena, a look at the life of the late Hawaiian cultural authority Mary Kawena Pūkui, and Aha Mana Maoli, a four-day series of presentations and activities promoting interaction among indigenous peoples of the Pacific.

CULTURE EDUCATION GOES THE DISTANCE

Nearly 30,000 learners worldwide received Hawaiian cultural content remotely, through KS' Distance Learning program. In addition to providing televised high school credit courses during the summer, the program produced 'Ike Pono, a locally broadcast television talk show that discusses educational issues related to the Hawaiian community; and Nahenahe, a radio Webcast program which explores Hawaiian language through Hawaiian music.

KŪPUNA SHARE THEIR KNOWLEDGE AND WISDOM

Through the unique services of KS' Traveling Kūpuna Resource Program, over 2,000 K-3 students, educators and *kūpuna* (elders) received cultural offerings on the concept of "Where I live." Colorful picture books developed by the *kūpuna* and KS' Design and Production Services department helped enhance the masterful teachings of three retired Kamehameha elementary school teachers.

Patience Nāmaka Bacon, daughter of the late Hawaiian cultural authority Mary Kawena Pūkui, shares cherished memories of her mother as part of the event, Life with Kawena, sponsored by KS' Hawaiian Cultural Center Project.





Building a strong financial foundation

In 1884, as part of her last will and testament, Princess Bernice Pauahi Bishop placed \$474,000 worth of inherited Kamehameha lands in a perpetual endowment for the founding and support of Kamehameha Schools. At the time, virtually all of Pauahi's assets were in real estate. Today, 33% of KS' assets are in real estate and 67% are in financial assets. At the end of fiscal year 2003, the combined assets had a market value of more than \$5.5 billion.

This section gives a summary of the endowment's assets, educational spending, and financial results for the fiscal year. A detailed account of the above, including an independent auditors' report, is available online at www.ksbe.edu or upon request by calling (808) 534-3973.

ENDOWMENT ASSET ALLOCATION

Kamehameha Schools' Endowment Group focuses on the long-term stabilized financial performance of its assets to support KS' educational mission into perpetuity. Their goal is to maximize value, make efficient and prudent use of resources, and undertake responsible land stewardship.

The Endowment Group categorizes KS' assets into two types: core assets, which include Hawai'i commercial and residential real estate; and non-core assets, which include all other investments, primarily marketable securities and alternative investments.

The investment objectives of the core assets are to: (1) produce a sustainable net income or dividend stream of at least 4% that increases at least at the rate of inflation over time, and (2) earn an average annual real total return of at least 5% per year (which includes the 4% income stream plus a 1.0% factor for underlying asset appreciation). The investment objectives of the non-core assets are to (1) earn a 5% or higher net average annual real rate of return, (2) provide adequate liquidity to meet the schools' spending requirements, and (3) to provide diversification in case of a decline in core asset income.

Kamehameha's asset allocation strategy in fiscal year 2003 provided protection in a volatile market through a diversified portfolio of investments. The table and charts below show the significant progress made in diversifying non-core assets to meet KS' asset allocation targets.

KAMEHAMEHA SCHOOLS' NON-CORE PORTFOLIO¹

ASSET CLASS	ALLOCATION 6/30/03	ALLOCATION 6/30/02	ALLOCATION 6/30/01	ALLOCATION 6/30/00	TARGET/RANGE
U.S. EQUITY	40.9%	31.3%	33.6%	53.1%	32-48%
NON-U.S. EQUITY	14.7%	12.9%	11.5%	3.4%	8-21%
FIXED INCOME	35.1%	33.1%	31.7%	23.0%	25-35%
ALTERNATIVE INVESTMENTS:					
Venture and Private Equity	3.7%	5.3%	7.0%	7.5%	5.0%
Absolute Return	0.3%	0.8%	0.9%	0.9%	5.0%
Energy & Other	0.0%	2.4%	2.3%	1.9%	2.5%
Real Estate (Mainland)	5.3%	14.2%	13.0%	10.2%	2.5%
Sub-Total Alternatives	9.3%	22.7%	23.2%	20.5%	10-20%
TOTAL	100.0%	100.0%	100.0%	100.0%	

¹Amounts may not equal 100% due to rounding.



Fixed Income was slightly over-allocated during the year due to the temporary transfer of funds that were eventually allocated to the Absolute Return category in September-October, 2003. The Energy and Other asset class was below its allocation target due to KS' sale of oil and gas investments held within Pauahi Management Corporation, a for-profit subsidiary of Kamehameha Schools. KS' staff is actively seeking top-tiered inflation-hedging fund investments to build up the allocation to this asset class. Conversely, Mainland Real Estate was over-allocated, and staff will continue to divest investments in this category to help bring the allocation in line with current targets. Sales are contemplated to take several more years, as KS seeks an orderly liquidation to secure the best prices available.

ENDOWMENT INVESTMENT PERFORMANCE

Although economic statistics and corporate earnings reports released during the year were somewhat lackluster, other factors positively moved the financial markets. The quick resolution of the war with Iraq, suppression of the SARS virus and a stimulative Federal Reserve Board policy encouraged the financial markets to post extraordinary returns for the second half of fiscal year 2003.

The total endowment returned 5.7% for the one-year period ended June 30, 2003. This performance slightly exceeded our Blended Portfolio benchmark and more notably our Peer Group benchmark by 0.3% and 1.7%, respectively. Performance fell short of KS' CPI + 5% benchmark, but this benchmark is intended as a long-term (rolling 10-year periods) benchmark and is less relevant to short-term (one-year) performance.

KS' inception-to-date returns are calculated from July 1, 1999 through June 30, 2003. KS' endowment total return was 5.9% for this period. This performance again exceeded our Blended Portfolio benchmark and our Peer Group benchmark by 2.9% and 0.6%, respectively.

KAMEHAMEHA SCHOOLS INVESTMENT PERFORMANCE (By Asset Class) June 30, 2003

ASSET CLASS AND BENCHMARKS	ONE YEAR	JULY 1, 1999 TO DATE
CORE ASSETS:		
Hawai'i Real Estate	10.2%	3.5%
CPI+5%	7.2%	7.7%
NON-CORE ASSETS:		
MARKETABLE SECURITIES:		
U.S. Equity	-1.1%	2.3%
Russell 3000	0.8%	-5.8%
Non-U.S. Equity	-4.9%	0.1%
MSCI EAFE / Emerging Markets Free Index	-5.1%	-6.4%
Fixed Income	11.6%	8.0%
Lehman Brothers Aggregate / 3-Month Treasury Bill	9.8%	8.4%
ALTERNATIVE INVESTMENTS:		
Venture & Private Equity	-29.0%	-8.6%
CPI+10%	12.3%	12.8%
Absolute Return	12.8%	8.3%
CPI+8%	10.3%	10.7%
Energy & Other	43.6%	39.9%
CPI+5%	7.2%	7.7%
Mainland Real Estate	-2.2%	12.6%
NCREIF Total Property Index	7.7%	9.1%
TOTAL ENDOWMENT	5.7%	5.9%
Blended Portfolio	5.4%	3.0%
CA Large Endowment Fund Median	4.0%	5.3%
CPI+5%	7.2%	7.7%

Major performance highlights for fiscal year 2003 were in KS' Hawaii Real Estate, Fixed Income and Energy and Other asset classes, which returned 10.2%, 11.6%, and 43.6% respectively. The performance of these asset classes all significantly outperformed their benchmarks and helped to offset underperformance in KS' other asset classes, thus, exemplifying the benefits of a diversified portfolio.

The rally in the stock market in the second half of fiscal year 2003 helped to offset a lackluster capital markets environment during the first half of the year. KS' endowment benefited from this rally and generated a total return of approximately 5.7% for the year. KS' endowment market value also increased by \$110 million, after spending, over the previous year.

CONDENSED SCHEDULES OF TOTAL RETURN *(In thousands, except for Total Return %)*
As of and for the years ended June 30, 2003, 2002, 2001, and 2000

	2003	2002	2001	2000
TOTAL ENDOWMENT MARKET VALUE	<u>\$ 5,538,310</u>	<u>\$ 5,428,401</u>	<u>\$ 5,752,112</u>	<u>\$ 5,652,762</u>
TOTAL RETURN %	<u>5.7%</u>	<u>(0.7)%</u>	<u>4.8%</u>	<u>14.7%</u>

Source: Data derived from audited consolidated financial statements and supplemental schedules of Kamehameha Schools and Subsidiaries.

REAL ESTATE ASSET HIGHLIGHTS

MAINLAND ASSETS

During the 2003 fiscal year, KS sold several of its mainland real estate holdings as part of its ongoing strategic initiative to rebalance its overall portfolio. The real estate holdings sold included about 390,000 acres of timberland in the Upper Peninsula of Michigan and a retail center and adjacent vacant land in Palm Desert, California. These two sales contributed approximately \$160 million in net proceeds to KS' asset base.

RESIDENTIAL ASSETS

Under the continued threat of governmental leasehold condemnation, KS' ongoing voluntary residential sales program resulted in approximately 700 single and multi-family sales in fiscal year 2003. Sales revenue for the year of approximately \$86 million was dramatically higher than anticipated due to historically low mortgage interest rates.

SUBSIDIARY ASSETS

Pauahi Management Corporation, a for-profit KS subsidiary, sold its oil and gas operations during the fiscal year and contributed roughly \$155 million in net proceeds.

The income from these sales will be reallocated to other asset classes in accordance with KS' asset allocation targets.

LAND STEWARDSHIP AND ECO-CULTURAL EDUCATION

In addition to its core and non-core real estate assets, the Endowment Group manages 360,000 acres of Hawai'i land zoned for agriculture and conservation. The land includes 63 miles of ocean frontage, 100 miles of streams, historic fishponds, forests and lava fields. These lands and resources are deeply tied to the Hawaiian culture and define KS as an *ali'i* trust. Consequently, they are managed separately from KS' freely traded investment portfolio.

To honor KS' kinship with these assets and to meet the goals of the Strategic Plan, the Endowment Group's Land Assets Division works to derive financial, educational, cultural, environmental and community value from the land. The division also promotes sustainable uses of the land through activities including:

- Mālama 'Āina – a program which improves overall environmental stewardship
- 'Āina Ulu – a program which allows KS and non-KS students to learn from and nurture the land
- Agricultural leasing – this program supports diversified agriculture in the state and helps sustain rural communities.

INVESTING IN EDUCATION

Kamehameha Schools' Spending Policy sets a target of 4% of the five-year average market value of KS' endowment to be expended annually on its educational mission. Since the adoption of this policy in fiscal year 1999-2000, KS has maintained an annual trust-spending rate of approximately 4% with the exception of its initial year.

Trust spending, which represents the amounts spent during the fiscal year on educational programs, is calculated on a cash basis and includes major repairs, capital projects, an allocation of support costs and the funding of reserves. Total trust spending approximated \$219.5 million for the year ended June 30, 2003.

“Pauahi's Legacy Lives,” KS' Strategic Implementation Plan that focuses on greater collaboration with other organizations as well as with families and their communities, completed its first full year of implementation in 2003. Net expenditures in trust spending for “Pauahi's Legacy Lives” initiatives totaled approximately \$7.4 million in fiscal year 2002-2003.

Trust spending for campus-based programs and capital project expenditures increased by \$16.0 million and \$10.8 million respectively, in fiscal year 2002-2003 as compared to the previous fiscal year due primarily to the continued expansion of the Maui and Hawai'i campuses.

CONDENSED SCHEDULES OF TRUST SPENDING *(In thousands, except for Trust Spending Rate)*
Years ended June 30, 2003, 2002, 2001, and 2000

	2003	2002	2001	2000
CAMPUS-BASED PROGRAMS	\$ 97,205	\$ 81,227	\$ 78,209	\$ 71,974
OUTREACH-BASED PROGRAMS	39,649	38,581	36,839	32,807
PAUAAH'S LEGACY LIVES	7,391	—	—	—
CAPITAL PROJECTS	127,101	116,256	50,077	23,153
DEBT FINANCING OF CAPITAL PROJECTS	(70,000)	(20,000)	—	—
OTHER	18,120	6,782	40,981	4,819
Total Trust Spending	<u>\$ 219,466</u>	<u>\$ 222,846</u>	<u>\$ 206,106</u>	<u>\$ 132,753</u>
Average Market Value of Endowment	<u>\$ 5,392,443</u>	<u>\$ 5,210,717</u>	<u>\$ 4,996,812</u>	<u>\$ 4,812,799</u>
Trust Spending Rate	<u>4.1%</u>	<u>4.3%</u>	<u>4.1%</u>	<u>2.8%</u>

Source: Data derived from audited consolidated financial statements and supplemental schedules of Kamehameha Schools and Subsidiaries.

DEBT MANAGEMENT

KS' Debt Policy limits the amount of debt allowed to 10-20% of the fair market value of the endowment and defines the requirements and parameters for the utilization of debt and other appropriate considerations. During the fiscal year 2002-2003, KS drew down approximately \$70 million from its \$150 million private shelf facility to manage the debt financing of its capital projects. As of June 30, 2003, the balance outstanding of the private shelf facility was \$90 million, inclusive of \$20 million drawn the previous year. As a result, debt and debt-related guarantees represented approximately 3.8% of the fair market value of the endowment as of June 30, 2003, and approximately 3.0% as of June 30, 2002.

FINANCIAL RESULTS

The following is a review of KS' financial position, change in net assets and cash flows for the 2002-2003 fiscal year:

• Financial Position

During the year, net assets increased by 8% to approximately \$4.3 billion. The majority of this increase was attributable to net gains on property sales of approximately \$218.2 million in fiscal year 2002-2003, as compared to \$25.7 million in fiscal year 2001-2002 and net realized and unrealized gains on investments of \$70.0 million in fiscal year 2002-2003, as compared to net realized and unrealized losses on investments of \$135.9 million in fiscal year 2001-2002. The sale of Michigan timberland which resulted in a gain of approximately \$98 million, and favorable real estate market conditions contributed to the increase in net gains on property sales.

CONDENSED CONSOLIDATED BALANCE SHEETS

As of June 30, 2003 and 2002 *(In thousands)*

	2003	2002
ASSETS		
Cash and Investments*	\$ 3,880,877	\$ 3,484,473
Other Assets	784,023	827,867
Total Assets	<u>\$ 4,664,900</u>	<u>\$ 4,312,340</u>
LIABILITIES		
Notes Payable	\$ 209,592	\$ 161,276
Other Liabilities	202,742	202,533
Total Liabilities	<u>\$ 412,334</u>	<u>\$ 363,809</u>
NET ASSETS	<u>\$ 4,252,566</u>	<u>\$ 3,948,531</u>

* Includes privately placed debt and equity securities

Source: Data derived from audited consolidated financial statements and supplemental schedules of Kamehameha Schools and Subsidiaries as of June 30, 2003 and 2002.

• **Change in Net Assets**

The Statements of Activities, which details the revenues, gains and other support and expenses during the year, reported an increase in net assets of approximately \$304 million for the year ended June 30, 2003. As previously mentioned, the majority of the increase was due to net gains of property sales and net realized and unrealized gains on investments in the capital markets.

Educational program expenses in this statement of approximately \$136 million for the year ended June 30, 2003 is reported on an accrual basis and does not include capital projects, an allocation of support costs or the funding of reserves.

CONDENSED CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended June 30, 2003 and 2002 *(In thousands)*

	2003	2002
REVENUES, GAINS AND OTHER SUPPORT		
Tuition and fees (net of financial aid)	\$ 4,505	\$ 3,418
Net gain on property sales	218,222	25,663
Rental	140,467	138,559
Net realized and unrealized gains (losses) on investments	69,963	(135,915)
Other	111,200	122,258
Total Revenues, gains and other support	\$ 544,357	\$ 153,983
EXPENSES		
Educational Programs	\$ 135,907	\$ 115,079
Management and General	104,415	127,677
Total Expenses	\$ 240,322	\$ 242,756
Change in Net Assets	\$ 304,035	\$ (88,773)

Source: Data derived from audited consolidated financial statements and supplemental schedules of Kamehameha Schools and Subsidiaries as of June 30, 2003 and 2002.

• **Cash Flows**

For the year ended June 30, 2003, approximately \$22.9 million of net cash inflows were provided by operations. Investment activities resulted in a net cash inflow of approximately \$75.6 million primarily due to proceeds from the sales of investments and property, offset by purchases of investments and property. Financing activities provided net cash of \$48.3 million principally due to a \$70 million draw from the \$150 million private shelf facility obtained to manage the debt financing of capital projects offset by repayment of certain borrowings.

Cultivating the concept of *kahiau*

KE ALI'I PAUAHI FOUNDATION

Kahiau, “to give generously from the heart with no expectation of return,” captures the essence of Ke Ali‘i Bernice Pauahi Bishop’s gift to her people and embraces the purpose of Ke Ali‘i Pauahi Foundation. Princess Pauahi, through her deep sense of responsibility, charity and service to others, epitomized the concept of *kahiau*. Pauahi’s generosity and love for her people provided a timeless gift of education for future generations of students of Hawaiian ancestry.



KE ALI'I PAUAHI FOUNDATION

Throughout its 116 years, Kamehameha Schools has educated thousands of children through its campus-based programs. Yet despite this number, studies show that KS only reaches about seven percent of eligible, school-age Hawaiian children. In 2000, KS launched its Strategic Implementation Plan as a means to extend educational opportunities to more Hawaiians. Ke Ali'i Pauahi Foundation began operation in 2001 to address one of the priority goals of the plan: Developing and reallocating resources to support expanded educational reach. A non-profit support organization of KS, the Foundation strives to generate new sources of income to support KS' educational programs.



KAPF Director of Development Ko Miyataki, Ed.D., and Executive Director Rockne Freitas, Ed.D.

Since its inception, the Foundation has made major strides to create a firm foundation for its fund-raising efforts, including: establishing itself as a 501(c)(3) tax-exempt organization, building a winning development team, and implementing a five-year strategic plan. KAPF also developed an investment and spending policy to guide the effective and prudent administration and investment of its funds.

The Foundation celebrated many achievements during the 2002-2003 fiscal year, including:

- Cultivating an environment of giving to KAPF through the development of new programs such as Pennies for Pauahi, the Inspirational Educator Endowment, 'Ohana Kākou and Mahalo Pauahi
- Administering 75 endowment and scholarship funds
- Raising \$1,164,600 in funds
- Securing 15 matching endowments
- Awarding \$136,763 in merit-based college scholarships to 140 Hawaiian learners.



Ke Ali'i Pauahi Foundation awards merit-based scholarships to KS and non-KS graduates.

KAPF Leadership Team

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The KAPF staff extends a special mahalo to its Board of Advisors for sharing their time, effort and expertise:

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DEVELOPMENT STAFF

Ko Miyataki, Ed.D., *Director of Development*
Kathryn Medeiros, *Major Gifts and Planned Giving Manager*
Ernette Kawehi Yim, *Alumni Development and Annual Giving Manager*

KAPF represents a vital investment in the future of Kamehameha Schools. We ask that you consider some of the ways in which you can give forward and join us as we strive to improve the capability and well-being of more Hawaiians through education. At present, all donations are 100 percent tax-deductible, and 100 percent of all gifts received are committed to programmatic use. Your support and aloha will ensure that Pauahi's legacy lives.

For more information, please contact:

Ke Ali'i Pauahi Foundation
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Honolulu, Hawai'i 96813

Phone: (808) 534-3966
Fax: (808) 534-3890
Email: giving@pauahi.org
Web site: www.pauahi.org



Ke Ali'i Bernice Pauahi Bishop



Our mission is clear: Guided by the extraordinary vision of Princess Bernice Pauahi Bishop, we will create educational opportunities in perpetuity to improve the capability and well-being of Hawaiians. The strategy for fulfilling that mission is set forth in our five-year Strategic Implementation Plan, “Pauahi’s Legacy Lives.”

As we strive to reach our strategic goals, we are committed to:

- Influencing positive changes in the lives of students, inspiring in them a love and enthusiasm for lifelong learning, and a personal sense of responsibility to the well-being of the community
- Working in collaboration with others to extend reach and positively impact the educational outcomes of the Hawaiian community
- Partnering with the Hawaiian community to define the critical elements of well-being and create a platform to act as a catalyst to achieve an enhanced state of well-being in the Hawaiian community
- Proactively and appropriately sharing information and expertise
- Creating a positive message of what it means to be Hawaiian by seeking opportunities for more Hawaiians and Kamehameha Schools to take on leadership roles at all levels throughout Hawai‘i, the Pacific, the nation, and the world.

*C*ontinuing the commitment

Learn more about Pauahi’s vision and our mission at the Kamehameha Schools Web site: www.ksbe.edu.





A CONTINUING COMMITMENT



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