

GOVERNANCE POLICY

This governance policy has been developed to provide the framework from which the Board of Trustees will be guided in the execution of their fiduciary duties to administer and oversee the estate established by the Will of Bernice Pauahi Bishop, and to fulfill the educational purposes of the Kamehameha Schools under the Will as intended by Ke Ali'i Pauahi.

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.

The Trustees have the highest of fiduciary duties recognized by law. Two fiduciary duties stand above all others and serve as the pillars upon which the actions of the Trustees and those to whom duties are delegated must be guided: the duty of loyalty and the duty to act in a prudent manner. The Trustees and those who have been delegated authority must ensure that their actions, decisions, and conduct are for the exclusive benefit of the persons intended to benefit from the purposes expressed in the Will. Secondly, all fiduciaries must discharge their responsibilities in a prudent manner exercising reasonable care, skill (or such special skills or expertise that they possess), and caution.

The Hawaii Probate Court has mandated the implementation of a CEO-based management system. The Trustees must ensure that the delegation of authority to the Chief Executive Officer (CEO) is consistent with applicable standards under trust law. In this regard, the Trustees must strike the appropriate balance between their fiduciary duty not to delegate the entire administration of Kamehameha Schools ("KS") and the necessity to delegate the day-to-day administration to the CEO. Hawaii's Uniform Prudent Investor Act sets forth the governing standard and provides that the Trustees may delegate investment and management functions "that a prudent trustee of comparable skills could properly delegate under the circumstances." In

such circumstances, the Trustees may delegate, and remain without liability for such delegation, if the Trustees:

exercise reasonable care, skill and caution in:

1. selecting an agent;
2. establishing the scope and terms of the delegation, consistent with the purposes and terms of the trust; and
3. periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the scope and terms of the delegation.

The proper administration of KS requires an integrated management system with delegated authority and responsibility to ensure the administration of KS fulfills Ke Ali'i Pauahi's intent expressed in her Will. This is especially important given KS' size and complexity. The management system will require further delegation by the CEO to other individuals with appropriate subject matter expertise and knowledge. In addition, the system requires an independent audit department to assist the Trustees with the necessary checks and balances and to monitor the performance of persons to whom authority has been delegated. Furthermore, the Trustees shall establish an Audit Committee that will be responsible for oversight of the audit process including both the internal and external audit functions.

It is understood that the governance policy contained herein will be modified from time to time for reasons of clarifying the policy or because of organizational or process changes. What cannot be changed or modified, however, are the highest standards of conduct and moral and ethical values by which Trustees and those to whom authority is delegated must be bound.

Policy

In order to administer Kamehameha Schools (KS) in an effective and efficient manner to achieve its educational mission, KS shall be governed in conformance with a CEO-based management system that includes the Trustees; a CEO; Vice Presidents of each of the following Groups: Education, Endowment, Finance and Administration, Legal and Community Relations and Communications (or such other or fewer Groups as determined by the CEO); an Audit Committee; and an internal audit department. In general, the Trustees and CEO shall utilize a system of written policies that sets forth the Trustees' strategic policies and any specific delegation of authority policies, and the CEO's day-to-day operational policies and procedures, including any further delegation of authority. The CEO and Vice Presidents shall implement the policies and otherwise administer the day-to-day operations of KS. The internal audit department shall monitor the activities of KS and the functioning of the Trustees, CEO, Vice Presidents and staff, as necessary, to ensure KS is being administered properly and prudently and shall report to the Audit Committee.

Role of Trustees

The Trustees' role is to provide the strategic direction and focus necessary to fulfill and sustain the vision, mission and values of Kamehameha Schools embodied in the Will of Bernice Pauahi Bishop and the Strategic Plan. In order to accomplish that role, the Trustees shall concentrate on strategic policy-making and monitoring the performance of delegated duties to the CEO, including the CEO's implementation of the Strategic Plan. The Trustees shall administer and oversee the educational mission of KS consistent with the terms of the Will of Bernice Pauahi Bishop and the vision of Ke Ali'i Pauahi, orders of the Hawaii Probate Court, KS' Strategic Plan and resulting implementation plans, KS' tax-exempt status, and applicable fiduciary standards and governing laws. The Trustees shall delegate routine management duties. In particular, the Trustees shall:

1. Ensure that the KS mission is appropriate, relevant and vital to the intended beneficiaries under the Will and the vision of Ke Ali'i Pauahi, and monitor the success of KS in fulfilling its mission.

2. Oversee the development of and approve all strategic policies affecting the administration of KS, especially its educational and financial objectives.
3. Ensure that KS and its assets are managed prudently and exclusively for KS' charitable educational purposes consistent with the terms of the Will, orders of the Hawaii Probate Court, Strategic Plan and resulting implementation plans, KS' tax-exempt status and applicable laws.
4. Monitor and review financial reports and projections and be accountable for KS' financial well-being, including its endowment, as it relates to carrying out financial responsibilities.
5. Review and approve the annual budget and ensure that effective fiscal controls are established.
6. Hire, support, and provide guidance to the CEO; set goals and objectives for the CEO; evaluate and monitor the CEO's performance; and, where appropriate, remove and replace the CEO.
7. Consult with the CEO to ensure that management development, compensation and succession plans are in place for executive management positions.
8. Approve plans for any major organizational or program change.

Role of CEO/ Delegation of Authority

The CEO shall be responsible for the leadership, administration, management and effectiveness of KS' operations, including but not limited to planning, coordinating, and directing the implementation of KS' Strategic Plan and the policies, goals, and objectives set by the Trustees, consistent with Princess Pauahi's Will and governing law. The CEO shall also perform such other duties and responsibilities as may from time to time be delegated to the CEO by the Trustees. Specifically:

1. The CEO shall have all necessary and reasonable authority to manage and administer the day-to-day operations of KS except for such authority specifically reserved by the Trustees.
2. The CEO is authorized to establish relevant operational policies and procedures.

3. The CEO is authorized to make and implement decisions based upon reasonable interpretation of the policies, goals, and objectives created by the Trustees.
4. With respect to personnel matters concerning Vice Presidents, the CEO shall have all authority, but shall first consult with the Trustees on the compensation, hiring or termination of Vice Presidents. The CEO shall have the authority to change the leadership structure and the number of Groups at KS, subject to Trustee approval of major organizational changes.
5. The CEO shall delegate to the appropriate Vice President(s) such authority as the CEO reasonably determines to be prudent.
6. The CEO shall meet with the Trustees on a regular basis to report and review significant matters concerning the administration of KS. The CEO shall periodically provide the Trustees with reports regarding the activities of management, together with such other information as is necessary to enable the Trustees to monitor the administration of KS, and to ensure that KS is being managed in accordance with the policies, objectives, and directives established by the Trustees.

Role of the Vice Presidents

The general role and responsibilities of the Vice Presidents at KS are specified below. Their more specific duties and responsibilities are set forth in position descriptions as established and otherwise assigned by the CEO.

Vice President for Education

The Vice President for Education is responsible:

1. For the leadership, management, administration, coordination and effectiveness of KS' Education System.
2. To develop, change and/or recommend discontinuance of educational programs in support of the goals of the KS' Strategic Plan and educational standards for campus based schools and other educational programs.
3. To develop and implement measures of effectiveness and to monitor and evaluate these educational programs to determine if the Educational System is maximizing its

resources to realize desired outcomes and strategic objectives consistent with the mission, the goals and values of the Strategic Plan.

Vice President for Endowment

The Vice President for Endowment is responsible:

1. To invest and manage KS' consolidated endowment consistent with standards applicable to institutions with comparable endowments, as may be prudent, and in accordance with policies approved by the Trustees.
2. To produce at least the targeted net total investment return specified by KS' investment policy.
3. To provide adequate cash distributions to support KS' educational spending as specified by KS' spending policy in perpetuity.
4. To the extent authorized by and consistent with applicable policy, to manage and make recommendations concerning KS' lands and natural resources.

Vice President for Finance and Administration

The Vice President for Finance and Administration is responsible:

1. To establish prudent financial practices to govern the financial affairs of KS, including strong internal controls and accurate financial forecasts to allow KS to plan spending for educational purposes.
2. To direct and coordinate a systems-wide range of staff and service functions that provide administrative support, service and assistance to KS, including all Education and Endowment systems.

Vice President for Legal

The Vice President for Legal is responsible:

1. For the overall management and operations of the Legal Group.
2. To provide legal advice and assistance to KS' Trustees, CEO, Vice Presidents and staff relating to their acts and role at KS.

3. To coordinate and monitor the legal affairs of KS.

Vice President for Community Relations and Communications

The Vice President for Community Relations and Communications is responsible:

1. To build and maintain strong relationships between KS and the community, especially the Hawaiian community.
2. To solicit, receive input and improve the community's understanding and support of KS and its educational programs, strategies and plans.
3. To establish plans and comprehensive strategies to communicate effectively KS' mission, Strategic Plan and implementation plan, philosophy of education and other matters.

The titles and numbers of the Vice President positions may vary, but their roles and responsibilities shall be consistent with standards of delegation of authority and responsibility and as shall be prudent with respect to an institution requiring a diversity of demonstrated professional and managerial expertise.

Role of Audit Committee

The Audit Committee will be responsible for oversight of the audit process including both the internal and external audit functions. One of the primary responsibilities of the Audit Committee will be to set the "tone" for quality operational, financial and investment reporting, sound business risk controls and ethical behavior throughout the organization. To help carry out this function, the Audit Committee shall select a Director of Internal Audit, who shall prepare for the review and approval of the Audit Committee an annual audit plan. The Audit Committee shall set goals and objectives for the Director, annually review the performance of the Director, and, for just cause, remove and replace the Director. The Audit Committee will be comprised of the five incumbent Trustees. The incumbent Master(s) appointed to review KS' annual accounts and a representative from the State of Hawaii Attorney General's office, as *parens patriae*, will be allowed to sit in on meetings of the Audit Committee as visitors, but not as a members.

Role of Internal Audit

The Internal Audit Department is an essential function in a CEO-based management system in order to provide a check and balance against possible abuses arising in the administration of KS and to ensure that KS is in fact being administered properly. An independent internal audit department shall provide an independent appraisal and examination of all control functions within KS, including functions of the Trustees, monitor internally KS' processes to ensure the organization's risks are adequately managed, monitor compliance with legal and regulatory restrictions and KS policies, and help to ensure effective utilization of KS resources. In addition, the independent internal audit function shall help to ensure the following objectives:

- The Will and KS' educational objectives are fulfilled in perpetuity.
- KS' tax-exempt status is maintained.
- The assets of KS, including Affiliates, are properly safeguarded from financial loss and used primarily for educational purposes.
- Policies and procedures established by the Trustees are being adhered to.
- Compliance with applicable state and federal laws and regulations, including the terms of applicable closing agreements between KS and the Internal Revenue Service.
- Compliance with policies and procedures.

The Director of Internal Audit shall report in writing the results of audit examinations and projects directly to the Trustees or the Audit Committee established by the Trustees, and to the Boards of Affiliates with respect to audit examinations or projects related to affiliates or subsidiary organizations.

References

1. Hawaii Uniform Trustee's Powers Act (HRS 554A)
2. Hawaii Uniform Prudent Investor Act (HRS 554C)
3. Restatement of Trusts (Third): Prudent Investor Act (1992)
4. [IRS Closing Agreement dated February 23, 2000](#)
5. Stipulation Approving a CEO Based Management System and Governance Policy filed August 27, 1999
6. KS Strategic Plan and Implementation Plan (PLL).

Related KS Policies

1. 101[T] - Delegation of Authority

Tracking Information

1. Approval Date: August 18, 2004
2. Initial Effective Date: August 27, 1999
3. Post Date: January 21, 2005
4. Supersedes: Revised and Restated Governance Policy dated November 22, 2000
5. Next scheduled review: August 18, 2005
6. Responsible Department: Office of the CEO
7. Developed by: CEO
8. Questions and comments should be directed to the Staff Policy Comments Page.